
Section 2

Changes in Law and Regulations

The statistics in this report reflect, in general, changes in law and regulations that became effective during the 1997 accounting periods covered. Depending on the accounting period used and effective date of the change in law, the changes may have been fully applicable for some corporations, only partially applicable for others, and not applicable at all for still others.

The information that follows highlights the major changes that substantially affected the comparability of the statistics in this report with those of prior years. Most of these changes resulted from the Taxpayer Relief Act of 1997. This act restored several expired credits. More detail on the specific provisions that were changed is contained in Section 5, Explanation of Terms.

Alternative Minimum Tax

The Taxpayer Relief Act of 1997 repealed the special exception under section 59(a)(2)(c) for tax years beginning after August 5, 1997. All corporations are now subject to the 90% limitation on the use of the foreign tax credit for AMT purposes.

Capital Gains, S Corporations

The Taxpayer Relief Act of 1997 lowered the capital gains tax for individuals on certain transactions that occurred during specified periods. Sales of capital assets before May 7, 1997 may have been subject to the old 28% percent rate for individuals. Transactions that resulted in the higher capital gains tax rate for individuals that owned shares of S corporations reported the transaction on the Form 4797 and any amount subject to the 28% percent tax rate. The computation for the resulting tax liability was reported on the Schedule D. The individual shareholders' share of these transactions and tax liability was reported on the Schedule K and the Schedule K-1.

Depreciation and Amortization

The Taxpayer Relief Act of 1997 classified rent-to-own property placed in service after August 5, 1997

as a 3-year property under the General Depreciation System and as a 4-year property under the Alternative Depreciation System. The maximum section 179 expense deduction was also increased to \$18,000 (\$38,000 for enterprise zone businesses).

Orphan Drug Credit

The orphan drug credit was reinstated by the Small Business Job Protection Act of 1996 and was made permanent by the Taxpayer Relief Act of 1997. The reinstated credit is a component of the general business credit and is filed on Form 8820, Orphan Drug Credit.

Research Activities Credit

The credit for increasing research expenditures was reinstated effective for costs paid or incurred through June 30, 1998.

S Corporation Reform

The Small Business Job Protection Act of 1996 provided significant reform for S corporations. This act contained 17 provisions relating to S corporations. These provisions are highlighted in Wittman, Susan, "S Corporations Returns, 1997," Statistics of Income Bulletin, Spring 2000, Volume 19, Number 4.

Work Opportunity Credit

The work opportunity credit replaced the jobs credit. The credit rate was reduced to 35 percent. The credit applies for wages paid to qualified employees before July 1, 1998.

Welfare-to-Work Credit

The welfare-to-work credit was added under the Taxpayer Relief Act of 1997. Only wages paid or incurred to long-term family assistance recipients, who began working after December 31, 1997, can be used to figure the credit.