
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 1998 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.

One of the biggest changes is the new industrial classification based on the North American Industrial Classification System (NAICS). The principal business activity (PBA) codes are now based on NAICS which was developed by the statistical agencies of Canada, Mexico, and the United States in cooperation with the Office of Management and Budget and as a result of the North American Free Trade Agreement (NAFTA). The NAICS based codes replace the PBA codes previously based on the Standard Industrial Classification (SIC) system. A bridge table showing the 1998 SOI published codes based on the NAICS PBA codes, and published codes before 1998, which were based on the SIC codes, can be found in Section 6. Most of the changes in law and regulations resulted from the Taxpayer Relief Act of 1997 or the Tax and Trade Relief Extension Act of 1998. The Tax and Trade Relief Extension Act of 1998 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The Taxpayer Relief Act of 1997 repealed the alternative minimum tax for corporations that qualify as "small corporations" for tax years beginning after December 31, 1997.

Contributions

For tax years beginning after December 31, 1997, corporations may be entitled to an increased charitable contribution deduction for gifts of computer technology and equipment to schools.

Depreciation and Amortization

The General Depreciation System (GDS) recovery

period is used instead of the Alternative Depreciation System (ADS) recovery period if you elect under section 168(b)(5) to depreciate property placed in service after 1998 using the 150% declining balance method. Also, the maximum section 179 expense deduction was increased to \$18,500 (\$38,500 for enterprise zone businesses).

General Business Credit

Unused general business credits that arise in tax years beginning after 1997 are carried back 1 year and then forward to each of the 20 years following the unused credit year.

Qualified Zone Academy Bond Credit

The Taxpayer Relief Act of 1997 provided a qualified zone academy bond credit. A qualified zone academy bond is a taxable bond issued after 1997 by a state or local government, the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, an eligible holder of the bond is generally allowed an annual income tax credit while the bond is outstanding. The qualified zone academy bond credit compensates the holder for lending money to the issuer and functions as interest paid on the bond.

Research Activities Credit

The research credit was scheduled to expire for expenses paid or incurred after June 30, 1998. The credit was extended for expenses paid or incurred before July 1, 1999.

S Corporation

For tax years beginning after 1997, exempt organizations described in section 401(a) or 501(c)(3) are permitted to be shareholders.

Work Opportunity Credit

The work opportunity credit was extended for 1 year to cover individuals who began work for the employer before July 1, 1999 under the Tax and Trade Relief Extension Act of 1998.

Welfare-to-Work Credit

The welfare-to-work credit was extended 2 months to cover individuals who began work for the employer before July 1, 1999 under the Tax and Trade Relief

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Extension Act of 1998.