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Tax Legislation

Complete Analysis of the Tax Provisions of H.R. 1424 (Including the Emergency Economic Stabilization, Energy Improvement and Extension, and Tax Extenders and AMT Relief Acts of 2008)

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Chapter 1700 CLIENT LETTERS

1701 Individual and business extenders and other relief provisions in the 2008 Extenders Act

¶ 1701. Individual and business extenders and other relief provisions in the 2008 Extenders Act

To the practitioner: You can use the following letter to inform clients of these important provisions in the Tax Extenders and Alternative Minimum Tax Relief Act of 2008.

Dear Client,

The "Tax Extenders and Alternative Minimum Tax Relief Act of 2008" (the 2008 Extenders Act), which was enacted on Oct. 3, 2008, provides extensions for several popular tax breaks and the addition of several new relief provisions, including disaster area tax relief. Here's an overview of the key provisions in the new legislation:

Deduction of state and local general sales taxes. The option to deduct state and local general sales taxes is extended through 2009.

Qualified tuition deduction. The above-the-line tax deduction for qualified higher education expenses is extended through 2009.

Teacher expense deduction. The provision allowing teachers an above-the-line deduction for up to \$250 for educational expenses is extended through 2009.

IRA rollover provision. The provision allowing qualified taxpayers to make tax-free contributions from their IRA plans to qualified charitable organizations is extended through 2009.

Additional standard deduction for real property taxes. The standard deduction for real property taxes for nonitemizers is extended through 2009.

Research and development credit. The research tax credit is extended through 2009. In addition, the alternative simplified credit is increased from 12% to 14% for the 2009 tax year, and the alternative incremental research is repealed for the 2009 tax year.

15-year straight-line cost recovery for qualified leasehold, restaurant, and retail improvements. The 15-year writeoff for qualified leasehold, restaurant and retail improvements is extended through 2008.

Basis adjustment to stock of an S corporation making charitable contributions of property. Favorable Subchapter S basis rules for gifts of appreciated property are extended through 2009.

Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico. The provision allowing a Section 199 domestic production activities deduction for activities in Puerto Rico is extended through 2009.

Other extended provisions. Other provisions extended through 2009 include:

- Qualified zone academy bonds.
- Indian employment credit.
- Accelerated depreciation for business property on Indian reservation.
- Tax credit for certain expenditures for maintaining railroad tracks.
- 7-year recovery period for certain motorsports racetrack property.
- Work opportunity tax credit for Hurricane Katrina employees.
- New markets tax credit.
- Increased rehabilitation credit for structures in the Gulf Opportunity Zone.
- Enhanced charitable deduction for qualified computer contributions.
- Tax incentives for investments in the District of Columbia.
- Enhanced charitable deduction for food inventory.
- Enhanced charitable deduction for contributions of book inventory to schools.
- Special expensing rules for certain film and television productions.
- Exception under Subpart F for active financing income.

Revenue raisers. The new legislation offsets the cost of the tax break extensions by requiring hedge fund managers and others to account for deferred compensation (income held in offshore accounts and other corporate structures) as it accrues, rather than avoiding appropriate and timely income taxes.

Additional tax relief provisions. In addition to the extensions of tax relief described above, the 2008 Extenders Act also includes liberalizations for the child tax credit, income averaging for Exxon Valdez litigation amounts, a 5-year writeoff for certain farming equipment, and a change in the standards for imposition of the tax return preparer penalty.

Disaster relief. Included in the new legislation is Midwestern disaster area tax relief for victims of the disaster in Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska and Wisconsin, and a new tax relief package for victims of all Federally-declared disasters occurring after Dec. 31, 2007 and before Jan. 1, 2010 (e.g., eased loss deduction rules, a new business writeoff for demolition, cleanup and repair, a 5-year carryback for casualty losses or qualified disaster expenses, bonus 50% first year depreciation for property placed in service through Dec. 31, 2011 (Dec. 31, 2012 for real property), and increased expensing dollar limits).

I hope this information is helpful. If you would like more details about these changes, or any other aspects of the new law, please do not hesitate to call.

Very truly yours,

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