

FAMILY AND BUSINESS TAX CUT CERTAINTY ACT OF 2012

Extension of Tax Provisions Expiring in 2011 & 2012

August 1, 2012

Individual Provisions

AMT patch for 2012

Currently, a taxpayer receives an exemption of \$33,750 (individuals) and \$45,000 (married filing jointly) under the AMT. Current law also does not allow nonrefundable personal credits against the AMT. The proposal increases the exemption amounts for 2012 to \$50,600 (individuals) and \$78,750 (married filing jointly). The proposal also allows the nonrefundable personal credits against the AMT. The proposal is effective for taxable years beginning after December 31, 2011. *A one-year extension of this proposal is estimated to cost \$92 billion over ten years.*

Deduction for certain expenses of elementary and secondary school teachers

The bill extends for two years the \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and service), other equipment, and supplementary materials used by the educator in the classroom. *A two-year extension of this proposal is estimated to cost \$462 million over ten years.*

Mortgage Debt Relief

Under current law, taxpayers who have had mortgage debt canceled or forgiven after 2012 may be required to pay taxes on that amount as taxable income. Under this provision, up to \$2 million of forgiven debt is eligible to be excluded from income (\$1 million if married filing separately) through tax year 2013. This provision was created in the Mortgage Debt Relief Act of 2007 to prevent the taxation of so-called "shadow income" from foreclosures and cancelled debts through 2010. It was extended through 2012 by the Emergency Economic Stabilization Act of 2008. *A one-year extension of this proposal is estimated to cost \$1.3 billion over ten years.*

Parity for exclusion from income for employer-provided mass transit and parking benefits

This provision would extend through 2013 the increase in the monthly exclusion for employer-provided transit and vanpool benefits from \$125 to \$240, so that it would be the same as the exclusion for employer-provided parking benefits. In order for the extension to be effective retroactive to January 1, 2012, expenses incurred prior to enactment by employees for vanpool and transit benefits may be reimbursed by employers on a tax-free basis to the extent they exceed \$125 per month and are less than \$240. *A two-year extension of this proposal is estimated to cost \$271 million over ten years.*

Premiums for mortgage insurance deductible as interest that is qualified residence interest

The provision extends the ability to deduct the cost of mortgage insurance on a qualified personal residence. The deduction is phased-out ratably by 10% for each \$1,000 by which the taxpayer's AGI exceeds \$100,000. Thus, the deduction is unavailable for a taxpayer with an AGI in excess of \$110,000. The bill extends this provision for two additional years, through 2013. *A two-year extension of this proposal is estimated to cost \$1.3 billion over ten years.*

Deduction for state and local general sales taxes

The bill extends for two years the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for State and local income taxes. *A two-year extension of this proposal is estimated to cost \$4.4 billion over ten years.*

Special rules for contributions of capital gain real property made for conservation purposes

The bill extends for two years the increased contribution limits and carryforward period for contributions of appreciated real property (including partial interests in real property) for conservation purposes. *A two-year extension of this proposal is estimated to cost \$254 million over ten years.*

Above-the-line deduction for qualified tuition related expenses

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) created an above-the-line tax deduction for qualified higher education expenses. The maximum deduction was \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for joint returns) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns). The proposal extends the deduction to the end of 2013. *A two-year extension of this proposal is estimated to cost \$4.2 billion over ten years.*

Tax-free distributions from individual retirement plan for charitable purposes

The bill extends for two years the provision that permits tax-free distributions to charity from an Individual Retirement Account (IRA) of up to \$100,000 per taxpayer, per taxable year. *A two-year extension of this proposal is estimated to cost \$1.3 billion over ten years.*

Definition of gross estate for RIC stock owned by nonresident not a citizen of the US

Although stock issued by a domestic corporation generally is treated as property within the United States, stock of a RIC that was owned by a nonresident non-citizen is not deemed property within the United States in the proportion that, at the end of the quarter of the RIC's taxable year immediately before a decedent's date of death, the assets held by the RIC are debt obligations, deposits, or other property that would be treated as situated outside the United States if held directly by the estate (the "estate tax look-through rule for RIC stock"). The proposal permits the look-through rule for RIC stock to apply to estates of decedents dying before January 1, 2014. *A two-year extension of this proposal is estimated to cost \$10 million over ten years.*

Disclosure of prisoner return information to certain prison officials

The IRS is authorized to disclose certain limited return information about tax violations identified by the IRS, so that prison officials could punish and deter the prisoner's conduct through administrative sanctions. The provision expired on December 31, 2011. The proposal would make the provision permanent. *A permanent extension of this proposal is estimated to raise \$12 million over ten years.*

Refund and tax credit disregard for means tested programs

Current law ensures that the refundable components of the EITC and the Child Tax Credit do not make households ineligible for means-tested benefit programs and includes provisions stating that these tax credits do not count as income in determining eligibility (and benefit levels) in means-tested benefit programs, and also do not count as assets for specified periods of time. Without them, the receipt of a tax credit would put a substantial number of families over the income limits for these programs in the month that the tax refund is received. A provision enacted as part of the *Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010*, disregarded all refundable tax credits and refunds as income for means tested programs through 2012. The proposal would extend the provision for an additional year, through 2013. *A one-year extension of this proposal is estimated to cost \$2 million over*

ten years.

Business Provisions

Tax credit for research and experimentation expenses

The bill extends for two years, through 2013, the research tax credit equal to 20 percent of the amount by which a taxpayer's qualified research expenses for a taxable year exceed its base amount for that year and provides an alternative simplified credit of 14 percent. The bill also modifies rules for taxpayers under common control and rules for computing the credit when a portion of a trade or business changes hands. *A two-year extension of this proposal is estimated to cost \$14.3 billion over ten years.*

Treatment of military basic housing allowances under low-income housing credit

The bill extends a provision whereby a member of the military's basic housing allowance is not considered income for purposes of calculating whether the individual qualifies as a low-income tenant for the low income housing tax credit program. The provision expired at the end of 2011. The current proposal would continue this treatment for two additional years. *A two-year extension of this proposal is estimated to cost \$37 million over ten years.*

Indian employment tax credit

The bill extends for two years, through 2013, the business tax credit for employers of qualified employees that work and live on or near an Indian reservation. The amount of the credit is 20 percent of the excess of wages and health insurance costs paid to qualified employees (up to \$20,000 per employee) in the current year over the amount paid in 1993. *A two-year extension of this proposal is estimated to cost \$119 million over ten years.*

New Markets Tax Credit

Through the New Markets Tax Credit (NMTC) program, the federal government is able to leverage federal tax credits to encourage significant private investment in businesses in low-income communities. The program provides a 39 percent tax credit spread over 7 years. The bill extends for two years the new markets tax credit, permitting a maximum annual amount of qualified equity investments of \$3.5 billion each year. *A two-year extension of this proposal is estimated to cost \$1.8 billion over ten years.*

Credit for certain expenditures for maintaining railroad tracks

The bill extends for two years, through 2013, the railroad maintenance credit that provides Class II and Class III railroads (generally, short-line and regional railroads) with a tax credit equal to 50 percent of gross expenditures for maintaining railroad tracks that they own or lease. This credit is allowable against the AMT. *A two-year extension of this proposal is estimated to cost \$331 million over ten years.*

Mine rescue team training credit

The bill extends for two years, through 2013, a credit of up to \$10,000 for the training of mine rescue team members. *A two-year extension of this proposal is estimated to cost \$5 million over ten years.*

Employer wage credit for activated military reservists

The bill extends for two years, through 2013, the provision that provides eligible small business employers with a credit against the employer's income tax liability for a taxable year in an amount equal to 20 percent of the sum of differential wage payments to activated military reservists. *A two-year extension of this proposal is estimated to cost \$7 million over ten years.*

Work opportunity tax credit

This bill extends for two years, through 2013, the provision that allows businesses to claim a work opportunity tax credit equal to 40 percent of the first \$6,000 of wages paid to new hires of one of eight targeted groups. These groups include members of families receiving benefits under the Temporary Assistance to Needy Families (TANF) program, qualified ex-felons, designated community residents, vocational rehabilitation referrals, qualified summer youth employees, qualified food and nutrition recipients, qualified SSI recipients, and long-term family assistance recipients. *A two-year extension of this proposal is estimated to cost \$1.8 billion over ten years.*

Returning Heroes and Wounded Warriors Work Opportunity Tax Credits

Currently businesses are allowed to claim a work opportunity tax credit (WOTC) for hiring qualified veterans in the following targeted groups and up to the following credit amounts:

- Veterans in a family receiving supplemental nutrition assistance: \$2,400
- Short-term unemployed veterans: \$2,400
- Service-related disabled veterans discharged from active duty within a year: \$4,800
- Long-term unemployed veterans: \$5,600
- Long-term unemployed service-related disabled veterans: \$9,600

A credit against Social Security taxes is also available to tax-exempt employers. Transfers are made from general revenues to make the Social Security trust fund whole. The provision expires on December 31, 2012. The proposal would extend these credits for an additional year, through 2013. *A one-year extension of this proposal is estimated to cost \$125 million over ten years.*

Qualified zone academy bonds (QZABs) - allocation of bond limitation

QZABs are a form of tax credit bond which offer the holder a Federal tax credit instead of interest. QZABs can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. The provision extends the QZAB program for 2012 and 2013 providing \$400 million in bond volume per year. *A two-year extension of this proposal is estimated to cost \$235 million over ten years.*

15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements

The bill extends for two years, through 2013, the temporary 15-year cost recovery period for certain leasehold, restaurant, and retail improvements, and new restaurant buildings, which are placed in service before January 1, 2014. The extension is effective for qualified property placed in service after December 31, 2011. *A two-year extension of this proposal is estimated to cost \$3.7 billion over ten years.*

Accelerated depreciation for business property on Indian reservation

The bill extends for two years, through 2013, the placed-in-service date for the special depreciation recovery period for qualified Indian reservation property. In general, qualified Indian reservation property is property used predominantly in the active conduct of a trade or business within an Indian reservation, which is not used outside the reservation on a regular basis and was not acquired from a related person. *A two-year extension of this proposal is estimated to cost \$193 million over ten years.*

Enhanced charitable deduction for contributions of food inventory

The bill extends for two years the provision allowing businesses to claim an enhanced deduction for the contribution of food inventory. *A two-year extension of this proposal is estimated to cost \$314 million over ten years.*

Temporarily extend increase in the maximum amount and phase-out threshold under section 179.

Under current law, a taxpayer with a sufficiently small amount of annual investment may elect to deduct the cost of certain property placed in service for the year rather than depreciate those costs over time. The 2003 tax cuts temporarily increased the maximum dollar amount that may be deducted from \$25,000 to \$100,000. The tax cuts also increased the phase-out amount from \$200,000 to \$400,000. These amounts have been further modified and extended several times on a temporary basis, increasing up to a high of \$500,000 and \$2 million respectively for taxable years beginning in 2010 and 2011, and then to \$125,000 and \$500,000 respectively for taxable years beginning in 2012, before reverting to the permanent amounts of \$25,000 and \$200,000 respectively for taxable years beginning in 2013 and thereafter. The proposal sets the maximum amount and phase-out thresholds beginning in 2013 at \$250,000 and \$800,000 respectively. This proposal expires at the end of 2013. *A one-year extension of this proposal is estimated to cost \$1.3 billion over ten years.*

Election to expense advanced mine safety equipment

The bill extends for two years, through 2013, the provision that allows a 50 percent immediate expensing for the following advanced underground mine safety equipment: (1) communications technology enabling miners to remain in constant contact with individuals above ground; (2) electronic tracking devices that enable individuals above ground to locate miners in the mine at all times; (3) self-rescue emergency breathing apparatuses carried by the miners and additional oxygen supplies stored in the mine; and (4) mine atmospheric monitoring equipment to measure levels of carbon monoxide, methane, and oxygen in the mine. *A two-year extension of this proposal is estimated to have a negligible cost over ten years.*

Special expensing rules for certain film and television productions

The bill extends for two years, through 2013, the provision that allows film and television producers to expense the first \$15 million of production costs incurred in the United States (\$20 million if the costs are incurred in economically depressed areas in the United States). *A two-year extension of this proposal is estimated to cost \$248 million over ten years.*

Expensing of "brownfields" environmental remediation costs

The bill extends for two years the provision that allows for the expensing of costs associated with cleaning up hazardous "brownfield" sites. *A two-year extension of this proposal is estimated to cost \$363 million over ten years.*

Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico

The bill extends for two years the provision extending the section 199 domestic production activities deduction to activities in Puerto Rico. *A two-year extension of this proposal is estimated to cost \$358 million over ten years.*

Treatment of certain dividends of regulated investment companies (RIC's)

The bill extends a provision allowing a RIC, under certain circumstances, to designate all or a portion of a dividend as an "interest-related dividend," by written notice mailed to its shareholders not later than 60

days after the close of its taxable year. In addition, an interest-related dividend received by a foreign person generally is exempt from U.S. gross-basis tax under sections 871(a), 881, 1441 and 1442 of the Code. The proposal extends the treatment of interest-related dividends and short-term capital gain dividends received by a RIC to taxable years of the RIC beginning before January 1, 2014. *A two-year extension of this proposal is estimated to cost \$151 million over ten years.*

RIC qualified investment entity treatment under FIRPTA

The bill extends the inclusion of a RIC within the definition of a “qualified investment entity” under section 897 of the Tax Code through December 31, 2013. *A two-year extension of this proposal is estimated to cost \$60 million over ten years.*

Exceptions under subpart F for active financing income

The U.S. parent of a foreign subsidiary engaged in a banking, financing, or similar business is eligible for deferral of tax on such subsidiary’s earnings if the subsidiary is predominantly engaged in such business and conducts substantial activity with respect to such business. The subsidiary must pass an entity level income test to demonstrate that the income is active income and not passive income. The proposal extends the provision to the end of 2013. *A two-year extension of this proposal is estimated to cost \$11.2 billion over ten years.*

Special rules for qualified small business stock

Generally, non-corporate taxpayers may exclude 50 percent of the gain from the sale of certain small business stock acquired at original issue and held for more than five years. For stock acquired after February 17, 2009 and on or before September 27, 2010, the exclusion is increased to 75 percent. For stock acquired after September 27, 2010 and before January 1, 2012, the exclusion is 100 percent and the AMT preference item attributable for the sale is eliminated. Qualifying small business stock is from a C corporation whose gross assets do not exceed \$50 million (including the proceeds received from the issuance of the stock) and who meets a specific active business requirement. The amount of gain eligible for the exclusion is limited to the greater of ten times the taxpayer’s basis in the stock or \$10 million of gain from stock in that corporation. The provision extends the 100 percent exclusion of the gain from the sale of qualifying small business stock that is acquired before January 1, 2014 and held for more than five years. The bill also clarifies that in the case of stock acquired after February 17, 2009, and before January 1, 2014, the date of acquisition for purposes of determine the percentage exclusion is the date the holding period for the stock begins. *A two-year extension of this proposal is estimated to cost \$954 million over ten years.*

Look-through treatment of payments between related controlled foreign corporations under the foreign personal holding company rules

The bill allows deferral for certain payments (interest, dividends, rents and royalties) between commonly controlled foreign corporations (CFC). This provision allows U.S. taxpayers to deploy capital from one CFC to another without triggering U.S. tax. The proposal extends present law to the end of 2013. The proposal is effective for tax years beginning after December 31, 2011. *A two-year extension of this proposal is estimated to cost \$1.5 billion over ten years.*

Empowerment zone tax incentives

The bill extends for two years the designation of certain economically depressed census tracts as Empowerment Zones. Businesses and individual residents within Empowerment Zones are eligible for special tax incentives. *A two-year extension of this proposal is estimated to cost \$450 million over ten years.*

Basis adjustment to stock of S corporations making charitable contributions of property

The bill extends for two years the provision allowing S corporation shareholders to take into account their pro rata share of charitable deductions even if such deductions would exceed such shareholder's adjusted basis in the S corporation. *A two-year extension of this proposal is estimated to cost \$224 million over ten years.*

Reduction in S corporation recognition period for built-in gains tax

If a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for a certain period in order to avoid a tax on any built-in gains that existed at the time of the conversion. The American Recovery and Reinvestment Act reduced that period from 10 years to 7 years for sales of assets in 2009 and 2010. The Small Business Jobs Act reduced that period to 5 years for sales of assets in 2011. The bill extends the reduced holding period for sales occurring in 2012 and 2013. In addition, this bill clarifies rules for carry forwards and installment sales. *A two-year extension of this proposal is estimated to cost \$251 million over ten years.*

Extension of tax incentives for the New York Liberty Zone.

The bill extends through 2013 the time for issuing New York Liberty Zone bonds effective for bonds issued after December 31, 2009. *A two-year extension of this proposal is estimated to cost \$60 million over ten years.*

Temporary increase in limit on cover over of rum excise tax revenues (from \$10.50 to \$13.25 per proof gallon) to Puerto Rico and the Virgin Islands

The bill extends for one year the provision providing for payment of \$13.25 per gallon to cover over a \$13.50 per proof gallon excise tax on distilled spirits produced in or imported into the United States. *A two-year extension of this proposal is estimated to cost \$222 million over ten years.*

Energy Provisions

Credit for certain nonbusiness energy property (25C)

The bill extends for two years, through 2013, the credit under Section 25C of the Code for energy-efficient improvements to existing homes, reinstating the credit as it existed before passage of the American Recovery and Reinvestment Act. Standards for property eligible under 25C are updated to reflect improvements in energy efficiency. *A two-year extension of this proposal is estimated to cost \$2.4 billion over ten years.*

Alternative fuel vehicle refueling property (non-hydrogen refueling property)

The bill extends for two years, through 2013, the 30% investment tax credit for alternative vehicle refueling property. *A two-year extension of this proposal is estimated to cost \$44 million over ten years.*

Cellulosic Biofuels Producer Tax Credit

Under current law, facilities producing cellulosic biofuel can claim a \$1.01 per gallon production tax credit on fuel produced before the end of 2012. This provision was created in the 2008 Farm Bill. The provision would extend this production tax credit for one additional year, for cellulosic biofuel produced through 2013. The proposal also expands the definition of qualified cellulosic biofuel production to

include algae-based fuel. *A one-year extension of this proposal is estimated to cost \$59 million over ten years.*

Incentives for biodiesel and renewable diesel

The bill extends for two years, through 2013, the \$1.00 per gallon tax credit for biodiesel, as well as the small agri-biodiesel producer credit of 10 cents per gallon. The bill also extends through 2013 the \$1.00 per gallon tax credit for diesel fuel created from biomass. *A two-year extension of this proposal is estimated to cost \$2.1 billion over ten years.*

Indian country coal production tax credit

Under the 2005 Energy Policy Act, coal produced on land owned by an Indian tribe qualifies for a production tax credit equivalent to \$2 per ton through 2012. This provision would extend the tax credit through 2013. *A one-year extension of this proposal is estimated to cost \$1 million over ten years.*

Credit for construction of new energy efficient homes

The bill extends for two years, through 2013, the credit for the construction of energy-efficient new homes that achieve a 30% or 50% reduction in heating and cooling energy consumption relative to a comparable dwelling constructed per the standards of the 2003 International Energy Conservation Code (including supplements). *A two-year extension of this proposal is estimated to cost \$154 million over ten years.*

Credit for energy efficient appliances

The bill extends for two years, through 2013, the tax credit for US-based manufacturers of energy-efficient clothes washers, dishwashers and refrigerators. *A two-year extension of this proposal is estimated to cost \$650 million over ten years.*

Cellulosic Biofuels Bonus Depreciation

Under current law, facilities producing cellulosic biofuel can expense 50 percent of their eligible capital costs in the first year for facilities placed-in-service by the end of 2012. This provision was created in the 2008 Farm Bill. The provision would extend this bonus depreciation for one additional year for facilities placed-in-service before the end of 2013. The proposal also expands the definition of qualified cellulosic biofuel production to include algae-based fuel. *A one-year extension of this proposal is estimated to cost less than \$500,000 over ten years.*

Special rule for sales or dispositions to implement Federal Energy Regulatory Commission or State electric restructuring policy

The bill extends for two years, for sales prior to January 1, 2014, the present law deferral of gain on sales of transmission property by vertically integrated electric utilities to FERC-approved independent transmission companies. Rather than recognizing the full amount of gain in the year of sale, this provision would allow gain on such sales to be recognized ratably over an eight-year period. *A two-year extension of this proposal has a negligible cost over ten years.*

Incentives for alternative fuel and alternative fuel mixtures (other than liquefied hydrogen)

The bill extends through 2013 the \$0.50 per gallon alternative fuel tax credit and alternative fuel mixture tax credit. *A two-year extension of this proposal is estimated to cost \$409 million over ten years.*