

Sec. 38. General business credit

(a) Allowance of credit

There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of -

- (1) the business credit carryforwards carried to such taxable year,
- (2) the amount of the current year business credit, plus
- (3) the business credit carrybacks carried to such taxable year.

(b) Current year business credit for purposes of this subpart, the amount of the current year business credit is the sum of the following credits determined for the taxable year:

- (1) the investment credit determined under section 46,
- (2) the work opportunity credit determined under section 51(a),
- (3) the alcohol fuels credit determined under section 40(a),
- (4) the research credit determined under section 41(a),
- (5) the low-income housing credit determined under section 42(a),
- (6) the enhanced oil recovery credit under section 43(a),
- (7) in the case of an eligible small business (as defined in section 44(b)), the disabled access credit determined under section 44(a),
- (8) the renewable electricity production credit under section 45(a),
- (9) the empowerment zone employment credit determined under section 1396(a),
- (10) the Indian employment credit as determined under section 45A(a),
- (11) the employer social security credit determined under section 45B(a),
- (12) the orphan drug credit determined under section 45C(a),
- (13) the new markets tax credit determined under section 45D(a),
- (14) in the case of an eligible employer (as defined in section 45E(c)), the small employer pension plan startup cost credit determined under section 45E(a),
- (15) the employer-provided child care credit determined under section 45F(a),

- (16) the railroad track maintenance credit determined under section 45G(a),
- (17) the biodiesel fuels credit determined under section 40A(a),
- (18) the low sulfur diesel fuel production credit determined under section 45H(a),
- (19) the marginal oil and gas well production credit determined under section 45I(a),
- (20) the distilled spirits credit determined under section 5011(a),
- (21) the advanced nuclear power facility production credit determined under section 45J(a),
- (22) the nonconventional source production credit determined under section 45K(a),
- (23) the new energy efficient home credit determined under section 45L(a),
- (24) the energy efficient appliance credit determined under section 45M(a),
- (25) the portion of the alternative motor vehicle credit to which section 30B(g)(1) applies,
- (26) the portion of the alternative fuel vehicle refueling property credit to which section 30C(d)(1) applies,
- (27) the Hurricane Katrina housing credit determined under section 1400P(b),
- (28) the Hurricane Katrina employee retention credit determined under section 1400R(a),
- (29) the Hurricane Rita employee retention credit determined under section 1400R(b),
- (30) the Hurricane Wilma employee retention credit determined under section 1400R(c),
- (31) the mine rescue team training credit determined under section 45N(a),
- (32) in the case of an eligible agricultural business (as defined in section 45O(e)), the agricultural chemicals security credit determined under section 45O(a),
- (33) the differential wage payment credit determined under section 45P(a),
- (34) the carbon dioxide sequestration credit determined under section 45Q(a) (!1)

(35) the portion of the new qualified plug-in electric drive motor vehicle credit to which section 30D(c)(1) applies, plus

(36) the small employer health insurance credit determined under section 45R.

(c) Limitation based on amount of tax

(1) In general the credit allowed under subsection (a) for any taxable year shall not exceed the excess (if any) of the taxpayer's net income tax over the greater of -

(A) the tentative minimum tax for the taxable year, or

(B) 25 percent of so much of the taxpayer's net regular tax liability as exceeds \$25,000. For purposes of the preceding sentence, the term "net income tax" means the sum of the regular tax liability and the tax imposed by section 55, reduced by the credits allowable under subparts A and B of this part, and the term "net regular tax liability" means the regular tax liability reduced by the sum of the credits allowable under subparts A and B of this part.

(2) Empowerment zone employment credit may offset 25 percent of minimum tax

(A) In general in the case of the empowerment zone employment credit -

(i) this section and section 39 shall be applied separately with respect to such credit, and

(ii) for purposes of applying paragraph (1) to such credit -

(I) 75 percent of the tentative minimum tax shall be substituted for the tentative minimum tax under subparagraph (A) thereof, and

(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the empowerment zone employment credit, the New York Liberty Zone business employee credit, the eligible small business credits, and the specified credits).

(B) Empowerment zone employment credit for purposes of this paragraph, the term "empowerment zone employment credit" means the portion of the credit under subsection (a) which is attributable to the credit determined under section 1396 (relating to empowerment zone employment credit).

(3) Special rules for New York Liberty Zone business employee credit

(A) In general in the case of the New York Liberty Zone business employee credit -

(i) this section and section 39 shall be applied separately with respect to such credit, and

(ii) in applying paragraph (1) to such credit -

(I) the tentative minimum tax shall be treated as being zero, and

(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the New York Liberty Zone business employee credit, the eligible small business credits, and the specified credits).

(B) New York Liberty Zone business employee credit for purposes of this subsection, the term "New York Liberty Zone business employee credit" means the portion of work opportunity credit under section 51 determined under section 1400L(a).

(4) Special rules for specified credits

(A) In general in the case of specified credits -

(i) this section and section 39 shall be applied separately with respect to such credits, and

(ii) in applying paragraph (1) to such credits -

(I) the tentative minimum tax shall be treated as being zero, and

(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the eligible small business credits and the specified credits).

(B) Specified credits for purposes of this subsection, the term "specified credits" means -

(i) for taxable years beginning after December 31, 2004, the credit determined under section 40,

(ii) the credit determined under section 42 to the extent attributable to buildings placed in service after December 31, 2007,

(iii) the credit determined under section 45 to the extent that such credit is attributable to electricity or refined coal produced -

(I) at a facility which is originally placed in service after the date of the enactment of this paragraph, and

(II) during the 4-year period beginning on the date that such facility was originally placed in service,

(iv) the credit determined under section 45B,

(v) the credit determined under section 45G,

(vi) the credit determined under section 45R,

(vii) the credit determined under section 46 to the extent that such credit is attributable to

the energy credit determined under section 48,

(viii) the credit determined under section 46 to the extent that such credit is attributable to the rehabilitation credit under section 47, but only with respect to qualified rehabilitation expenditures properly taken into account for periods after December 31, 2007, and

(ix) the credit determined under section 51.

(5) Special rules for eligible small business credits in 2010

(A) In general in the case of eligible small business credits determined in taxable years beginning in 2010 -

(i) this section and section 39 shall be applied separately with respect to such credits, and

(ii) in applying paragraph (1) to such credits -

(I) the tentative minimum tax shall be treated as being zero, and

(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the eligible small business credits).

(B) Eligible small business credits for purposes of this subsection, the term "eligible small business credits" means the sum of the credits listed in subsection (b) which are determined for the taxable year with respect to an eligible small business. Such credits shall not be taken into account under paragraph (2), (3), or (4).

(C) Eligible small business for purposes of this subsection, the term "eligible small business" means, with respect to any taxable year -

(i) a corporation the stock of which is not publicly traded,

(ii) a partnership, or

(iii) a sole proprietorship, if the average annual gross receipts of such corporation, partnership, or sole proprietorship for the 3-taxable-year period preceding such taxable year does not exceed \$50,000,000. For purposes of applying the test under the preceding sentence, rules similar to the rules of paragraphs (2) and (3) of section 448(c) shall apply.

(D) Treatment of partners and S corporation shareholders credits determined with respect to a partnership or S corporation shall not be treated as eligible small business credits by any partner or shareholder unless such partner or shareholder meets the gross receipts test under subparagraph

(C) for the taxable year in which such credits are treated as current year business credits.

(6) Special rules

(A) Married individuals in the case of a husband or wife who files a separate return, the amount specified under subparagraph (B) of paragraph (1) shall be \$12,500 in lieu of \$25,000. This subparagraph shall not apply if the spouse of the taxpayer has no business credit carryforward or carryback to, and has no current year business credit for, the taxable year of such spouse which ends within or with the taxpayer's taxable year.

(B) Controlled groups in the case of a controlled group, the \$25,000 amount specified under subparagraph (B) of paragraph (1) shall be reduced for each component member of such group by apportioning \$25,000 among the component members of such group in such manner as the Secretary shall by regulations prescribe. For purposes of the preceding sentence, the term "controlled group" has the meaning given to such term by section 1563(a).

(C) Limitations with respect to certain persons in the case of a person described in subparagraph (A) or (B) of section 46(e)(1) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990), the \$25,000 amount specified under subparagraph (B) of paragraph

(1) shall equal such person's ratable share (as determined under section 46(e)(2) (as so in effect) of such amount.

(D) Estates and trusts in the case of an estate or trust, the \$25,000 amount specified under subparagraph (B) of paragraph (1) shall be reduced to an amount which bears the same ratio to \$25,000 as the portion of the income of the estate or trust which is not allocated to beneficiaries bears to the total income of the estate or trust.

(d) Ordering rules for purposes of any provision of this title where it is necessary to ascertain the extent to which the credits determined under any section referred to in subsection (b) are used in a taxable year or as a carryback or carryforward -

(1) In general the order in which such credits are used shall be determined on the basis of the order in which they are listed in subsection (b) as of the close of the taxable year in which the credit is used.

(2) Components of investment credit the order in which the credits listed in section 46 are used shall be determined on the basis of the order in which such credits are listed in section 46 as of the close of the taxable year in which the credit is used.

(3) Credits no longer listed for purposes of this subsection -

(A) the credit allowable by section 40, as in effect on the day before the date of the enactment of the Tax Reform Act of 1984, (relating to expenses of work incentive programs) and the credit allowable by section 41(a), as in effect on the day before the date of the enactment of the Tax Reform Act of 1986, (relating to employee stock ownership credit) shall be treated as referred to in that order after the last paragraph of subsection (b), and

(B) the credit determined under section 46 -

(j) to the extent attributable to the employee plan percentage (as defined in section 46(a)(2)(E) as in effect on the day before the date of the enactment of the Tax Reform Act of 1984) shall be treated as a credit listed after paragraph (1) of section 46, and

(ii) to the extent attributable to the regular percentage (as defined in section 46(b)(1) as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) shall be treated as the first credit listed in section 46.