

Committee on Ways and Means

Conference Report on H.R. 4520, *The American Jobs Creation Act of 2004*

Ends Sanctions and Provides Tax Benefits for Manufacturing

- Repeals FSC-ETI. Provides more than \$8 billion of transition relief over three years (2004-2006).
- Provides a 9 percent tax deduction (equivalent to a 3 percent rate cut) on all domestic manufacturing activity. The deduction is available to C corporations, S corporations, partnerships, sole proprietorships, cooperatives, and estates and trusts. Includes an AMT hold harmless.

Tax Incentives for Businesses and Job Creators

- Extends enhanced section 179 expensing so that small businesses can immediately expense up to \$100,000 of new investments through 2007.
- Reduces the depreciation period for restaurants and leasehold improvements from 39 years to 15 years.
- Provides 10 provisions to simplify the tax treatment of S corporations and to make it easier for businesses to qualify as S corporations.
- Enhances community revitalization incentives in economically distressed regions by enhancing eligibility criteria for Renewal Communities and the New Markets Tax Credit.
- Includes numerous other tax relief provisions, such as repeal of the 4.3-cent fuel excise tax, temporary suspension of the special occupational tax on small businesses, an elective tonnage tax system for international shipping income, and a 50 percent tax credit for railroad track maintenance.

Tax Relief for Farmers and Small Manufacturers

- Extends ethanol subsidies through 2010 and fully compensates the Highway Trust Fund for the cost of these subsidies. Creates new biodiesel tax subsidies through 2006.
- Ensures that farmers and fishermen are not hit by the Alternative Minimum Tax (AMT) when they use income averaging to smooth out fluctuations in their annual incomes.
- Provides several tax relief provisions for timber including: (1) capital gains treatment for outright sales of timber, (2) safe harbor rules for timber REITs, (3) expensing of reforestation costs, and (4) an election to treat timber as a sale or exchange.

- Increases the number of small manufacturers eligible for Industrial Development Bond financing by increasing the capital expenditure limit from \$10 million to \$20 million.
- Reduces or repeals excise taxes that create a competitive disadvantage for small manufacturers.
- Extends 50-percent bonus depreciation for small aircraft by one year.
- Provides tax incentives for small business refiners to help them comply with the Environmental Protection Agency's sulfur regulations.

Tax Reform and Simplification for U.S. Businesses

- Includes several provisions to reduce double taxation of U.S.-based companies, such as reducing the foreign tax credit (FTC) baskets from nine to two and allowing FTCs to be carried forward for 10 years instead of five.
- Repeals the 90-percent limitation on the use of FTCs against the alternative minimum tax.
- Encourages companies to reinvest foreign earnings in the United States by temporarily taxing repatriated income at 5.25 percent.

Other Provisions

- Allows taxpayers to deduct state and local sales taxes instead of state income taxes for 2004 and 2005. Taxpayers may deduct their actual sales taxes or used IRS-published tables.
- Repeals the government-run tobacco quota program. Tobacco farmers and quota holders receive transitional assistance payments over 10 years financed with assessments on tobacco companies. Program cost is capped at \$10.14 billion.
- Expands the section 45 electricity production credit and allows it against the AMT.
- Two-year suspension of section 815.
- Two-year suspension of duties on ceiling fans, steam generators, and reactor vessel heads and pressures (i.e., products with absolutely no U.S. production).

The Conference Report is revenue neutral.

- Costs are offset by:
 1. Reducing tax avoidance through corporate inversions and individual expatriation,
 2. Shutting down abusive tax shelters,
 3. Closing corporate tax loopholes,
 4. Combating fuel tax evasion,
 5. Clarifying the tax treatment of executive deferred compensation plans,
 6. Extending IRS user fees, and
 7. Extending customs user fees.