

DIGEST OF THE COMMUNITY RENEWAL TAX RELIEF ACT OF 2000

P. L. 106-554

(NOTE: Only amendments or additions to Internal Revenue Code Sections contained in subtitle A, chapter 1, and certain 6000 series sections of the Internal Revenue Code of 1986, as amended, are applicable for this Digest.)

<u>CODE SECTION</u>	<u>DESCRIPTION OF PROVISION</u>
<i>The following provision is operative for Hawaii income tax purposes.</i>	
Non Code Provision	Clarifies the Tax and Trade Relief Extension Act of 1998 §4003 by specifying that if (1) a charitable remainder trust sold §1250 property after July 28, 1997, but before January 1, 1998, (2) the property was held for more than one year, but not more than 18 months, and (3) the capital gain is distributed after December 31, 1997, then any capital gain attributable to depreciation will be taxed at 25% (rather than at 28%). Effective as if included in the provisions of the Tax and Trade Relief Extension Act of 1998 to which it relates.
<i>The following provision is NOT operative for Hawaii income tax purposes.</i>	
Non Code Provision	Provides that an election made under §311 of the Taxpayer Relief Act of 1997 (to make a deemed sale of tradable stock to invoke a five-year holding period to benefit from a reduced capital gains tax rate) does not apply to assets disposed of in a recognition transaction within one year of the date the election would otherwise have been effective.
<i>The following sections are NOT operative for Hawaii income tax purposes.</i>	
IRC 2, 24, 32,151(c)	Clarifies certain tax benefits with respect to kidnapped children.
IRC 26	Renames Medical Savings Accounts as Archer Accounts.
IRC 30A(f), (g) & (h)	Amends Ticket to Work Incentives Act of 1999 by specifying that wages or other expenses taken into account in determining the Puerto Economy Activity Credit under IRC §30A may not be taken into account in determining the research credit under IRC §41.
<i>The following sections are operative for Hawaii income tax purposes</i>	
IRC 42(d) & (i)	Amends the low-income housing credit by allowing the credit for a portion of the building used as a community service facility not in excess of 10% of the total eligible basis in the building. Also provides that assistance received under the Native American Housing Assistance and Self-Determination Act of 1996 is not taken into account in determining whether a building is federally subsidized for purposes of the credit.
IRC 42(d) & (h)	Allows a building which receives an allocation in the second half of a calendar year to qualify under the 10% test if the taxpayer expends an amount equal to 10% or more of the taxpayer's reasonably expected basis in the building within six months of receiving the allocation regardless of whether the 10% test is met by the end of the calendar year. Also expands the definition of qualified census tracts for purposes of the enhanced credit to include any census tracts with a poverty rate of 25% or more.
IRC 42(h)	Modifies the state ceiling on the low-income housing credit by increasing the per-capita low-income housing credit cap.

Modifies the stacking rule so that each state is treated as using its allocation of the unused state housing credit ceiling (if any) from the preceding calendar year before the current year's allocation of credit (including any credits returned to the state) and then finally any National Pool allocations.

- IRC 42(m)(1) Requires a comprehensive market study of the housing needs of the low-income individuals in the area to be served by the project and a written explanation available to the general public for any allocation not made in accordance with the established priorities and selection criteria of the housing credit agency.
- Requires site inspections by the housing credit agency to monitor compliance with habitability standards applicable to the project.

The following sections are NOT operative for Hawaii income tax purposes.

- IRC 43(c)(1) Clarifies that IRC §43, relating to the enhanced oil recovery credit, applies with respect to qualified tertiary injectant expenses described in §193(b) that are paid or incurred in connection with a qualified enhanced oil recovery project and that are deductible for the taxable year.
- IRC 45D Creates a new markets tax credit for qualified equity investments made to acquire stock in a selected community development entity.
- IRC 51 Amends the work opportunity credit by expanding the high-risk youth and qualified summer youth categories to include qualified individuals who live in a renewal community.
- IRC 56 Clarifies that the Taxpayer Relief Act of 1997 did not change the requirement that the straight-line method of depreciation be used in computing alternative minimum tax depreciation allowance for §1250 property.

The following sections are operative for Hawaii income tax purposes

- IRC 106 Medical savings accounts renamed as Archer MSAs.
- IRC 138 Medical savings accounts renamed as Archer MSAs.

The following section is NOT operative for Hawaii income tax purposes.

- IRC 146(d)(1)&(2) Increases state volume limit caps for private activity bonds in calendar year 2001 and 2002. Beginning in 2003 the volume limits will be adjusted annually for inflation.

The following sections are operative for Hawaii income tax purposes

- IRC 165(g)(3) Conforms the affiliation test of §165(g)(3)(A), relating to worthless securities, to the test in §1504(a)(2). Effective for taxable years beginning after December 31, 1984.
- IRC 170(e)(6) Extends the current enhanced deduction for donations of computer technology and equipment through December 31, 2003, and expands the enhanced deduction to include donations to public libraries. Qualified contributions include gifts made no later than three years after the date the taxpayer acquired or substantially completed the construction of the donated property. Contributions may be made by a person that has reacquired the property. Effective for contributions made after December 31, 2000.
- IRC 198(c) Extends the expiration date for eligible expenditures which qualify for expensing of environmental remediation costs. Expands the eligible sites by eliminating the targeted area requirement.

IRC 219(c)(1)(B) Limits the IRA contributions by a nonworking/lesser earning spouse to the couple's combined earned income. Adds the requirement that nondeductible IRA contributions made by the working/greater earning spouse, in addition to deductible IRA contributions and Roth IRA contributions made by that spouse, be subtracted from the couple's combined income in determining the maximum IRA contribution that can be made for the nonworking/lesser earning spouse. Effective for taxable years beginning after December 31, 1996.

IRC 220(d),(i) & (j) Extends the Medical Savings Account (MSA) program through 2002. An MSA is a trust or custodial account created for the benefit of the account holder and is subject to rules similar to those applicable to individual retirement arrangements. Contributions to the MSA are deductible and excludable from gross income wages for employment tax purposes. Distributions from an MSA for medical expenses are not taxable. Effective December 21, 2000.

IRC 220(c)(1)(D)
(e)(2), (f)(3)(A), &
(i)(4)(B) Medical Savings Accounts renamed as Archer MSAs.

The following section is NOT operative for Hawaii income tax purposes.

IRC 280C(c)(1) Amends Ticket to Work Incentives Act of 1999 by striking "or credit" after "deduction" each place it appears.

The following sections are operative for Hawaii income tax purposes.

IRC 358(h) Modifies the rules relating to the assumption of liabilities by a controlled corporation in a tax-free exchange to prevent duplication or acceleration of loss. Effective for assumptions of liabilities on or after October 19, 1999.

IRC 401(k)(10)(B) Expands the definition of a lump-sum distribution for purposes of §401(k)(10), relating to distributions upon termination of plan or disposition of assets or subsidiary. A distribution of an annuity contract from a qualified plan or a §403(a) plan is a lump-sum distribution and thus can qualify as a distribution upon the termination of a plan or upon the disposition by a corporation of its assets or its interest in a subsidiary. Effective for taxable years beginning after December 31, 1999.

IRC 403, 414, & 415 Treats salary reduction amounts used for qualified transportation benefits in the same manner as other salary reduction amounts for purposes of defining compensation under the qualified plan rules. Effective for taxable years beginning after December 31, 1997.

The following section is NOT operative for Hawaii income tax purposes.

IRC 469 Authorizes the designation of up to 40 renewal communities, at least 12 of which must be in rural communities, within which special tax incentives will be available from January 1, 2002 through December 31, 2009.

The following section is operative for Hawaii income tax purposes.

IRC 732(f) Applies the stock ownership aggregation provision in the consolidated return regulations to determine whether a corporation whose stock is distributed by a partnership to a corporate partner is subject to rules that require the distributee to reduce the basis of its assets. Also provides that references to §332(b)(1) in Regs. §1.1502-34 of the consolidated return regulations will apply to §732(f). Effective for distributions made after July 14, 1999.

The following sections are operative for Hawaii income tax purposes.

IRC 848 Medical savings accounts renamed as Archer MSAs.

IRC 857(b)(7)(B) Clarifies that a REIT's redetermined rents that are subject to tax under §857(b)(7)(A) do not include amounts received from a taxable REIT subsidiary that would be excluded from unrelated business taxable income under §512(b)(3).

The following sections are NOT operative for Hawaii income tax purposes.

IRC 995(f)(4) Replaces the reference to the average investment yield on 52-week Treasury bills with a reference to the average of the one-year constant maturity Treasury yields because the Treasury is likely to cease issuing such bills. Effective on December 21, 2000.

IRC 1202(a) Increases the small business stock exclusion to 60% for stock in a qualified business entity purchased after December 21, 2000 and held for more than five years. A qualified business entity is a corporation that satisfies the requirements of a qualifying business under the empowerment zone rules during substantially all the taxpayer's holding period. Effective for qualified stock purchased after December 21, 2000.

The following sections are operative for Hawaii income tax purposes

IRC 1243B Provides that, except in the case of a dealer securities contract, gain or loss from a securities futures contract is treated similarly to gain or loss from transactions in the underlying security.

IRC 1275(a)(1)(B) Clarifies that an annuity contract otherwise meeting the applicable requirements also is within the exception to the definition of a debt instrument for certain annuity contracts, if it is issued by a tax-exempt entity described in §501(c) that would be subject to tax as an insurance company if it were not exempt under §501(a). Effective for taxable years ending after July 18, 1984.

IRC 1361 Allows an electing small business trust holding S corporation stock to have an organization such as a State, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, as a beneficiary if the organization holds a contingent interest and is not a potential current beneficiary.

The following sections are NOT operative for Hawaii income tax purposes.

IRC 1391(h) Authorizes the designation of nine new empowerment zones before 2002, and authorizes the designation of a replacement empowerment zone for each empowerment zone that becomes a renewal community.

IRC 1391(d) Extends the designation of empowerment zone situs for existing empowerment zones (other than the District of Columbia (D.C.) Enterprise Zone) through December 31, 2009.

IRC 1394(f) Extends eligibility for the tax-exempt bond to businesses located in all empowerment zones (other than the D.C. Enterprise Zone). Effective for obligations issued after 2001.

IRC 1396 Makes the 20% wage credit available in all empowerment zones. Effective beginning in 2002.

IRC 1397A(a)(1) & (c) Makes \$35,000 of additional §179 expensing available for qualified zone property placed in service by a qualified business in any empowerment zone, including the D.C. Enterprise zone, until such designation is terminated. Effective for property placed in service in taxable years beginning after 2001.

IRC 1397B, 1397C, & 1397D Allows taxpayers to elect to roll over capital gain from the sale or exchange of any qualified empowerment zone asset purchased after December 21, 2000 and held for more than one year if the proceeds are used to purchase other qualifying empowerment zone assets in the same zone within 60 days of the sale. Effective for qualifying assets purchased after December 21, 2000. Sections 1397B and 1397C were redesignated as sections 1397C and 1397D.

IRC 1400, 1400A, & 1400B Extends the D.C. Enterprise Zone designation through December 31, 2003.

IRC 1400C	Extends the tax credit for first-time D.C. home buyers through December 31, 2003.
IRC 1400E-1400J	<p>Authorizes the designation of up to 40 renewal communities, at least 12 of which must be in rural communities, within which special tax incentives would be available. Explains the conditions and procedures for an area to be selected as a renewal community.</p> <p>Makes certain tax incentives available to renewal communities for the period beginning January 1, 2002, and ending December 31, 2009.</p> <p>Provides for the application of a zero-percent capital gains rate with respect to gain from the sale of a qualified community asset acquired after December 31, 2001, and before January 1, 2010, and held for more than five years.</p> <p>Makes available to employers a 15% wage credit for the first \$10,000 of qualified wages paid to each employee who is a resident of the renewal community, and performs substantially all employment services within the renewal community in a trade or business of the employer. The wage credit applies to qualifying wages paid after December 31, 2001, and before January 1, 2010.</p> <p>Permits each state to allocate up to \$12 million of "commercial revitalization expenditures" (the cost of a new building or the cost of substantially rehabilitating an existing building) to each renewal community located within the state for each calendar year after 2001 and before 2010. A taxpayer can elect to deduct 50% of the commercial revitalization expenditures for the taxable year the building is placed in service, or amortize all the expenditures ratably over the 120-month period beginning with the month the building is placed in service.</p> <p>Allows a renewal community business an additional \$35,000 of §179 expensing for qualified renewal property placed in service after December 31, 2001, and before January 1, 2010.</p> <p>Provides that renewal communities must be designated during the period beginning on the first day of the first month after the publication of regulations, and ending on December 31, 2001. Tax benefits available in renewal communities are effective for the period beginning January 1, 2002, and ending December 31, 2009.</p>
IRC 3405	Extends the exception from §3405 withholding to Roth IRAs. Section 3405 requires withholding as to "designated distributions" from certain tax-favored arrangements, including IRAs. The amendments to the Taxpayer Relief Act of 1997 (P.L. 105-34) are effective as if included in the provisions of TRA '97 to which they relate. This provision relates to §302 of TRA '97, which applied to taxable years beginning after December 31, 1997.
IRC 3306(e)(7), 3309(d)	Provides that FUTA taxes are not applied to services performed for Indian tribes (including any subdivision, subsidiary, for business enterprise wholly owned by an Indian tribe).
IRC 4973(d)	Medical savings accounts renamed Archer MSAs.
IRC 4975	Medical savings accounts renamed Archer MSAs.
IRC 4980E (b) & (d) (1)	Medical savings accounts renamed Archer MSAs.

The following sections are NOT operative for Hawaii income tax purposes.

IRC 6013(j) & (p)	Permits the IRS to furnish to the Congressional Budget Office (CBO) return information to the extent such information is necessary for purposes of CBO's long-term models of Social Security and Medicare. Officials and employees of CBO will be subject to the same statutory penalties for unauthorized disclosure as the employees of the agencies from which CBO obtained the data.
-------------------	--

The following section is operative for Hawaii income tax purposes.

IRC 6015(c) Resolves any confusion as to when a request for innocent spouse relief should be made by the taxpayer by clarifying that the election may be made at any point after a deficiency has been asserted.

The following section is NOT operative for Hawaii income tax purposes.

IRC 6015(e) Amends §6015(e)(1) to allow a 90 day period for petitioning the Tax Court and makes conforming amendments as to the period for which collection activities are prohibited and collection limitations suspended.

The following section is operative for Hawaii income tax purposes.

IRC 6051 Medical savings accounts renamed Archer MSAs.

The following sections are NOT operative for Hawaii income tax purposes.

IRC 6103 Affirms that closing agreements, similar agreements, and related background information, are confidential return information. Clarifies that information exchanged and agreements reached pursuant to tax treaties are confidential. Such protected documents are not to be disclosed under the FOIA or §6110. Effective December 21, 2000.

IRC 6103 Permits the IRS to furnish to the Congressional Budget Office (CBO) return information to the extent such information is necessary for purposes of CBO's long-term models of Social Security and Medicare. Adds to the Congressional Budget Act of 1974 additional confidentiality provisions which requires CBO to provide the same level of confidentiality to data it obtains from other agencies as that to which the agencies themselves are subject. Officials and employees of CBO will be subject to the same statutory penalties for unauthorized disclosure as the employees of the agencies from which CBO obtained the data.

IRC 6103(k)(6) Clarifies that Treasury Inspector General for Tax Administration (TIGTA) personnel, who need to make investigative disclosures to carry out the duties they took over from the now-defunct Office of the Chief Inspector and their additional tax administration responsibilities, as well as internal revenue personnel, may make investigative disclosures. Effective as if included in 1998 IRS Reform Act §1103.

IRC 6104 Clarifies that nonexempt charitable trusts and nonexempt private foundations are subject to the §6104(d) public disclosure requirements.

IRC 6105 Affirms that closing agreements, similar agreements, and related background information, are confidential return information. Clarifies that information exchanged and agreements reached pursuant to tax treaties are confidential. Such protected documents are not to be disclosed under the FOIA or §6110. Effective December 21, 2000.

IRC 6110 Affirms that closing agreements, similar agreements, and related background information, are confidential return information. Clarifies that information exchanged and agreements reached pursuant to tax treaties are confidential. Such protected documents are not to be disclosed under the FOIA or §6110. Effective December 21, 2000.

IRC 6110(g)(5)(A) Modifies the provision for nondisclosure of certain written determinations during ongoing investigations to include "Chief Counsel advice." Effective for any Chief Counsel advice issued on or after October 21, 1998; the transition rules of 1998 IRS Reform Act §3509(d)(2) apply for advice issued after December 31, 1985 and before October 21, 1998.

IRC 6211	Provides that the refundable portion of the child credit under §24(d) be treated as a "deficiency," such that usual assessment procedures applicable to income taxes apply to both the nonrefundable and refundable portions of the child credit. Applicable to taxable years beginning after December 31, 1997, as if included in the Taxpayer Relief Act of 1997.
IRC 6330(d)(1)(A)	Clarifies that a determination of the Tax Court in a dispute concerning the pre-levy administrative due process hearing, other than under the small case procedures, is an appealable decision. Effective as if included in 1998 IRS Reform Act §3401 and, thus, applicable to collection actions initiated after January 18, 1999.
IRC 6330(e)(1) & 7421(a)	Clarifies the ability of the courts to enjoin levy during the period that levy is required to be suspended for a dispute under the pre-levy administrative due process hearing procedures. Expressly grants the Tax Court and district courts authority to enjoin improper levy action in general, but authority does not explicitly extend to improper levy action that occurs while levy action is statutorily suspended under the administrative due process provisions. Effective on December 21, 2000.
IRC 6331(k)(3)	Clarifies that the permissible extension of the period of limitations for installment agreements is governed by the pertinent provisions of §6502, not by reference to the period of time during which the installment agreement is in effect pursuant to §6331(k)(3) and (i)(5). Effective on December 21, 2000.
IRC 6405	Increases Joint Committee on Taxation refund review threshold to \$2 million. Effective on December 21, 2000, except that the \$2 million threshold does not apply to a refund or credit with respect to which a report was made before December 21, 2000.
IRC 6411	Adds a reference to §1212(c), which allows a carryback of §1256 losses. Effective as if included with §504 of the Economic Recovery Act of 1981.
IRC 6631, 6751	Extends the deadline for the IRS to begin providing annual account reporting for taxpayers with installment agreements and complying with penalty and interest notice requirements imposed by the 1998 IRS Reform Act.
IRC 6693(a)(2)(B)	Medical savings accounts renamed Archer MSAs.
IRC 7421(a)	Amends §6330 to clarify the ability of the courts to enjoin levy during the period that levy is required to be suspended for a dispute under the pre-levy administrative due process hearing procedures. Also amends the Code to expressly grant the Tax Court and district courts authority to enjoin improper levy action in general, but adds that authority does not explicitly extend to improper levy action that occurs while levy action is statutorily suspended under the administrative due process provisions. Effective on December 21, 2000.
IRC 7436(a)	Clarifies that the Tax Court's jurisdiction extends to the employment tax in dispute.
IRC 7463(f)	Clarifies that the Tax Court small case procedures are available for innocent spouse disputes under §6015 and disputes continuing from the pre-levy administrative due process hearing under §6330 at the option of the taxpayer, with the concurrence of the Tax Court.
IRC 7608	Extends for five years (through December 31, 2005) the authority of the IRS to use the income earned from undercover operations to pay additional expenses incurred in undercover operations. Effective on December 21, 2000.
IRC 7702A(a) & (c)(3)(A)	Clarifies that if a life insurance contract becomes a "modified endowment contract" (MEC), the MEC status of the contract cannot be eliminated by exchanging it for another contract, including a contract that does not fail the 7-pay test of §7702A(b). Makes clear that if a contract that is not a MEC is exchanged for a new life insurance contract, then the 7-pay limit under the new contract is computed using the cash surrender value of the old contract. Effective for contracts entered into after June 30, 1988.

DIGEST OF THE INSTALLMENT TAX CORRECTION ACT OF 2000

P. L. 106-573

(NOTE: Only amendments or additions to Internal Revenue Code Sections contained in subtitle A, chapter 1, and certain 6000 series sections of the Internal Revenue Code of 1986, as amended, are applicable for this Digest.)

CODE SECTION

DESCRIPTION OF PROVISION

The following section is operative for Hawaii income tax purposes.

IRC 536

Subsection (a) of the Ticket to Work and Incentives improvement Act which disallowed the installment method of accounting for accrual basis taxpayers is repealed effective with respect to sales and other dispositions occurring on or after the date of the enactment of the Act.