Section 2 Changes in Law and Regulations

The statistics in this report reflect, in general, changes in law and regulations that became effective during the 2000 accounting periods covered. Depending on the accounting period used and effective date of the change in law, the changes may have been fully applicable for some corporations, only partially applicable for others, and not applicable at all for still others.

The information that follows, highlights the major changes that substantially affected the comparability of the statistics in this report with those of prior years. Most of the changes in law and regulations resulted from the Tax Relief Extension Act of 1999. More detail on the specific provisions that were changed is contained in Section 5, Explanation of Terms.

Controlled Foreign Corporations under Subpart F

The Tax Relief Extension Act of 1999 extended for two years the exceptions from subpart F foreign personal holding company income, foreign base company services income, and insurance income for certain income that is derived in the active conduct of a banking, financing, or similar business, or in the conduct of an insurance business.

Depreciation and Section 179 Deduction

The total Internal Revenue Code section 179 deduction and depreciation allowable on a vehicle (that is not a clean-fuel car) used for business purposes and placed in service in 2000 could not exceed $3,060. Furthermore, allowable depreciation could not exceed $4,900 in the second year, $2,950 in the third year, or $1,775 for any additional years. Also, the maximum section 179 expense deduction was increased to $20,000 ($40,000 for enterprise zone businesses).

Foreign Operations of U.S. Corporations

U.S. corporations with assets in a foreign country or U.S. possession or corporations that operated a business outside the United States were required to attach a new information form, Schedule N, to their U. S. income tax return for Tax Year 2000. This new form was used to report identifying information regarding certain foreign operations that were formerly reported on schedule K as well as the number of U.S. tax forms attached to their return to identify information such as foreign partnerships (Form 8865) and a claim for the extraterritorial income exclusion (Form 8873).

Foreign Sales Corporations

The Foreign Sales Corporation (FSC) rules were repealed. Effective for transactions after September 30, 2000, corporations could elect new extraterritorial income exclusion in lieu of FSC rules for qualifying foreign trade income. The exclusion was figured on Form 8873, Extraterritorial Income Exclusion. Transitional rules were also provided for existing FSC's.

Like-Kind Exchanges

Starting with Tax year 2000, use of a qualified exchange accommodation arrangement (QEAA) may allow an exchange, in which the replacement property was acquired before the relinquished property was sold, to qualify as a like-kind exchange.

Methods of Accounting

If a corporation's average annual gross receipts for the prior three tax years are $1 million or less, it may be eligible to change to the cash accounting method. If a corporation makes this change it will not be required to report inventories.

Qualified accrual method taxpayers continued to report sales or other dispositions of property on the installment method since the provision was extended retroactively to sales after December 17, 1999.

Qualified Subchapter S Subsidiary Election

Parent S corporations can use the new Qualified Subchapter S Subsidiary Election form (Form 8869), to elect to treat one or more of their eligible subsidiaries as a qualified subchapter S subsidiary (QSub).