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 2001 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. Many of the changes in law and regulations resulted from the Economic Growth and Tax Relief Reconciliation Act of 2001. More detail on the specific provisions that were changed is contained in Section 5, Explanation of Terms.

Capital Gain Tax Rates

Beginning in 2001, the 10 percent capital gain rate was lowered to 8 percent for qualified **5-year gain**. Qualified 5-year gain is long-term capital gain from the sale of property that you held for more than 5 years and that would otherwise be subject to the 10 percent or 20 percent capital gain rate.

Depreciation and Section 179 Deduction

For tax years beginning in 2001, the maximum section 179 expense deduction was increased to $24,000 ($44,000 for enterprise zone businesses and renewal community businesses; $59,000 for qualified New York Liberty Zone property placed in service after September 10, 2001).

If a business filed its 2001 return on a calendar year basis, or on a fiscal year basis or for a short tax year and the third or fourth quarter of its 2001 tax year included September 11, 2001, it could have elected to apply the half-year convention to all property placed in service during the year that would have otherwise been subject to the mid-quarter convention under the Modified Accelerated Cost Recovery System (MACRS).

Methods of Accounting

For tax years ending on or after December 31, 2001, a qualifying small business taxpayer could choose to use the cash method of accounting and not account for inventories. A qualifying small business taxpayer is any taxpayer with average annual gross receipts of more than $1,000,000 but less than or equal to $10,000,000 that is not prohibited from using the cash method of accounting under section 448 of the Internal Revenue Code.

For sales occurring after December 16, 1999, accrual basis taxpayers were required to report installment sales under the accrual method of accounting. The Installment Tax Correction Act of December 28, 2000, repealed that requirement.

Sale of Empowerment Zone Assets

Businesses could choose to roll over certain gains from the sale of qualified empowerment zone assets purchased after December 21, 2000, if they met certain tests.