



FEDERAL BUSINESS TAX CREDITS UPDATE

October 16, 2008

Public Law No. 110-343

Division C - Tax Extenders and Alternative Minimum Tax Relief Act of 2008

On October 3, 2008, the President signed the Emergency Economic Stabilization Act of 2008. The new Public Law includes the extension or modification of several business tax credits.

- **Indian Employment Credit** — Extends credit availability to taxable years that begin after December 31, 2007, but before January 1, 2010. Previously, this credit expired for taxable years beginning after December 31, 2007.
- **DC Enterprise (Empowerment) Zone Credit** — Extends the designation of certain economically depressed census tracts within the District of Columbia, known as the DC Enterprise Zone, through December 31, 2009. Previously, due to the expiration of the enterprise community designation, this credit expired for wages paid after December 31, 2007.
- **Work Opportunity Tax Credit (WOTC) for Hurricane Katrina Employees** — Extends the WOTC for eligible Hurricane Katrina employees hired through August 27, 2009. Previously, this credit expired for otherwise eligible employees who were hired after August 27, 2007.
- **Research Credit** — Extends the research tax credit for amounts paid or incurred through December 31, 2009. The credit previously expired for amounts paid or incurred after December 31, 2007. While the enhanced credit for testing certain drugs for rare diseases remains in effect after the December 31, 2009 research credit termination date, the Alternative Incremental Research Credit is repealed for taxable years beginning after December 31, 2008. The Alternative Simplified Credit rate increases from 12% to 14% for taxable years ending on or after January 1, 2009. A technical correction clarifies computation of the research credit for the taxable year in which the credit terminates.
- **Disaster Relief** — Title VII, Subtitle A "Heartland and Hurricane Ike Disaster Relief" of the new public law, provides various types of disaster relief for the Heartlands and areas affected by Hurricane Ike.



Heartland Disaster Relief for the Midwest

A "Midwestern disaster area" is an area in which a major disaster has been declared by the President on or after May 20, 2008, and before August 1, 2008, under the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of severe storms, tornados, or flooding occurring in any of the states of Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin. The provision extends certain tax benefits originally provided to residents of the Gulf Opportunity (GO) Zone and the Hurricane Katrina disaster areas to the Midwestern disaster area, including an increased rehabilitation tax credit and an employee retention tax credit.

The employee retention provision expands the Hurricane Katrina credit for retaining and paying employees during storm-related periods of business closure to include certain areas impacted by recent Midwestern storms. The credit is available on wages paid or incurred after the "applicable disaster date" and before January 1, 2009. Previously, the Hurricane Katrina credit and credits for Hurricanes Wilma and Rita were available to employers affected by the hurricanes for varying periods after August 28, 2005 and before January 1, 2006. P.L. 110-343 now limits the credit to eligible employers averaging not more than 200 employees during the taxable year before the applicable disaster date.

Hurricane Ike Disaster Relief

The provision includes temporary tax-exempt bond financing and low-income housing relief for areas affected by Hurricane Ike.

Other new and extended credits are included in the Energy Improvement and Extension Act of 2008 as part of this economic package. Please contact a First Advantage consultant for further details or for additional information at 800-669-6005 or email tax@fadv.com.

FIRST ADVANTAGE TAX CONSULTING SERVICES develops and implements strategies to reduce your tax liabilities, including location-based credits and grants, Work Opportunity Tax Credits, training grants, and economic incentive services. More than 1,000 organizations, including many Fortune® 100 companies, trust us as their tax consulting partner.

This alert is intended to provide a brief synopsis of recent developments in federal and state tax credits and incentives and is intended to be informational only. Because the matters described above are complicated in nature, the reader should seek appropriate legal or other professional outside counsel for a more complete explanation prior to acting on the information contained within this alert. Any advice contained in this alert is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under applicable federal, state or local tax law.
