Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010
December 9, 2010

I. Temporary Extension of Tax Relief

Two major bills enacting tax cuts for individuals expire at the end of 2010: the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA); and the *Jobs and Growth Tax Relief Reconciliation Act of 2003* (JGTRRA). The following package extends these provisions from EGTRRA and JGTRRA for an additional two years, through 2012, and will provide important tax relief to American taxpayers. The following package also extends a number of provisions enacted as part of EGTRRA that were modified in the *American Recovery and Reinvestment Act.*

Reductions in Individual Income Tax Rates

Temporarily extend the 10% bracket. Under current law, the 10% individual income tax bracket expires at the end of 2010. Upon expiration, the lowest tax rate will be 15%. This proposal extends the 10% individual income tax bracket for an additional two years, through 2012.

Temporarily extend the 25%, 28%, 33%, and 35% brackets. Under current law, the 25%, 28%, 33%, and 35% individual income tax brackets expire at the end of 2010. Upon expiration, the rates become 28%, 31%, 36%, and 39.6% respectively. This proposal extends the 25%, 28%, 33%, and 35% individual income tax brackets for an additional two years, through 2012.

Temporarily repeal the Personal Exemption Phase-out. Personal exemptions allow a certain amount per person to be exempt from tax. Due to the Personal Exemption Phase-out ("PEP"), the exemptions are phased out for taxpayers with AGI above a certain level. The EGTRRA repealed PEP for 2010. The proposal extends the repeal of PEP for an additional two years, through 2012.

Temporarily repeal the itemized deduction limitation. Generally, taxpayers itemize deductions if the total deductions are more than the standard deduction amount. Since 1991, the amount of itemized deductions that a taxpayer may claim has been reduced, to the extent the taxpayer's AGI is above a certain amount. This limitation is generally known as the "Pease limitation." The EGTRRA repealed the Pease limitation on itemized deductions for 2010. The proposal extends the repeal of the Pease limitation for an additional two years, though 2012.

Capital Gains and Dividends

Temporarily extend the capital gains and dividend rates. Under current law, the capital gains and dividend rates for taxpayers below the 25% bracket is equal to zero percent. For those in the 25% bracket and above, the capital gains and dividend rates are currently 15%. These rates expire at the end of 2010. Upon expiration, the rates for capital gains become 10% and 20%, respectively, and dividends are subject to the ordinary income rates. This proposal extends the current capital gains and dividends rates for all taxpayers for an additional two years, through 2012.

Child Tax Credit

Temporarily extend the modified child tax credit. Generally, taxpayers with income below certain threshold amounts may claim the child tax credit to reduce federal income tax for each qualifying child under the age of 17. The EGTRRA increased the credit from $500 to $1,000. The EGTRRA also expanded refundability. The amount that may be claimed as a refund was 15% of earnings above $10,000. The *American Recovery and Reinvestment Act of 2009* provided that earnings above $3,000 would count towards refundability for 2009 and 2010. This proposal extends the current child tax credit for an additional two years, through 2012.

Marriage Penalty Relief

Temporarily extend marriage penalty relief. The proposal extends the marriage penalty relief for the standard deduction, the 15 percent bracket, and the EITC for an additional two years, through 2012.

Incentives for Families and Children

Temporarily extend the expanded dependent care credit. The dependent care credit allows a taxpayer a credit for an applicable percentage of child care expenses for children under 13 and disabled dependents. The EGTRRA increased the amount of eligible expenses from $2,400 for one child and $4,800 for two or more children to $3,000 and $6,000, respectively. The EGTRRA also increased the applicable percentage from 30 percent to 35 percent. The proposal extends the changes to the dependent care credit made by EGTRRA for an additional two years, through 2012.

Temporarily extend the increased adoption tax credit and the adoption assistance programs exclusion. Taxpayers that adopt children can receive a tax credit for qualified adoption expenses. A taxpayer may also exclude from income adoption expenses paid by an employer. The EGTRRA increased the credit from $5,000 ($6,000 for a special needs child) to $10,000, and provided a $10,000 income exclusion for employer-assistance programs. The Patient Protection and Affordable Care Act of 2010 extended these benefits to 2011 and made the credit refundable. The proposal extends for an additional year, through 2012, the increased adoption credit amount and the exclusion for employer-assistance programs as enacted in EGTRRA.

Temporarily extend the credit for employer expenses for child care assistance. The EGTRRA provided employers with a credit of up to $150,000 for acquiring, constructing, rehabilitating or expanding property which is used for a child care facility. The proposal extends this provision for an additional two years, through 2012.

Earned Income Tax Credit (EITC).

Temporarily extend third-child EITC. Under current law, working families with two or more children currently qualify for an earned income tax credit equal to 40% of the family's first $12,570 of earned income. The *American Recovery and Reinvestment Act* increased the earned income tax credit to 45% of the family's first $12,570 of earned income for families with three or more children and increased the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children). This proposal extends for an additional two years, through 2012, the *American Recovery and Reinvestment Act* provisions that increased the credit for families with three or more children and increased the phase-out range for all married couples filing a joint return.

Education Incentives

Temporarily extend expanded Coverdell Accounts. Coverdell Education Savings Accounts are tax-exempt savings accounts used to pay the higher education expenses of a designated beneficiary. The EGTRRA increased the annual contribution amount from $500 to $2,000 and expanded the definition of education expenses to include elementary and secondary school expenses. The proposal extends the changes to Coverdell accounts for an additional two years, through 2012.

Temporarily extend the expanded exclusion for employer-provided educational assistance. An employee may exclude from gross income up to $5,250 for income and employment tax purposes per year of employer-provided education assistance. Prior to 2001, this incentive was temporary and only applied to undergraduate courses. The EGTRRA expanded this provision to graduate education and extended the provision for undergraduate and graduate education to the end of 2010. The proposal extends the changes to this provision for an additional two years, through 2012.

Temporarily extend the expanded student loan interest deduction. Certain individuals who have paid interest on qualified education loans may claim an above-the-line deduction for such interest expenses up to $2,500. Prior to 2001, this benefit was only allowed for 60 months and phased-out for taxpayers with income between $40,000 and $55,000 ($60,000 and $75,000 for joint filers). The EGTRRA eliminated the 60 month rule and increased the income phase-out to $55,000 to $70,000 ($110,000 and $140,000 for joint filers). The proposal extends the changes to this provision for an additional two years, through 2012.

Temporarily extend the exclusion from income of amounts received under certain scholarship programs. Scholarships for qualified tuition and related expenses are excludible from income. Qualified tuition reductions for certain education provided to employees are also excluded. Generally, this exclusion does not apply to qualified scholarships or tuition reductions that represent payment for teaching, research, or other services. The National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program provide education awards to participants on the condition that the participants perform certain services. The EGTRRA allowed the scholarship exclusion to apply to these programs. The proposal extends the changes to this provision for an additional two years, through 2012.

Arbitrage rebate exception for school construction bonds. Under current law, issuers of tax-exempt bonds must rebate to the U.S. Treasury arbitrage (excess interest income) earned from the investment of tax-exempt bond proceeds in higher-yielding taxable securities. The calculation of excess interest income can be complex, and as a result, many governments incur large costs to comply with the requirements. To ease the burden on small issuers, the federal tax code exempts governments that issue a relatively small number of tax-exempt bonds in a given year from the requirement. In general, the small issuer rebate exception can only be used by state and local governments that issue less than $5 million in governmental and 501(c)(3) bonds annually. This exception is $10 million for bonds issued for qualified educational facilities. The EGTRRA increased the small-issuer arbitrage rebate exception for school construction from $10 million to $15 million. This proposal extends the $15 million arbitrage rebate exception for school construction for an additional two years, through 2012.

Tax-exempt private activity bonds for qualified education facilities. Under current law, proceeds from private activity bonds issued by a state or local government qualify as tax-exempt if 95% or more of the net bond proceeds are used for a qualified purpose as defined by the Internal Revenue Code. The EGTRRA expanded the definition of a private activity for which tax-exempt bonds may be issued to include bonds for qualified public educational facilities. Bonds issued for qualified educational facilities are not counted against a state's private-activity volume cap. Instead, these bonds have their own volume capacity limit equal to the lesser of $10 per resident or $5 million. This proposal extends the allowance to issue tax-exempt private activity bonds for public school facilities for an additional two years, through 2012.

Temporarily extend the American Opportunity Tax Credit. Created under the *American Recovery and Reinvestment Act*, the American Opportunity Tax Credit is available for up to $2,500 of the cost of tuition and related expenses paid during the taxable year. Under this tax credit, taxpayers receive a tax credit based on 100% of the first $2,000 of tuition and related expenses (including course materials) paid during the taxable year and 25% of the next $2,000 of tuition and related expenses paid during the taxable year. Forty percent of the credit is refundable. This tax credit is subject to a phase-out for taxpayers with adjusted gross income in excess of $80,000 ($160,000 for married couples filing jointly). This proposal extends the American Opportunity Tax Credit for an additional two years, through 2012.

Other EGTRRA Provisions

Temporarily extend tax relief for Alaska settlement funds. The EGTRRA allowed an election in which Alaska Native settlement trusts can elect to pay tax at the same rate as the lowest individual marginal rate, rather than the higher rates that generally apply to trusts. Beneficiaries of the trust do not pay tax on the distributions of an electing trust's taxable income. Finally, contributions by an Alaska Native corporation to an electing trust will not be deemed distributions to the corporation's shareholders. This proposal makes extends the elective tax treatment for Alaska Native settlement trusts for an additional two years, through 2012.

II. Temporary Individual Alternative Minimum Tax (AMT) Relief

Two-year AMT patch. Currently, a taxpayer receives an exemption of $33,750 (individuals) and $45,000 (married filing jointly) under the AMT. Current law also does not allow nonrefundable personal credits against the AMT. The proposal increases the exemption amounts for 2010 to $47,450 (individuals) and $72,450 (married filing jointly) and for 2011 to $48,450 (individuals) and $74,450 (married filing jointly). The proposal also allows the nonrefundable personal credits against the AMT. The proposal is effective for taxable years beginning after December 31, 2009.

III. Temporary Estate Tax Relief

Temporary estate, gift and generation skipping transfer tax relief. The EGTRRA phased-out the estate and generation-skipping transfer taxes so that they were fully repealed in 2010, and lowered the gift tax rate to 35 percent and increased the gift tax exemption to $1 million for 2010. The proposal sets the exemption at $5 million per person and $10 million per couple and a top tax rate of 35 percent for the estate, gift, and generation skipping transfer taxes for two years, through 2012. The exemption amount is indexed beginning in 2012. The proposal is effective January 1, 2010, but allows an election to choose no estate tax and modified carryover basis for estates arising on or after January 1, 2010 and before January 1, 2011. The proposal sets a $5 million generation-skipping transfer tax exemption and zero percent rate for the 2010 year.

Portability of unused exemption. Under current law, couples have to do complicated estate planning to claim their entire exemption (currently $7 million for a couple). The proposal allows the executor of a deceased spouse's estate to transfer any unused exemption to the surviving spouse without such planning. The proposal is effective for estates of decedents dying after December 31, 2010.

Reunification. Prior to the EGTRRA, the estate and gift taxes were unified, creating a single graduated rate schedule for both. That single lifetime exemption could be used for gifts and/or bequests. The EGTRRA decoupled these systems. The proposal reunifies the estate and gift taxes. The proposal is effective for gifts made after December 31, 2010.

IV. Temporary Extension of Investment Incentives

Extension of bonus depreciation. Under current law, businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Congress allowed businesses, beginning January 1, 2008 through December 31, 2009, to take an additional depreciation deduction allowance equal to 50 percent of the cost of the depreciable property placed in service in those years. Under the *Small Business Jobs Act of* 2010, this temporary increase in the depreciation deduction allowance was extended through December

31, 2010. The bill extends and temporarily increases this bonus depreciation provision for investments in new business equipment. For investments placed in service after September 8, 2010 and through December 31, 2011, the bill provides for 100 percent bonus depreciation. For investments placed in service after December 31, 2011 and through December 31, 2012, the bill provides for 50 percent bonus depreciation. The provision also allows taxpayers to elect to accelerate some AMT credits in lieu of bonus depreciation for taxable years 2011 and 2012.

Temporarily extend increase in the maximum amount and phase-out threshold under section 179. Under current law, a taxpayer with a sufficiently small amount of annual investment may elect to deduct the cost of certain property placed in service for the year rather than depreciate those costs over time. The 2003 tax cuts temporarily increased the maximum dollar amount that may be deducted from $25,000 to $100,000. The tax cuts also increased the phase-out amount from $200,000 to $400,000. In 2007, tax cuts temporarily increased these thresholds to $125,000 and $500,000 respectively, indexed for inflation. These amounts have been further increased and extended several times on a temporary basis, including most recently as part of the Small Business Jobs Act which increased the thresholds to $500,000 and $2,000,000 for the taxable years beginning in 2010 and 2011. This proposal extends the 2007 maximum amount and phase-out thresholds for taxable years beginning in 2012, at $125,000 and $500,000 respectively, indexed for inflation. The proposal is effective for taxable years beginning after December 31, 2011.

V. Temporary Extension of Unemployment Insurance

Extension of unemployment insurance. The unemployment insurance proposal provides a one-year reauthorization of federal UI benefits. The proposal continues the Emergency Unemployment Compensation (EUC) benefits for one year. In addition, it continues 100% Federal Financing of Extended Benefits (EB) for one year, and makes changes to the EB look-back enabling states to continue to trigger on EB.

VI. Temporary Employee Payroll Tax Cut

Temporary reduction in employee-paid payroll taxes. Under current law employees pay a 6.2 percent Social Security tax on all wages earned up to $106,800 (in 2011) and self-employed individuals pay a 12.4 percent Social Security self-employment taxes of on all their self-employment income up to the same threshold. The bill provides a payroll/self-employment tax holiday during 2011 of two percentage points. This means employees will pay only 4.2 percent on wages and self-employment individuals will pay only 10.4 percent on self-employment income up to the threshold.

VII. Temporary Extension of Certain Expiring Provisions

Energy

Biodiesel and renewable diesel. The bill extends through 2011 the $1.00 per gallon production tax credit for biodiesel, as well as the small agri-biodiesel producer credit of 10 cents per gallon. The bill also extends through 2011 the $1.00 per gallon production tax credit for diesel fuel created from biomass.

Refined Coal. The bill extends through 2011 the placed-in-service deadline for qualifying refined coal facilities.

Energy-efficient new homes credit. The bill extends through 2011 the credit for manufacturers of energy-efficient residential homes.

Alternative fuels credit. The bill extends through 2011 the $0.50 per gallon alternative fuel tax credit. The bill does not extend this credit any liquid fuel derived from a pulp or paper manufacturing process (i.e., black liquor).

Special rule for sales of electric transmission property. The bill extends through 2011 the present law deferral of gain on sales of transmission property by vertically integrated electric utilities to FERC-approved independent transmission companies.

Special rule for marginal wells. The bill extends through 2011 the suspension on the taxable income limit for purposes of depleting a marginal oil or gas well.

Section 1603. The bill extends for one year the start-of-construction deadline for the cash grant in lieu of tax credit program, established in Section 1603 of the *American Recovery and Reinvestment Act.*

Ethanol. The bill extends through 2011 the per-gallon tax credits and outlay payments for ethanol. The bill also extends through 2011 the existing 14.27 cents per liter (54 cents per gallon) tariff on imported ethanol and the related 5.99 cents per liter (22.67 cents per gallon) tariff on ethyl tertiary-butyl ether (ETBE).

Energy-efficient appliances. The bill extends through 2011 and modifies standards for the Section 45M credit for US-based manufacture of energy-efficient clothes washers, dishwashers and refrigerators.

Energy-efficient existing homes. The bill extends through 2011 the credit under Section 25C of the Code for energy-efficient improvements to existing homes, reinstating the credit as it existed before passage of the *American Recovery and Reinvestment Act.* Standards for property eligible under 25C are updated to reflect improvements in energy efficiency.

Alternative vehicle refueling property. The bill extends through 2011 the 30% investment tax credit for alternative vehicle refueling property.

Individual Tax Relief

Above-the-line deduction for certain expenses of elementary and secondary school teachers. The bill extends for two years (through 2011) the $250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and service), other equipment, and supplementary materials used by the educator in the classroom.

Deduction of State and local general sales taxes. The bill extends for two years (through 2011) the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for State and local income taxes.

Extension of provision encouraging contributions of capital gain real property for conservation purposes. The bill extends for two years (through 2011) the increased contribution limits and carryforward period for contributions of appreciated real property (including partial interests in real property) for conservation purposes.

Above-the-line deduction for qualified tuition and related expenses. The bill extends for two years (through 2011) the above-the-line tax deduction for qualified education expenses.

Extension of tax-free distributions from individual retirement plans for charitable purposes. The bill extends for two years (through 2011) the provision that permits tax-free distributions to charity from an Individual Retirement Account (IRA) of up to $100,000 per taxpayer, per taxable year. The bill allows individuals to make charitable transfers during January of 2011 and treat them as if made during 2010.

Estate tax look-through of certain Regulated Investment Company (RIC) stock held by nonresidents. Although stock issued by a domestic corporation generally is treated as property within the United States, stock of a RIC that was owned by a nonresident non-citizen is not deemed property within the United States in the proportion that, at the end of the quarter of the RIC's taxable year immediately before a decedent's date of death, the assets held by the RIC are debt obligations, deposits, or other property that would be treated as situated outside the United States if held directly by the estate (the "estate tax look-through rule for RIC stock"). The proposal permits the look-through rule for RIC stock to apply to estates of decedents dying before January 1, 2012.

Parity for mass transit benefits. The bill extends through 2011 the increase in the monthly exclusion for employer-provided transit and vanpool benefits to that of the exclusion for employer-provided parking benefits.

Refund and tax credit disregard for means tested programs. Current law ensures that the refundable components of the EITC and the Child Tax Credit do not make households ineligible for means-tested benefit programs and includes provisions stating that these tax credits do not count as income in determining eligibility (and benefit levels) in means-tested benefit programs, and also do not count as assets for specified periods of time. Without them, the receipt of a tax credit would put a substantial number of families over the income limits for these programs in the month that the tax refund is received. The proposal disregards all refundable tax credits and refunds as income for means tested programs. The proposal is effective for amounts received after December 31, 2009 and does not apply to amounts received after December 31, 2012.

Business Tax Relief

R&D credit. The bill reinstates for two years (through 2011) the research credit.

Indian employment credit. The bill extends for two years (through 2011) the business tax credit for employers of qualified employees that work and live on or near an Indian reservation. The amount of the credit is 20 percent of the excess of wages and health insurance costs paid to qualified employees (up to $20,000 per employee) in the current year over the amount paid in 1993.

New Markets Tax Credit. Through the New Markets Tax Credit (NMTC) program, the federal government is able to leverage federal tax credits to encourage significant private investment in businesses in low-income communities. For each dollar of qualified private investment, the NMTC program provides investors with either five cents or six cents of federal tax credits (depending on the amount of time that has passed since the original investment was made). The bill extends for two years (through 2011) the new markets tax credit, permitting a maximum annual amount of qualified equity investments of $3.5 billion each year. This is effective for calendar years beginning after December 31, 2009.

Extension of railroad track maintenance credit. The bill extends for two years (through 2011) the railroad track maintenance credit.

Mine rescue team training credit. The bill extends for two years (through 2011) the credit for training mine rescue team members.

Employer wage credit for activated military reservists. The bill extends for two years (through 2011) the provision that provides eligible small business employers with a credit against the taxpayer's income tax liability for a taxable year in an amount equal to 20 percent of the sum of differential wage payments to activated military reservists.

Tax benefits for certain real estate developments. The bill extends for two years (through 2011) the special 15-year cost recovery period for certain leasehold improvements, restaurant buildings and improvements, and retail improvements.

Extension of seven year straight line cost recovery period for motorsports entertainment complexes. The bill extends for two years (through 2011) the special seven year cost recovery period for property used for land improvement and support facilities at motorsports entertainment complexes.

Accelerated depreciation for business property on an Indian reservation. The bill extends for two years (through 2011) the placed-in-service date for the special depreciation recovery period for qualified Indian reservation property. In general, qualified Indian reservation property is property used predominantly in the active conduct of a trade or business within an Indian reservation, which is not used outside the reservation on a regular basis and was not acquired from a related person.

Extension of enhanced charitable deduction for contributions of food inventory. The bill extends for two years (through 2011) the provision allowing businesses to claim an enhanced deduction for the contribution of food inventory.

Extension of enhanced charitable deduction for contributions of book inventories to public schools. The bill extends for two years (through 2011) the provision allowing C corporations to claim an enhanced deduction for contributions of book inventory to public schools (kindergarten through grade 12).

Extension of enhanced charitable deduction for corporate contributions of computer equipment for educational purposes. The bill extends for two years (through 2011) the provision that encourages businesses to contribute computer equipment and software to elementary, secondary, and post-secondary schools by allowing an enhanced deduction for such contributions.

Election to expense advanced mine safety equipment. The bill extends for two years (through 2010) the provision that provides businesses with 50 percent bonus depreciation for certain qualified underground mine safety equipment.

Extension of special expensing rules for U.S. film and television productions. The bill extends for two years (through 2011) the provision that allows film and television producers to expense the first $15 million of production costs incurred in the United States ($20 million if the costs are incurred in economically depressed areas in the United States).

Extension of expensing of environmental remediation costs. The bill extends for two years (through 2011) the provision that allows for the expensing of costs associated with cleaning up hazardous sites.

Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico. The bill extends for two years (through 2011) the provision extending the section 199 domestic production activities deduction to activities in Puerto Rico.

Extension of special tax treatment of certain payments to controlling exempt organizations. The bill extends for two years (through 2011) the special rules for interest, rents, royalties and annuities received by a tax exempt entity from a controlled entity.

Treatment of certain dividends of Regulated Investment Companies (RICs). The bill extends a provision allowing a RIC, under certain circumstances, to designate all or a portion of a dividend as an "interest-related dividend," by written notice mailed to its shareholders not later than 60 days after the close of its taxable year. In addition, an interest-related dividend received by a foreign person generally is exempt from U.S. gross-basis tax under sections 871(a), 881, 1441 and 1442 of the Code. The proposal extends the treatment of interest-related dividends and short-term capital gain dividends received by a RIC to taxable years of the RIC beginning before January 1, 2012.

Treatment of RIC investments as "Qualified Investment Entities" under FIRPTA. The bill extends the inclusion of a RIC within the definition of a "qualified investment entity" under section 897 of the Tax Code through December 31, 2011.

Active financing exception. The bill extends for two years (through 2011) the active financing exception from Subpart F of the tax code.

Look-through treatment of payments between related controlled foreign corporations. The bill extends for two years (through 2011) the current law look-through treatment of payments between related controlled foreign corporations.

Extension of special rule for S corporations making charitable contributions of property. The bill extends for two years (through 2011) the provision allowing S corporation shareholders to take into account their pro rata share of charitable deductions even if such deductions would exceed such shareholder's adjusted basis in the S corporation.

Empowerment Zones. The bill extends for two years (through 2011) the designation of certain economically depressed census tracts as Empowerment Zones. Businesses and individual residents within Empowerment Zones are eligible for special tax incentives.

District of Columbia Enterprise Zone. The bill extends for two years (through 2011) the designation of certain economically depressed census tracts within the District of Columbia as the District of Columbia Enterprise Zone. Businesses and individual residents within this enterprise zone are eligible for special tax incentives. The bill also extends for two years (through 2011) the $5,000 first-time homebuyer credit for the District of Columbia.

Extension of temporary increase in limit on cover over of rum excise tax revenues to Puerto Rico and the Virgin Islands. The bill extends for two years (through 2011) the provision providing for payment of $13.25 per gallon to cover over a $13.50 per proof gallon excise tax on distilled spirits produced in or imported into the United States.

Extension of American Samoa economic development credit. The bill extends through 2011 the American Samoa economic development credit.

Work opportunity tax credit (WOTC). Under current law, businesses are allowed to claim a work opportunity tax credit equal to 40 percent of the first $6,000 of wages paid to new hires of one of nine targeted groups. These groups include members of families receiving benefits under the Temporary Assistance to Needy Families (TANF) program, qualified veterans, designated community residents, and others. The WOTC program is currently set to expire August 31, 2011. The bill extends this provision through December 31, 2011 and would be effective for employees hired after date of enactment.

Extension and increase in authorization for qualified zone academy bonds (QZABs). QZABs are a form of tax credit bond which offer the holder a Federal tax credit instead of interest. QZABs can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. The provision extends the QZAB program providing an additional $400 million for 2011. It also repeals the direct subsidy feature created as part of the *American Recovery and Reinvestment Act* for 2011 and for any carryforward of unused allocation.

Premiums for mortgage insurance deductible as interest that is qualified residence interest. Under current law, a taxpayer may itemize the cost of mortgage insurance on a qualified personal residence. The deduction is phased-out ratably by 10% for each $1,000 by which the taxpayer's AGI exceeds $100,000. Thus, the deduction is unavailable for a taxpayer with an AGI in excess of $110,000. The bill extends this provision for an additional year, through 2011.

Exclusion of small business capital gains. Generally, non-corporate taxpayers may exclude 50 percent of the gain from the sale of certain small business stock acquired at original issue and held for more than five years. For stock acquired after February 17, 2009 and on or before September 27, 2010, the exclusion is increased to 75 percent. For stock acquired after September 27, 2010 and before January 1, 2011, the exclusion is 100 percent and the AMT preference item attributable for the sale is eliminated. Qualifying small business stock is from a C corporation whose gross assets do not exceed $50 million (including the proceeds received from the issuance of the stock) and who meets a specific active business requirement. The amount of gain eligible for the exclusion is limited to the greater of ten times the taxpayer's basis in the stock or $10 million of gain from stock in that corporation. The provision extends the 100 percent exclusion of the gain from the sale of qualifying small business stock that is acquired before January 1, 2012 and held for more than five years.

Disaster Relief Provisions

Extension of tax incentives for the New York Liberty Zone. The bill extends for two years (through 2011) the time for issuing New York Liberty Zone bonds effective for bonds issued after December 31, 2009.

Extension of increased rehabilitation credit for historic structures in the Gulf Opportunity Zone. The bill extends for two years (through 2011) the increased rehabilitation credit for qualified expenditures in the Gulf Opportunity Zone. The Gulf Opportunity Zone Act of 2005 increased the rehabilitation credit from 10 percent to 13 percent of qualified expenditures for any qualified rehabilitated building other than a certified historic structure, and from 20 percent to 26 percent of qualified expenditures for any certified historic structure.

One-year extension of Gulf Opportunity Zone low-income housing placed-in-service date. The Gulf Opportunity Zone Act of 2005 provided an additional allocation of low-income housing tax credits to the Gulf Opportunity Zone in an amount equal to the product of $18.00 multiplied by the portion of the State population which is in the Gulf Opportunity Zone. The additional allocations were made in calendar years 2006, 2007, and 2008, and required that the properties be placed in service before January 1, 2011. The bill extends that placed-in-service date for one year (through 2011).

Extension of Tax-Exempt Bonds for the Gulf Opportunity Zone. Under current law, bonds were authorized to help rebuild areas devastated by Hurricane Katrina and must be issued by December 31, 2010. The amendment provides one additional year to utilize these bonds, through December 31, 2011.

Temporary Depreciation Allowance for Gulf Opportunity Zone Property. The bill extends for two years, through 2011, an additional depreciation deduction claimed by businesses equal to 50 percent of the cost of new property investments made in the Gulf Opportunity Zone. The provision makes expenditures in 2011 eligible provided the property is placed in service by December 31, 2011.