

## **President Approves \$14.5 Billion in Energy Tax Cuts for Businesses and Consumers; Highway Bill Also Signed into Law**

Four years after first being introduced in Congress, and numerous versions later, an energy bill has finally become law. Although the tax cuts are not as extensive as in previous proposals, they are significant. The *Energy Tax Incentives Act of 2005 (Title XIII of the Energy Policy Act of 2005, H.R. 6)* contains \$14.5 billion in tax cuts to promote domestic energy production and conservation. Businesses and individuals are eligible for new credits, deductions and incentives.

The House passed the bill on July 28 by a 275 to 156 margin. The Senate likewise voted its approval, 74 to 26, on July 29, immediately prior to starting the month-long Congressional recess. President Bush signed the bill on August 8. A final highway bill, which contains a handful of excise tax provisions, also cleared Congress in the closing hours before recess. The President signed that bill into law on August 10.

### **FOUR-POINT IMPACT**

The *Energy Tax Incentives Act of 2005* impacts four major areas:

**(1) Conservation.** The new law will be felt most directly by the majority of Americans through a handful of conservation tax incentives. These are aimed at encouraging the design and improvement of energy-efficient homes and green vehicles. On Main Street, the average business will benefit not only by selling these products to consumers but also by being rewarded for implementing energy conservation measures themselves through efficiencies in facilities and equipment.

**(2) Alternative energy.** The new law encourages the use of alternative energy sources, including solar, wind, ethanol, bio-mass and clean-coal technology.

**(3) Energy infrastructure.** The massive energy blackout on the East coast several years ago was a lesson not forgotten. The law provides significant energy infrastructure tax incentives to ensure development of more robust and reliable power grids.

**(4) Domestic energy production.** Individual and business taxpayers are expected to benefit from the tax incentives provided directly to the fossil fuel industry and those who invest in its future. These tax provisions result in a hefty amount of "required reading" for practitioners with clients in the oil, gas or coal industries. They focus not only on enhanced credits, but also on faster percentage depletion, alternative minimum tax protection, and extension of the nonconventional fuels credit.

**Comment.** Senate Finance Chairman Charles Grassley, R-Iowa, commented that the final tax package is "well-balanced among renewable energy, conservation and traditional energy sources."

**Comment.** Don't expect gasoline prices to go down because Congress has passed an energy bill. Energy Secretary Sam Bodman told reporters on Capitol Hill this week that it will take months if not years to deal with energy prices. Rep. Shelley Moore Capito, R-W.Va., predicted that the new law will help stabilize spikes in gas prices by streamlining the oil refinery process and increasing the amount of fuel flowing to the pump. "More fuel to the pump means more stability and lower prices," she said.

**More to come.** Pension reform, IRAs and savings, tax breaks for the military, and other tax bills are on

Congress' Fall agenda. Congress and the public will also learn the recommendations of President Bush's Tax Reform Panel, which has been working for the past seven months on ways to reform the Tax Code. The panel's report is expected to be released in late September.

## **FOUR YEARS OF WRANGLING**

Until only days before its August recess, it looked like Congress would repeat its familiar pattern of getting close to passing an energy bill and having negotiations break down at the eleventh hour. President Bush wanted an energy bill to be one of the big pieces of legislation during his first term. Congress came close to passing an energy bill several times but controversy about shielding producers of a gasoline additive (MTBE) from lawsuits always scuttled them at the last minute. This time, lawmakers handled the problem by leaving out the controversial MTBE provisions.

Lawmakers have also disagreed on whether to reward domestic production or conservation, with tax incentives. The Senate has traditionally emphasized tax breaks for renewable energy, energy conservation and efficiency. The House, on the other hand, has heavily favored boosting conventional sources of energy, such as oil, gas, and electricity. The final bill rewards both: production and conservation each get about \$7 billion in tax breaks.

**Comment.** Energy producers are praising the new law but conservation groups aren't as happy. "Energy supply remains a big concern. More must be done to open areas in the western states and offshore to provide new supplies of natural gas and oil," the American Petroleum Institute told CCH INCORPORATED. Kateri Callahan, president of The Alliance to Save Energy told CCH INCORPORATED, "The new law falls far short of making energy efficiency a cornerstone of U.S. energy policy. It is particularly regrettable that conferees removed the sole oil-saving provisions directing the president to implement policies to save one million barrels of oil a day."

## **TAX INCENTIVES FOR CONSUMERS**

### ***Residential energy conservation property credit.***

The tax incentive impacting most individuals is the new personal tax credit for the purchase of significant energy-efficiency improvements and property. The credit is equal to the sum of (1) 10-percent of significant energy efficiency improvements to existing homes and (2) residential energy property expenditures. The credit is limited to \$500 lifetime, across all tax years. The credit applies to property placed in service after December 31, 2005 and before January 1, 2008.

**Comment.** Energy efficiency improvements made or residential energy property installed before January 1, 2006, do not qualify for the credit.

**What qualifies.** Generally, the following improvements, if they satisfy certain energy conservation codes, qualify for the 10-percent credit for energy efficient building envelope components:

- Any insulation material or system primarily designed to reduce heat loss or gain
- Exterior windows, including skylights, and doors
- Metal roofs coated with heat-reducing pigments

**Impact.** No more than \$200 of the \$500 allowed in total across all tax years may be attributable to window expenditures.

**Five-year life span required.** The energy efficiency improvement must be expected to remain in use for at

least five years.

**Impact.** City dwellers and those living next to major highways will appreciate triple-paned windows more for soundproofing than temperature control. Nonetheless, they can take the credit so long as the windows are designed for temperature control.

**Comment.** The credit only applies to installations in a taxpayer's principal residence. Second homes don't qualify.

**Residential energy property expenditures included in credit.** The credit for "qualified energy property" is equal to 100 percent of its cost up to the overall \$500 limitation. "Qualified energy property," however, is defined as consisting of three components, each of which carries its own dollar limitation:

1. Advanced main air circulating fans, the credit for which cannot exceed \$50;
2. Natural gas, propane or oil furnace or hot water boilers, the credit for which cannot exceed \$150; and
3. "Energy-efficient building property," including electric and geothermal heat pumps and central air conditioners, the credit for which cannot exceed \$300.

**Basis.** The taxpayer's basis in the property is reduced by the amount of the credit.

**Joint property.** Special rules apply so as not to penalize joint ownership of property with regard to the amount of the allowable credit.

**Certification.** The new law does not require taxpayers to certify their qualifying expenses.

### ***Residential energy efficient property credit***

Individuals who install solar hot water, photovoltaic (electricity-generating solar) equipment or fuel cell property in their homes will be eligible for a new 30 percent tax credit. The maximum credit for any tax year is \$2,000 for solar water heating equipment, \$2,000 for photovoltaic property, and \$500 with respect to each 0.5 kilowatt of capacity for fuel cell property. The nonrefundable credit applies to property placed in service after December 31, 2005 and before January 1, 2008.

Taxpayers can include labor costs allocable to on-site preparation, assembly or original installation of the property. The taxpayer's basis in the property is reduced by the amount of the credit.

**Impact.** The credit is not allowed on equipment used to heat swimming pools and hot tubs. It is also restricted to personal residential use; allocation of expenses is necessary if personal use is less than 80 percent.

## **TAX INCENTIVES FOR BUSINESSES**

**Energy-efficient new home construction credit.** Contractors constructing new energy efficient homes are eligible for a new credit of \$2,000 per dwelling unit. The dwelling unit must be certified to have an annual heating and cooling energy consumption that is at least 50 percent below that of a comparable dwelling unit constructed in accordance with certain specified standards. Building envelope component improvements must account for at least 10 percent of the reduction. The new energy efficient home must be sold by the contractor to a person for use as a residence during the tax year. The \$2,000 credit also applies in the case of producers of manufactured homes if these requirements are met. A \$1,000 credit applies to certain manufactured homes that meet a 30% energy efficiency standard.

**Caution** For each home, there can be only one eligible contractor, defined as "the person who constructed the qualified new energy efficient home."

**What qualifies.** The credit only applies to new home construction. However, the definition of "construction" for this purpose includes substantial reconstruction and rehabilitation.

The credit is part of the general business credit.

**Limited window.** Construction of the new energy efficient home must be substantially completed after the date of enactment. The new home must be acquired after December 31, 2005 and before January 1, 2008, in order for the contractor or producer to get the credit. The home also must be located in the U.S.

**Energy efficient appliances.** Manufacturers producing energy efficient appliances are entitled to a temporary credit. Energy efficient dishwashers, clothes washers and refrigerators qualify. The credit applies to appliances manufactured after December 31, 2005 and before January 1, 2008. The new law makes this credit part of the general business credit.

**Comment.** Consumers get a break for purchasing energy-efficient appliances only to the extent manufacturers pass along any part of the credit in lower prices.

**Fuel cell and microturbine power-plant credits.** The new law creates a nonrefundable 30 percent credit for the business installation of "qualified fuel cell power plants." A 10-percent credit is allowed for the purchase of stationary microturbine power plants. Both credits apply to property placed in service after December 31, 2005 and before January 1, 2008.

**Renewable electrical energy.** The new law extends the [Code Sec. 45](#) production tax credit applicable to the production of electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, landfill gas, and trash combustion for facilities placed in service through December 31, 2007. Hydropower and Indian coal are two new qualifying energy resources. The terminating placed-in-service date for solar facilities remains December 31, 2005 and the terminating placed-in-service date for refined coal facilities remains December 31, 2008. The credit for sales of Indian coal may be claimed for the seven-year period beginning on January 1, 2006, and ending after December 31, 2012.

**Comment.** This credit may be claimed by a company in the business of producing electricity from renewable resources, a cooperative owned by several businesses or by a single business or individual for energy needs, such as farmers or residential homeowners in rural areas. For tax years ending after the date of enactment, eligible cooperatives can elect to pass through the renewable energy production credit to their patrons.

**Energy-efficient commercial buildings deduction.** An immediate deduction, rather than recovery through depreciation, is allowed for the cost of major energy-savings improvements to commercial building property. The energy efficient commercial building property must be installed as part of interior lighting systems, the heating, cooling, ventilation, or hot water systems, or the building envelope and must meet a 50 percent energy-reduction standard. The maximum deduction is generally \$1.80 per square foot. The deduction is effective for property placed in service after December 31, 2005, and before January 1, 2008.

**Clean renewable energy bonds.** The new law authorizes governments, electric cooperatives and others to issue Clean Renewable Energy Bonds (CREBs) to finance renewable energy facilities. Holders of this new category of bonds will be eligible for a tax credit. CREBs will not pay interest. The provisions apply to clean renewable energy bonds issued after December 31, 2005.

## **ALTERNATIVE VEHICLES AND FUELS**

The *Energy Tax Incentives Act of 2005* contains enhanced tax incentives to encourage the purchase of environmentally friendly "green" vehicles. Nearly \$875 million has been earmarked for hybrid, fuel cell, advanced lean burn diesel, and other alternative fuel vehicles. These incentives, in the form of several credits that apply to vehicles placed in service after 2005, are available to the consumer, whether for personal or business use. Starting in 2006, they replace the current clean fuel vehicle deduction, which had been scheduled to sunset after 2006.

### ***Credit For Qualified Clean Fuel Vehicles***

New [Code Sec. 30B](#) rewrites the current tax incentives for "green" vehicles. The new law provides a credit for:

- Hybrid vehicles
- Advanced lean-burn technology vehicles
- Vehicles powered by fuel cells
- Alternative fuel vehicles.

Under prior law, purchasers of hybrid or other clean fuel vehicles were entitled to a *deduction* of up to \$2,000. The new law provides a substantially higher *credit*. The credit applies to vehicles placed in service beginning January 1, 2006. The law repeals the deduction as of the same date.

***Impact.*** Because a tax credit is worth more than a deduction, the new law provides a much greater incentive to purchase a hybrid car or other alternative fuel vehicle. Taxpayers should consider delaying a planned purchase in 2005 until 2006.

***Impact.*** Unlike the previous deduction for hybrid and other clean fuel vehicles, the new credit is also available to taxpayers who lease qualifying vehicles, in addition to those who purchase them outright. Sellers can claim the credit on behalf of tax-exempt organizations and governments, but must clearly disclose the amount of the credit in writing. This allows purchasers to negotiate the benefit into the price.

***Hybrids and qualifying advanced lean-burn vehicles.*** The credit for hybrids and lean-burn vehicles is the sum of two components: a fuel economy credit that varies with the vehicle's rated fuel economy, and a conservation credit based on the vehicle's estimated lifetime fuel savings.

The fuel economy credit is \$400 for a car or light truck that gets 25 to 50 percent greater mileage than the comparable 2002 model, \$1,600 for a car that gets double the 2002 mileage, and \$2,400 for a car that gets 2.5 times the 2002 mileage. The conservation credit ranges from \$250 to \$1,000. For hybrid vehicles other than cars and light trucks, the credit amount is based on a percentage of the qualified incremental hybrid cost.

The credit for hybrids and lean-burn vehicles is phased out once the manufacturer has sold 60,000 of these vehicles.

For hybrid cars, light trucks and clean-burn vehicles, the credit expires December 31, 2010. For heavy hybrid trucks, the credit expires December 31, 2009.

***Fuel cell vehicles.*** The credit can be as high as \$12,000 for cars and light trucks. The credit includes two components: a base credit amount that varies with the vehicle's weight class and, for cars and light trucks, an additional credit based on the vehicle's fuel economy compared to 2002 models. The base credit ranges

from \$8,000 for cars to \$40,000 for trucks over 26,000 pounds. After December 31, 2009, the base credit decreases to \$4,000 for cars and light trucks. The additional credit ranges from \$1,000 for vehicles with 150 percent fuel economy, to \$4,000 for vehicles with 300 percent of the 2002 model year city fuel economy. The fuel cell credit expires December 31, 2014.

**Alternative fuel vehicles.** Prior law provided a deduction of \$5,000 to \$50,000 for trucks, vans, and buses, depending on vehicle weight. Hybrids were considered alternative fuel vehicles and limited to a deduction of \$2,000. The new alternative fuel vehicle credit can be as high as \$4,000 for cars and light trucks, based on a percentage of the incremental cost of the vehicle. The maximum credit can range as high as \$32,000 for trucks, vans and buses over 26,000 pounds.

Alternative fuels include compressed natural gas, hydrogen, liquefied petroleum gas, liquefied natural gas, and liquid fuels that are 85 percent methanol. A reduced credit is available for fuel mixes that are no more than 25 percent gasoline. The alternative fuels credit expires December 31, 2010.

**Clean-fuel refueling property.** Taxpayers installing alternative fuel vehicle refueling property may claim a 30 percent credit for its cost of installation, up to \$1,000 for residential installation and \$30,000 for commercial use. Qualifying property includes fuel storage and dispensing units and electric vehicle recharging. The storage or dispensing of fuel only applies with respect to fuel that consists of at least 85 percent ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas or hydrogen or with respect to fuel that is a mixture of diesel and at least 20 percent biodiesel. Property must be placed in service after December 31, 2005 and before January 1, 2010 (before 2015 for hydrogen). Excess credits may be carried forward 20 years.

## **BLACKOUT PREVENTION**

The major power blackouts in the Northeast and Midwest two years ago were blamed on the deteriorating infrastructure of the national power grid. The new law targets tax breaks to utilities and other energy suppliers/transporters. These provisions also try to squeeze more energy production out of small, independent producers. The reliability provisions include:

- Treating natural gas gathering lines as 7-year property, and distribution lines as 15-year property, for faster depreciation
- Treating electric transmission property as 15-year property (rather than the 20-year period that is currently assigned)
- Amortizing pollution control equipment at coal-fired power plants over 7 years (5 years for pre-1976 operations)
- Modifying nuclear decommissioning costs
- Adding a production tax credit for new nuclear power facilities
- Modifying arbitrage rules for some fuels
- Extending 2004 Jobs Act tax treatment of electrical cooperatives
- Temporary expensing of up to 50 percent of some refinery equipment that increases capacity
- Allowing pass through of EPA sulfur-level compliance deductions for small refinery cooperatives

- Enhancing the oil recovery credit
- Treating underground storage tanks as 10-year property
- Extending the NOL carryback period for qualifying electric utility companies

## DOMESTIC ENERGY PRODUCTION

"For the first time, the cost of the conservation and efficiency tax incentives exceeds the incentives for domestic oil production," Senate Energy and Natural Resources Committee Chairman Pete Domenici, R-N.M., said following the conference agreement. Nevertheless, domestic energy production and transmission incentives for fossil fuels top \$7 billion.

**Clean coal technology.** Clean coal technology is a controversial subject. Proponents point to it as a reliable source of domestic energy with great potential. Opponents counter that the technology is harmful to the environment and past tax breaks have been too generous. H.R. 6 creates new investment tax credits for clean coal facilities and allows a 7-year recovery period for air pollution controls on coal-fired electric generation plants.

**Oil and gas exploration.** Geological and geophysical costs are considered capital expenditures, allocated to the cost of the property. The new law allows all geological and geophysical costs incurred in domestic oil and gas exploration or development to be amortized over two years.

**Nonconventional sources.** Fuels produced from "nonconventional sources" and sold to unrelated parties are eligible for an income tax credit equal to \$3.00 per barrel or BTU oil barrel equivalent (new [Code Sec. 45K](#)). H.R. 6 extends the credit for production of certain nonconventional fuels produced at facilities producing coke or coke gas placed in service before January 1, 1993, or after June 30, 1998, and before January 1, 2010. Qualifying fuels include oil from shale or tar sands and gas from geopressured brine, Devonian shale, coal seams or a tight formation or biomass and liquid, gas, or synthetic fuels produced from coal. The new law also makes the credit part of the general business credit.

**Impact.** Making the credit part of the general business credit allows a 1-year carryback and 20-year carryforward for unused credits, starting in tax years ending after December 31, 2005.

**Biodiesel and ethanol production.** Congress has tried to encourage the production of biodiesel fuels and ethanol made from renewable resources with tax breaks. The new law updates the definition of a small ethanol producer from 30 to 60 million gallons per year. H.R. 6 also creates a new credit for small agri-biodiesel producers and extends the volumetric excise tax credits for biodiesel. Producers of renewable biodiesel also receive some tax breaks.

**Nuclear power.** H.R. 6 creates a tax credit for producers of electricity at advanced nuclear power plants that are placed in service after the date of enactment and before 2021. An advanced nuclear facility is any nuclear facility for the production of electricity, the reactor design of which was approved after 1993 by the Nuclear Regulatory Commission.

**Indian coal.** Coal from coal reserves owned by Native American tribes will be eligible for a new credit of \$1.50 per ton of coal sold in 2006 through 2009. The credit rises to \$2.00 after 2009 and is indexed for inflation after 2006.

**Diesel-water fuel emulsion.** Refiners of diesel fuel blended with water into a diesel-water fuel emulsion will be eligible for a refund of the difference between the regular diesel tax rate (24.3 cents per gallon) and a new incentive rate (19.7 cents per gallon).

**Small refiners.** The new law broadens the small refiner exception to the oil depletion deduction. The limit below which small refiners are eligible for percentage depletion will rise from 50,000 to 75,000 barrels average daily production.

**Research credit.** The new law enhances the existing research tax credit for qualified energy research. The change is targeted to R&D expenses incurred by energy research consortia.

**Recycling.** Congress instructed the Energy Department to study the energy savings from recycling and to identify tax incentives to encourage recycling. The department is to report back to Congress within one year.

## **REVENUE RAISERS**

The Energy bill partially offsets the cost of the tax incentives by raising about \$3 billion by reinstating the Oil Spill Liability Trust Fund tax (\$2.5 billion), extending the Leaking Storage Tank Trust Fund tax (\$349 million), and modifying the recapture rules for amortizable [Code Sec. 197](#) intangibles.

**Environmental taxes.** H.R. 6 reinstates the Oil Spill Liability Trust Fund tax, a five-cents per-barrel tax on crude oil. The provision applies on or after April 1, 2006, provided, at the end of any calendar quarter, the unobligated balance of the trust fund is less than \$2 billion. The tax will not apply for a calendar quarter if the IRS estimates that the unobligated balance in the fund will exceed \$2.7 billion by the end of the preceding quarter. The tax will expire December 31, 2014.

The law extends the Leaking Underground Storage Tank (LUST) Trust Fund, which was scheduled to expire October 1, 2005, through September 30, 2011. The 0.1-cents-per-gallon excise tax on fuel will now apply to all fuels.

**Amortization recapture.** Under [Code Sec. 197](#), an intangible asset purchased by a business must be depreciated over 15 years, using straight-line depreciation. When the asset is sold, [Code Sec. 1245](#) requires that gain be recaptured as ordinary income to the extent of amortization previously claimed.

**Comment.** The same treatment applies to depreciation recapture for tangible personal property.

Under prior law, the recapture amount was computed separately for each asset. The new law requires that a sale of multiple intangibles be treated as the sale of a single asset.

**Impact.** This netting requirement generally will result in a higher amount of recapture.

The provision applies to dispositions of property after the date of the bill's enactment.

## **TAX PROVISIONS IN THE HIGHWAY BILL**

To help pay for the *Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2005 (H.R. 3)*, Congress extended some transportation-related taxes from 2005 until 2011. Motor fuel excise taxes and all three non-fuel excise taxes are extended through 2011 at their present rates. Other major revenue raisers include a change in the tax treatment of aviation fuel and the application of penalties for certain taxpayers that fail to reregister with the IRS upon a change in ownership.

The Highway bill also:

- Authorizes \$15 billion of tax-exempt bonds to finance transportation projects
- Exempts limousines over 6,000 lbs. from the gas guzzler tax

- Excludes tractors weighing 19,500 lbs. or less from the excise tax on heavy trucks and trailers
- Expands the ethanol excise tax credit to certain alternative fuels
- Caps the excise tax imposed on fishing equipment
- Increases exemptions for excise taxes levied on certain airplanes, alcohol and firearms
- Repeals occupational taxes on taxpayers producing and marketing alcoholic beverages
- Creates a new tax credit for wholesalers, distributors and importers of distilled spirits.

These cuts are expected to cost several hundred million dollars in federal revenues over 10 years. Most provisions take effect on October 1, 2005.

The Highway bill also makes a few technical corrections to the *American Jobs Creation Act of 2004 (2004 Jobs Act)* relating to fuel. The technical corrections tidy up [Code Secs. 4081\(a\)\(2\)](#) and [6427](#).

## **MORE TAX BILLS ON FALL AGENDA**

When lawmakers return to Capitol Hill after their August recess, they have much unfinished tax work. Here are some highlights of possible Fall tax legislation:

### ***Estate Tax Repeal***

The *Death Tax Repeal Permanency Act of 2005 (H.R. 8)*, which would permanently repeal the estate tax, may be ready for a vote when Congress returns in the fall. A major supporter of the bill, Senate Majority Leader Bill Frist, R-Tenn., announced that he intends to file cloture on the bill before Congress' August recess. Frist anticipates that the bill will be put before the Senate in September.

**Comment.** Although the bill passed 272-162 in the House, it will have a more difficult time in the Senate.

The *Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)* repealed the federal estate tax but only for one year, 2010. After 2010, the marginal rates and applicable exclusion amounts will return to their pre-EGTRRA levels.

**Impact.** If the *Death Tax Repeal Permanency Act of 2005* passes Congress, the long-standing stepped-up basis at death rules would be permanently replaced with a modified carry-over basis regime.

### ***AMT Repeal***

Earlier this year, several Senate Finance Committee (SFC) members introduced the Individual Alternative Minimum Tax Repeal Act of 2005, which would permanently repeal the personal alternative minimum tax (AMT). Full repeal has been estimated by the Joint Committee on Taxation to cost more than \$600 billion in lost revenue over the next 10 years. Treasury estimates that by 2012, the AMT will bring in more revenue than the regular income tax.

**Comment.** The AMT has been called the most serious problem facing taxpayers by the National Taxpayer Advocate Nina Olson. Many observers speculate that repeal of the AMT will be one of the major recommendations made by the President's Advisory Panel on Tax Reform.

## ***Pension Reform***

The *National Employee Savings and Trust Equity Guarantee (NESTEG) Act of 2005* received unanimous approval by the Senate Finance Committee (SFC). The bill would dramatically reform currently pension laws to protect workers' pensions from corporate malfeasance and shore up the nation's ailing pension system.

The key provisions include:

- Increased funding requirements for businesses
- New diversification rights for company stock in pension plans
- New disclosure requirements during certain transaction suspension periods (black-outs)
- A rule that plan managers will be financially liable for losses occurring during black-outs if disclosure requirements are not met
- Heightened disclosure of a plan's financial status through periodic statements and retirement savings information
- New rules pertaining to cash balance plans

***Comment.*** The bill appears set for a vote sometime in the Fall. Although the bill is gaining momentum on Capitol Hill, critics have predicted that the additional funding required by the bill will cause businesses to drop their pension plans.

***Comment.*** The House Committee on Education and the Workforce approved its own pension bill, the *Pension Protection Act of 2005 (H.R. 2830)*, on June 30. The House bill is similar to the Senate bill.

## ***Retirement Savings***

House Republicans recently introduced a bill to finance individual investment accounts. The bill, the *Growing Real Ownership for Workers (GROW) Act of 2005 (H.R. 3304)*, would use Social Security's annual surplus to create personal accounts (GROW accounts) for all workers under the age of 55 on a voluntary basis beginning in 2005. The bill could be marked up by the House Ways and Means Committee and on the House floor for a vote in the Fall.

## ***Special tax breaks***

A host of bills have been introduced recently targeting tax breaks to special groups of individuals or businesses. Some extend current tax incentives that will soon expire. Here's a rundown of some of them:

- Make permanent enhanced small business expensing
- Extend or make permanent the teacher's classroom expense deduction
- Special tax incentives for National Guard and Reserve personnel
- Create a new special tax incentive for first-time homebuyers
- Expand the Work Opportunity Tax Credit

- Extend or make permanent the research tax credit
- Enhance the home sale exclusion for senior citizens
- Exempt a portion of tobacco buyout payments from taxation
- Create a new deduction for hearing aid purchases
- Tighten the tax rules for "527" organizations
- Create a new deduction for donations of life saving organs
- Enhance and expand tax incentives for "green" vehicles
- Lower the capital gains rate for art and collectibles
- Create a new deduction for long-term care expenses