Honigman Miller Schwartz and Cohn LLP's *June 2001*

TAX LAW FOCUS

2290 First National Building - Detroit, MI 48226 - (313) 465-7000

In This Issue . . . ***Page***

Economic Growth and Tax Relief Reconciliation Act of 2001 Introduction 1

Estate and Gift Tax Provisions 1

Individual Income Tax Relief 4

Marriage Penalty Relief 6

Tax Benefits Relating to Children 6

Education Incentives 8

Miscellaneous Provisions 11

Tax-Qualified Retirement Plans .... Supplement

ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 INTRODUCTION

On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001 (***"2001 Act"***). The 2001 Act, which is designed to provide tax relief primarily to individuals, represents the largest tax cut in 20 years. Many of the provisions of the 2001 Act, however, have delayed effective dates, are gradually phased in, or both. In addition, the provisions of the 2001 Act are set to expire on December 31, 2010. Nevertheless, the 2001 Act offers significant tax planning opportunities.

A summary of some of the more significant changes is included in this issue of the Tax Law Focus. Not all the changes resulting from the 2001 Act are included because of space limitations. Our Tax and Employee Benefit Departments are ready to help you with specific questions relating to the impact of the 2001 Act or with any of your tax or employee benefit law needs.

ESTATE AND GIFT TAX PROVISIONS

Principal Changes

Just when you thought it was safe to put your estate plan in the vault and forget about it, Congress changed the rules. The 2001 Act contains enough gaps and quirks to create some serious planning uncertainties. But some of the new provisions also give rise to planning opportunities. Here are some of the principal changes the 2001 Act makes to the estate, gift, and generation-skipping transfer (***"GST"***) tax rules:

- Estate Tax Repeal. Federal estate and GST taxes are repealed for persons dying after December 31, 2009.

- Estate Tax Exclusion Amount. During a phaseout period from January 1, 2002 through December 31, 2009, the amount excluded for purposes of the federal estate tax (currently $675,000 for persons dying in 2001) is to be increased significantly, as set forth in the table below.

- Estate Tax Rate Reduction. The top federal estate, gift, and GST tax rates (currently 55%, plus a surtax for larger estates) are to be reduced to 50% effective January 1, 2002 and are to be decreased further during the phaseout

period, as set forth in the table below.

- Gift Tax Exclusion Modified. The gift tax is not repealed. However, the lifetime exclusion amount for gift tax purposes (currently $675,000) will be increased to $1,000,000 in 2002 and thereafter. Additionally, the gift tax rates will be reduced during the phaseout period, with the maximum gift tax rate in 2010 scheduled to equal the maximum individual income tax rate under the 2001 Act (35%). The lifetime gift tax exclusion is in addition to amounts which qualify for the $10,000 annual exclusion, the exclusion for tuition payments, and the exclusion for health care payments. Note that for persons dying before 2010, taxable gifts which are protected by the $1,000,000 gift tax exclusion will decrease the amount which will be excluded from the federal estate tax at death.

- GST Exclusion Amount Increased. The amount currently excluded for purposes of the GST tax (now $1,060,000, and adjusted annually for inflation) is to remain in effect through December 31, 2003, after which it will match the federal estate tax exclusion amount ($1,500,000 in 2004, $2,000,000 in 2006, and $3,500,000 in 2009).

Calendar Year	Exclusion Amount for Estate and GST Taxes	Maximum Estate, Gift, and GST Tax Rates
2002	$1,000,000	50%
2003	$1,000,000	49%
2004	$1,500,000	48%
2005	$1,500,000	47%
2006	$2,000,000	46%
2007	$2,000,000	45%
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	Estate and GST taxes repealed	No estate tax; gift tax imposed at top individual income tax rate

Other Provisions

The changes outlined above are significant, but a number of other provisions add further complexity from a planning perspective:

Sunset Provision (Washington's Version of a Practical Joke). A unique aspect of the 2001 Act is the fact that none of its provisions apply after December 31, 2010. Therefore, unless Congress enacts new legislation between now and then, the estate tax will be repealed in its entirety only for persons who die in the year 2010, after which all of the changes created by the 2001 Act will disappear and the current estate and gift tax laws will be reinstated automatically.

We think this result is highly improbable; we believe that Congress will enact some form of additional legislation before the end of 2010. However, we cannot predict with certainty that Congress will amend the 2001 Act over the next nine years, nor can we predict exactly how the 2001 Act might be amended if Congress does take action. These unknowns obviously create considerable planning challenges.

Elimination of State Death Tax Credit. Under current law, a credit against federal estate tax is allowed for state death taxes imposed. The death taxes of most states, including Michigan and Florida, operate as "pickup" taxes, meaning that the state death tax is equal to the federal credit allowable. The 2001 Act provides for the reduction of this credit from 2002 through 2005, when the credit is to be eliminated and replaced with a deduction for death taxes actually paid to a state.

This provision creates another significant uncertainty: What will be the reaction of the various states? As the credit is reduced, the states' tax revenues also are reduced, giving the states

an obvious incentive to amend their inheritance tax laws.

Elimination of Basis Step-Up. The basis of an asset, generally its cost, is used to determine the gain or loss when the asset is sold. Under current law, assets included in a deceased person's gross estate usually are given a new basis equal to the fair market value as of the date of death. This is known as a "stepped-up basis" because often the assets have appreciated in value prior to the date of death. The effect of the basis step-up is that the gain on the increase in value from the date of purchase to the date of death is not subject to income tax when the heirs sell the property. The 2001 Act eliminates the step-up in basis at death for persons dying after December 31, 2009, with certain exceptions. Instead, basis adjustment becomes more complicated:

- Recipients of property from a decedent are to receive a basis in the property equal to the lesser of (1) the decedent's adjusted basis; and (2) the fair market value on the date of death. This is known as "carry-over basis."

- The estate executor may elect to increase the basis of selected property by a total of $1,300,000. The executor may elect an additional increase of $3,000,000 for property transferred outright to a surviving spouse or to a qualifying trust. The available increase amounts are to be adjusted for inflation.

- The availability of the current exclusion of gain on the sale of a principal residence will be expanded and will be available to: (1) the estate of the decedent; (2) an individual who acquires the property from the decedent; and (3) the decedent's revocable trust.

- The new carryover basis rule should be of particular concern to recipients of property from an estate where the carryover basis is less than the debt encumbering the property. Under current law, upon the subsequent sale of the property, a recipient from an estate would avoid income taxes on the pre-death appreciation due to the basis step-up at the death of the property owner. Under the 2001 Act, the prior owner's basis is carried over to the recipient and, upon the sale of the property by the recipient, an income tax on the gain will be owing which may even be in excess of the net proceeds of the sale (that is, after the debt is paid). In order to avoid this result, the $1,300,000 or $3,000,000 basis adjustment amounts would need to be allocated to the property by the executor, although the adjustment amounts might not be sufficient in the case of low basis, heavily-mortgaged property.

- Since these changes will endure beyond the year 2010 only if the estate tax repeal is extended or made permanent, the drafters of the 2001 Act have created a dilemma for many persons between planning to minimize estate taxes and planning to minimize income taxes.

Things to Consider

Under the 2001 Act, the only certainty is change: drastic changes to the estate, gift, and GST tax laws; various phase-ins which are not uniform; and a sunset provision which invites even more changes by Congress in order to avoid the automatic reversion to current law after 2010. Each person's estate plan should be reviewed to determine if modifications are required. Although the 2001 Act might affect each estate plan differently, here are some points for consideration:

- ✓ The increased gift tax exemption next year will permit larger tax-free gifts.
- ✓ Estate plan distribution formulas which are based on the pre-2001 Act estate and GST tax exclusion amounts could result in unintended increases in distributions to certain beneficiaries unless the estate plan is amended.
- ✓ Assets owned today might never receive a step-up in basis at death, burdening heirs with low carryover basis.
- ✓ Spouses might want to change how assets are titled between them in order to take advantage of the future $1,300,000 and $3,000,000 basis adjustments allowed under the 2001 Act.
- ✓ Refinancing which results in debt in excess of the basis of an asset might subject heirs to income tax liability in excess of the net amount realized from the sale of the asset.
- ✓ The 2001 Act does not change the fundamental goals of estate planning: assuring that a family's wealth will pass to the right beneficiaries at the right times, with due regard given to reducing the tax burdens.

INDIVIDUAL INCOME TAX RELIEF

New 10% Income Tax Bracket

The 2001 Act creates a new 10% income tax bracket for a portion of income that is currently taxed at 15%. The new 10% bracket applies to the first $6,000 of taxable income for single individuals, the first $10,000 of taxable income for heads of household, and the first $12,000 of taxable income for married couples filing a joint return. Beginning in 2008, the aforementioned $6,000 and $12,000 taxable income levels will increase to $7,000 and $14,000, respectively. For taxable years beginning after 2008, the taxable income levels for the new 10% bracket will be adjusted annually for inflation. The 15% tax bracket is modified to begin at the end of the new 10% tax bracket.

To accelerate the benefit of the new 10% tax bracket as an economic stimulus, the 2001 Act implements a rate reduction credit in lieu of the new tax bracket for 2001. The credit is nonrefundable and equal to 5% of the amount of income that would have been eligible for the new 10% rate. Most taxpayers will receive the credit in the form of a check issued by the Department of Treasury. The amount of the check will be computed in the same manner as the credit, but will be calculated based on tax returns filed for 2000 (rather than 2001). Checks should be issued by October 2001 to taxpayers who filed timely 2000 tax returns. Taxpayers who filed their 2000 tax returns late (or pursuant to extensions) will receive their checks later in 2001. The IRS will send notices to most taxpayers in the beginning of July informing them of the calculation of their checks and the approximate date when they will be sent.

On their 2001 tax returns, taxpayers will have to reconcile the amount of the credit with the check they received by calculating the amount of the credit based on their 2001 tax return. Taxpayers will then subtract from the credit the amount of the check they received. These two amounts will be the same for many taxpayers. If, however, the result is a positive number, the taxpayer may claim that amount as a credit against 2001 tax liability. Conversely, if the result is a negative number, the taxpayer will not have to repay that amount.

Tax Rate Reductions

The 2001 Act also reduces the income tax rates of 28%, 31%, 36%, and 39.6% over six years to 25%, 28%, 33%, and 35%, effective after June 30, 2001. The taxable income levels for the new tax rates in all years are the same as the taxable income levels that apply under the current rates. The tax rate reductions are scheduled to occur as follows:

Year	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001-2003	27%	30%	35%	38.6%
2004-2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

Because the rate reductions are effective after June 30, 2001, the rate reduction for 2001 will come in the form of a blended tax rate. Accordingly, for 2001 the rates will actually be 27.5%, 30.5%, 35.5%, and 39.1%. New wage withholding tables have been released to reflect the rate reductions.

In 2006, when the tax rate reductions are fully phased in, it is projected that the income tax brackets will be as follows:

Single Individuals	
Tax Rate	**Taxable Income**
10%	$0 to $6,000
15%	Over $6,000 to $30,950
25%	Over $30,950 to $74,950
28%	Over $74,950 to $156,300
33%	Over $156,300 to $339,850
35%	Over $339,850

Heads of Household	
Tax Rate	**Taxable Income**
10%	$0 to $10,000
15%	Over $10,000 to $41,450
25%	Over $41,450 to $107,000
28%	Over $107,000 to $173,300
33%	Over $173,300 to $339,850
35%	Over $339,850

Married Couples Filing Jointly	
Tax Rate	**Taxable Income**
10%	$0 to $12,000
15%	Over $12,000 to $57,850
25%	Over $57,850 to $124,900
28%	Over $124,900 to $190,300
33%	Over $190,300 to $339,850
35%	Over $339,850

Personal Exemptions

Under current law, the deduction for personal exemptions is phased out ratably for taxpayers with adjusted gross income over certain threshold amounts. The 2001 Act will reduce the personal exemption phase-out beginning in 2006 and repeal it after 2009. The amount by which the deduction for personal exemptions would otherwise be reduced under current law phase-out rules will be reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The repeal will be fully effective for taxable years beginning after 2009.

Itemized Deductions

Taxpayers may choose to either claim the standard deduction or itemized deductions for certain expenses incurred during the year. Under current law, the total amount of itemized deductions (except certain itemized deductions) is phased out ratably for taxpayers with adjusted gross income over certain prescribed amounts, but not below 80% of such total amount of itemized deductions. The 2001 Act will reduce the phase-out of itemized deductions beginning in 2006 and repeal it after 2009. The amount by which itemized deductions would otherwise be reduced under current law phase-out rules will be reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds

in taxable years beginning in 2008 and 2009. The phase-out of itemized deductions will be repealed for taxable years beginning after 2009.

MARRIAGE PENALTY RELIEF

A "marriage penalty" exists if the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual calculated as if they were single. The provisions of the 2001 Act discussed below are designed to provide married couples relief from the marriage penalty.

Under current law, the standard deduction for single individuals is 60% of the standard deduction for married couples filing a joint return. The 2001 Act increases the standard deduction for married couples filing a joint return to twice the standard deduction for a single individual. The increase will be phased in over five years beginning in 2005 and will be fully phased in beginning in 2009. Below is a table showing the standard deduction for married couples filing a joint return as a percentage of the standard deduction for single individuals during the phase-in period.

Year	Standard Deduction for Married Couples Filing a Joint Return as Percentage of Standard Deduction for Single Individuals
2005	174%
2006	184%
2007	187%
2008	190%
2009 and later	200%

In addition to increasing the standard deduction, the 2001 Act increases the size of the 15% tax bracket for married couples filing a joint return. Under current law, the tax bracket breakpoints for single individuals are approximately 60% of the tax bracket breakpoints for married couples filing a joint return. The 2001 Act increases the size of the 15% tax bracket for married couples filing jointly to twice the size of the 15% tax bracket for single individuals. The increase is phased in over four years beginning in 2005 and is fully effective for taxable years beginning after 2007. Below is a table showing the end point of the 15% tax bracket for married couples filing a joint return as a percentage of the end point of such bracket for singles individuals during the phase-in period.

Year	End Point of 15% Tax Bracket for Married Couples Filing a Joint Return as Percentage of End Point of 15% Tax Bracket for Single Individuals
2005	180%
2006	187%
2007	193%
2008 and later	200%

The 2001 Act also increases the phase-out amount of the earned income credit. Under current law, the earned income credit is phased out for individuals with earned income (or, if greater, modified adjusted gross income) over certain levels. The 2001 Act increases the earned income credit phase-out amount by $3,000 for married couples filing a joint return. The increase is phased in over seven years in the manner summarized below. The $3,000 amount will be adjusted annually for inflation after 2008.

Year	Amount
2002-2004	$1,000
2005-2007	$2,000
2008 and later	$3,000

TAX BENEFITS RELATING TO CHILDREN

Child Tax Credit

Under current law, an individual may claim a $500 tax credit for each qualifying child under

the age of 17. The 2001 Act increases the credit to $1,000, phased in over ten years as follows:

Year	Credit Per Child
2001-2004	$600
2005-2008	$700
2009	$800
2010 and later	$1,000

For years 2001 to 2004, the 2001 Act makes the child tax credit refundable to the extent of 10% of earned income above $10,000. The percentage is increased to 15% for 2005 and years thereafter. The $10,000 amount will be indexed for inflation beginning in 2002. A taxpayer with three or more qualifying children is allowed a refundable credit equal to the excess of his social security taxes for the year over his earned income credit for the year, provided it is greater than the refundable credit based on his earned income over $10,000.

Adoption Tax Credit and Income Exclusion

The 2001 Act permanently extends the adoption tax credit for children other than special-needs children (for whom the credit was already permanent). For taxable years beginning after 2001, the maximum credit is increased to $10,000 per eligible child, including special-needs children. The phase-out range of the adoption tax credit is increased to $150,000 to $190,000 of modified adjusted gross income. The adoption tax credit is permanently allowed against the alternative minimum tax.

The 2001 Act also makes the income exclusion for employer-provided adoption assistance permanent. For taxable years beginning after 2001, the exclusion is increased to a maximum of $10,000 per eligible child, including special-needs children. The phase-out range of the exclusion is increased to $150,000 to $190,000 of modified adjusted gross income.

Dependent Care Tax Credit

For taxable years beginning after 2002, the 2001 Act increases, for purposes of determining the dependent care tax credit, the maximum amount of eligible employment-related expenses from $2,400 to $3,000, if there is one qualifying individual, and from $4,800 to $6,000, if there are two or more qualifying individuals. The 2001 Act also increases the maximum credit from 30% to 35% of eligible employment-related expenses not exceeding the above prescribed limits. Moreover, the 2001 Act modifies the phase-out of the credit by providing that the maximum 35% credit rate will be reduced, but not below 20%, by 1 percentage point for each $2,000 (or fraction thereof) of adjusted gross income above $15,000.

New Tax Credits for Costs Related to Employer-Provided Child Care Facilities

The 2001 Act creates two new tax credits for costs related to employer-provided child care facilities for taxable years beginning after 2001. One of the credits is equal to 25% of qualified expenses for employee child care and the other is equal to 10% of qualified expenses for child care resource and referral services. The maximum total credit is $150,000 per year.

Qualified child care expenses include costs paid or incurred: (i) to acquire, construct, rehabilitate or expand property that is to be used as part of the taxpayer's qualified child care facility; (ii) for the facility's operation, including training and certain compensation costs for its employees and scholarship programs; or (iii) under a contract with a qualified child care facility to provide child care services to employees of the taxpayer.

The principal use of the facility must be for child care (unless it is the principal residence of the taxpayer) and the facility must meet all applicable state and local laws and regulations, including any licensing laws. The facility is also required to have open enrollment to the taxpayer's employees and not to discriminate in favor of highly compensated employees. If the facility is the taxpayer's principal trade or business, at least 30% of the children enrolled in the center must be dependents of the taxpayer's employees.

Qualified child care resource and referral expenses are amounts paid or incurred under a contract to provide child care resource and referral services to the taxpayer's employees. The child care resource and referral services must be provided in a nondiscriminatory manner.

Any amounts for which the taxpayer may otherwise claim a related tax deduction will be reduced by the amount of the aforementioned credits. Similarly, credits for the expenses of acquiring, constructing, rehabilitating, or expanding a facility will reduce the taxpayer's basis in the facility. Recapture provisions apply for the first ten years after the facility is placed in service.

EDUCATION INCENTIVES

Education IRAs

The 2001 Act makes a number of changes with respect to the rules relating to education IRAs for taxable years beginning after 2001. The changes are listed below.

- The per-beneficiary contribution limit for education IRAs will increase from $500 to $2,000 per year.
- The definition of qualified education expenses that may be paid tax-free from an education IRA is expanded to include: (i) elementary (including kindergarten) and secondary public, private, or religious school tuition and expenses, including tutoring, room and board, uniforms, extended-day programs, and special-needs services; and (ii) the purchase of computer technology or equipment (including software) or Internet access and service, provided they are to be used by the beneficiary and his family during any of the beneficiary's school years. Sports, game, or hobby software will qualify only if predominantly educational in nature.
- The contribution phase-out range for married couples filing a joint return will increase to $190,000 to $220,000, twice the phase-out range for single individuals.
- Education IRA contributions for special-needs beneficiaries will be allowed after they attain age 18 and deemed distributions of education IRA balances will not occur when those beneficiaries reach age 30.
- The age 30 limitation does not apply in the case of a rollover contribution for the benefit of a special-needs beneficiary or a change in beneficiaries to a special-needs beneficiary.
- Corporations and other entities, including tax-exempt entities, will be able to contribute to education IRAs, regardless of the entity's income.
- Individuals will be allowed to make an education IRA contribution for a tax year as late as their unextended due date for filing that year's return (generally, April 15th of the following year).

- Taxpayers will be able to claim HOPE and Lifetime Learning credits for a student in a year when excluded distributions are made from an education IRA for that student, provided credits are not claimed for amounts paid with tax-free distributions.

- There will be no excise tax if contributions to an education IRA for a beneficiary are made in a year when a contribution is also made to a qualified tuition program for the same beneficiary.

- If annual distributions from education IRAs and qualified tuition programs exceed the beneficiary's qualified higher education expenses (after reduction by amounts used in claiming the HOPE or Lifetime Learning credit), the beneficiary will have to allocate the expenses between the distributions to determine the amount includible in income.

Qualified Tuition Programs

The 2001 Act expands qualified tuition programs (so-called Section 529 programs) by making the changes described below generally for taxable years beginning after 2001.

- A qualifying tuition program will include certain prepaid tuition programs established and maintained by eligible education institutions (which may be private institutions) that satisfy certain requirements. A tuition program maintained by a private institution will not be treated as qualified (except to the extent provided by regulations) unless its assets are held in a qualifying trust and it obtains an IRS ruling that the applicable requirements are met. In addition, in cases involving tuition programs maintained by a private institution, individuals will not be able to contribute to a savings account plan set up to pay a beneficiary's qualifying education expenses, but rather will only be able to buy tuition credits or certificates on the beneficiary's behalf.

- Distributions will be excluded from gross income to the extent they are used to pay for qualified higher education expenses. The exclusion will apply to post-2001 payouts from qualified state tuition plans and to post-2003 payouts from qualified tuition plans established and maintained by entities other than a state.

- Qualified higher education expenses will include expenses of a special-needs beneficiary that are necessary in connection with his enrollment at an eligible education institution.

- For purposes of the exclusion for distributions from qualified tuition plans to pay for qualified higher education expenses, the maximum room and board allowance will be the amount applicable to the student in calculating costs of attendance for federal financial aid programs under the Higher Education Act of 1965 (as in effect of the 2001 Act's enactment date) or, for a student living in housing owned and operated by an eligible education institution, the actual amount charged by the education institution for room and board.

- The rule requiring a tuition program to impose more than a de minimis penalty on refunds will be repealed and replaced with a 10% penalty tax on the amount of the distribution includible in income.

- During the same year, taxpayers will be able to claim a HOPE or Lifetime Learning credit and exclude amounts distributed from a

qualified tuition plan for the same student as long as the distribution is not used for the same expenses for which a credit is claimed.

- A transfer from one qualified tuition plan to another benefiting the same designated beneficiary will not be treated as a taxable distribution. However, this tax-free rollover treatment will not apply to more than one transfer within any 12-month period with respect to the same beneficiary.

- The definition of a family member for purposes of beneficiary changes and rollovers will include first cousins of the original beneficiary.

Exclusion for Employer-Provided Educational Assistance

The 2001 Act makes permanent the exclusion for qualified employer-paid education and extends it to employer-paid graduate education, effective for expenses relating to courses beginning after 2001.

Student Loan Interest Deduction

For interest paid on qualified education loans after 2001, the 2001 Act increases the income phase-out ranges for eligibility for the student loan interest deduction to $50,000 to $65,000 for single individuals and $100,000 to $130,000 for married couples filing a joint return. In addition, the 2001 Act repeals both the 60-month limit on interest deductibility and the rule disallowing a deduction for voluntary payments of interest.

New Deduction for Higher-Education Expenses

For amounts paid in taxable years beginning after 2001 and before 2006, the 2001 Act creates an above-the-line deduction for qualified higher education expenses incurred by eligible taxpayers. In 2002 and 2003, taxpayers whose adjusted gross income does not exceed $65,000 ($130,000 for married couples filing jointly) will be able to claim a maximum annual deduction of $3,000. In 2004 and 2005, taxpayers whose adjusted gross income does not exceed $65,000 ($130,000 in the case of married couples filing jointly) will be able to claim a maximum deduction of $4,000 and taxpayers whose adjusted gross income does not exceed $80,000 ($160,000 in the case of married couples filing jointly) will be able to claim a maximum deduction of $2,000. The deduction will not be available if adjusted gross income exceeds the applicable dollar threshold.

A taxpayer will not be able to claim the higher-education deduction for a year for an individual if he or any other person elects to claim a HOPE or Lifetime Learning credit in that year for the same individual. Additionally, a taxpayer will not be able to deduct amounts taken into account in determining the excludable amount of an education IRA distribution or the amount of interest excludable on an education savings bond. A taxpayer also will not be able to deduct the excludable part of a qualified tuition plan distribution, but will be able to claim a deduction for the return-of-contribution portion of the qualified tuition plan distribution.

Certain U.S. Awards that Require Performance of Services

For amounts received after 2001, the 2001 Act makes awards received by an individual under the National Health Service Corps Scholarship Program or the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program eligible for tax-free treatment as qualified scholarships, without regard to any service obligation by the recipient.

Bonds for Educational Facilities and Activities

For bonds issued after 2001, the 2001 Act expands the private activities for which tax-exempt bonds may be issued to include elementary and secondary public school facilities which are owned by private, for-profit corporations under public-private partnership agreements with a state or local educational agency. These bonds will be subject to a number of technical requirements and limitations. Additionally, the additional amount of governmental bonds for public schools that small governmental units may issue without being subject to certain arbitrage rebate requirements will be increased from $5 million to $10 million.

MISCELLANEOUS PROVISIONS

Alternative Minimum Tax

For taxable years beginning after 2000 and before 2005, the 2001 Act increases the alternative minimum tax exemption amount for married couples filing a joint return (and for surviving spouses) by $4,000. The alternative minimum tax exemption amounts for other individuals are increased by $2,000.

Corporate Estimated Tax

The 2001 Act changes the due date for corporate estimated tax payments that would have been due on September 17, 2001, to October 1, 2001. For corporate estimated tax payments due on September 15, 2004, 80% must be paid by September 15, 2004 and 20% must be paid by October 1, 2004.

Authority to Postpone Certain Tax-Related Deadlines

The 2001 Act increases the period of time the IRS may postpone certain deadlines from 90 days to 120 days for taxpayers affected by Presidentially declared disasters.

Restitution Payments to Holocaust Victims

The 2001 Act provides that qualifying restitution payments made to eligible Holocaust victims after 1999 are excluded from income. In addition, such payments are not taken into account for any provision that takes into account excludable gross income in computing adjusted gross income, such as taxation of Social Security benefits. Interest earned by enumerated escrow or settlement funds are also excluded from tax.

A qualifying restitution payment is any payment or distribution made to an eligible individual (or the individual's heirs or estate) which: (i) is payable by reason of the individual's status as an eligible person; (ii) constitutes the direct or indirect return of, or compensation or reparation for, assets stolen or hidden from, or otherwise lost to, the individual before, during, or immediately after World War II by reason of the individual's status as an eligible individual; or (iii) is interest payable as part of any payment or distribution described in (i) or (ii) above. An eligible individual is a person who was persecuted for racial or religious reasons or on the basis of physical or mental disability or sexual orientation by Nazi Germany, or any other Axis regime, or any other Nazi-controlled or Nazi-allied country.

Honigman Miller Schwartz and Cohn LLP is a general practice law firm with over 170 attorneys at its three offices in Michigan. Our Tax, Employee Benefit and Property Tax Appeal Departments include the twenty-six attorneys listed below. Except as indicated below, the attorneys are licensed to practice law in the state of Michigan only.

Nicole Bogard	(313) 465-7398	Kristine Renke	(313) 465-7518
Mark A. Burstein	(313) 465-7322	Steven P. Schneider***	(313) 465-7544
Regis A. Carozza	(313) 465-7342	Rebecca L. Sczepanski	(313) 465-7546
James H. Combs	(313) 465-7588	Michael B. Shapiro	(313) 465-7622
Roger Cook	(313) 465-7358	Sherill Siebert	(313) 465-7556
Alexander G. Domenicucci	(313) 465-7672	Scott A. Small	(313) 465-7562
Angela M. Emlet	(517) 377-0705	Richard S. Soble	(313) 465-7564
Michael J. Friedman	(313) 465-7388	Daniel L. Stanley	(517) 377-0714
Gerald M. Griffith	(313) 465-7402	Alan M. Valade*	(517) 377-0707
Jeffrey A. Hyman	(313) 465-7422	Patrick R. Van Tiflin	(517) 377-0702
Mary Jo Larson	(313) 465-7458	Randall P. Whately	(313) 465-7602
Marguerite Munson Lentz*	(313) 465-7462	Lisa B. Zimmer	(313) 465-7614
Charles Nida	(313) 465-7496	Richard E. Zuckerman**	(313) 465-7618

* Licensed to practice law in Michigan and Florida.
** Licensed to practice law in Michigan, California and Nevada.
*** Licensed to practice law in Michigan and Wisconsin.

Honigman Miller Schwartz and Cohn LLP's Tax Law Focus is intended to provide information but not legal advice regarding any particular situation. Any reader requiring legal advice regarding a specific situation should contact an attorney.

Honigman Miller Schwartz and Cohn LLP also publishes newsletters concerning antitrust, employee benefits, employment, environmental and health care matters. If you would like further information regarding these publications, please contact Mary Sanders at (313) 465-7938.

(c) Copyright 2001 Honigman Miller Schwartz and Cohn LLP. Photocopying or reproducing is a violation of federal copyright law and is strictly prohibited without consent.

222 N. Washington Square
Suite 400
Lansing, MI 48933-1800
(517) 484-8282

2290 First National Building
Detroit, MI 48226-3583
(313) 465-7000

32270 Telegraph Road
Suite 225
Bingham Farms, MI 48025-2457
(248) 566-8300