

Form 5735, American Samoa Economic Development Credit (Rev. March 2007) Statement of Major Changes

Background. The Possessions Corporation Tax Credit, reported on Form 5735 (Rev. April 2003), was scheduled to expire for tax years beginning after December 31, 2005. The Tax Relief and Health Care Act of 2006, section 119, extended and modified the credit for two years. The credit is available only for American Samoa. As a result, the title of Form 5735 will change to American Samoa Economic Development Credit. The credit is available for the first two taxable years of a corporation which begin after December 31, 2005, and before January 1, 2008.

The American Samoa economic development credit is based on IRC section 30A, as modified by Act section 119. The credit is now figured using the existing economic-activity limitation rules, IRC 30A(d)(1) and (2). The possessions credit was figured based on the taxable income from possession sources, which was limited by the percentage method or economic-activity method. The 80% test and 75% test described in Part I of Form 5735 still apply, IRC 30A(b)(1) and (2).

Form Changes

1. U.S. Possession has been replaced by American Samoa throughout the form.
2. A caution has been added above Part I describing the conditions that must be met for a domestic corporation to be a qualified domestic corporation for purposes of the credit, Act section 119(a)(1) and (2).
3. In Part I, old column (c) has been deleted because the credit only applies to American Samoa.
4. In Part I, old column (i) has been deleted because qualified possession source investment income no longer needs to be separately identified.
5. In Part I, all column references have been changed as needed because of the deletion of old columns (c) and (i).
6. Old Parts II, III, V, and VI have been deleted because they are not required to figure the credit under the economic-activity limitation method.
7. Old Part IV is now Part II, American Samoa Economic Development Credit.
8. Old line 18 in Part IV is now line 6 in Part II.
9. Old line 19 has been broken out into lines 7, 8, and 9 to separately identify the different depreciation components of the computation.
10. Old line 20 is now line 10.
11. Old lines 21 through 26 (which reflected 30A(d)(3)) have been deleted. They are not required to figure the credit. Act section 119(b)(1).
12. We have added a new line 11 to show the U.S. income tax against which the credit is allowed.
13. Old line 27 has been revised as needed and is now line 12. The reference to Form 1120, Schedule J, changed from line 6b to line 5b.