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IMPACT OF RECENT TAX LEGISLATION ON SMALL BUSINESSES

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ABSTRACT

This paper discusses selected changes in the tax laws, made in the Summer of 1996, which are expected to have significant impact on small businesses. The general areas discussed are 1) S Corporations, 2) SIMPLE pension plans, 3) independent contractors, 4) leased employees, 5) expensing qualified small business assets, 6) the work opportunity tax credit, 7) life insurance policy loans, and 8) medical savings accounts. In each case, we first discuss the basic importance of the issue to small business and then briefly discuss some of the technical issues involved in applying the new laws.

INTRODUCTION

"Small businesses are the backbone of the American economy. They create two of every three new jobs, produce 39 percent of the gross national product, and invent more than half the nation's technological innovation."[1] In addition, while large firms have actually been decreasing the number of employees, small firms have accounted for much of the growth in U.S. employment.[2] Using different classifications, the IRS classifies 96 percent of businesses as small, yet these businesses generate only 12 percent of total receipts.[3]

Recognizing the importance of small businesses to the economy, Congress has continually modified the tax laws to encourage the growth of small businesses. During the summer of 1996, Congress passed four new Acts (The Small Business Job Protection Act, The Health Insurance Portability and Accountability Act, The Taxpayer Bill of Rights, and The Personal Responsibility and Work Opportunity Reconciliation Act) that together made more than 600 changes to the tax law. There are many changes scattered throughout these Acts that affect the tax situation of many small businesses. Discussed below are several of the more important tax changes that affect small business. In 1997 Congress passed additional legislation, some of which will affect small businesses. Those that impact the subject matter of this article are included herein. The other new items, from the 1997 legislation, affecting small businesses will be discussed in an upcoming article.

S CORPORATIONS

The S corporation is a widely used vehicle for operating a small business. In general, S corporations are formed to eliminate multiple levels of corporate taxation and simplify tax reporting requirements. Income and other items from S corporations are taxed in a manner similar to partnerships. In 1995, approximately 1.9 million companies were organized as S corporations.[4] The changes, discussed below, allow more flexibility in the use of S corporations as a form of business. In particular, S corporations may now have more, and additional types of shareholders. Each of these changes increases the ability of the S corporation business to raise capital. Other changes alleviate previous problems of certain trusts investing in S corporations and allow more effective estate planning with S corporation stock.

The Small Business Act (SBA) makes significant revisions to the S Corporation provisions (see Table 1 for overview of these changes). Collectively, these changes make S Corporations into a more flexible form of doing business for many qualified enterprises. This also reflects Congressional intent to maintain the S Corporation as a viable alternative to forming a limited liability company (LLC) for small businesses.

Table 1

SUMMARY OF KEY S CORPORATION CHANGES
The number of allowed shareholders for an S Corporation increased from 35 to 75.
S Corporations can now have an "electing small business trust" as a shareholder.
S Corporation can now have certain tax-exempt organization as shareholders.
Regular "C" corporations and certain S Corporations can be subsidiaries of S Corporations.
The IRS is given more leeway to waive the effects of inadvertent S Corporation terminations.

Number of Shareholders

The SBA of 1996 increases the number of allowed S Corporation shareholders from 35 to 75 for tax years beginning after December 31, 1996.[5] As with prior law, a husband and wife count as one shareholder.[6]

Example. ABC Corporation has 90 shares of stock outstanding. Seventy-four individuals each own one share of ABC stock. The remaining 16 shares are owned by H and W (a husband and wife). H owns 10 shares as his separate property and W owns three shares as her separate property. Together, H and W *own the three shares as community property. This corporation meets the maximum of 75 shareholders test for S Corporations since all the shares own by H and W are considered owned by one shareholder.*

Electing Small Business Trusts

The Act allows an "electing small business trust" to qualify as a shareholder in an S Corporation.[7] A qualified small business trust is a trust that has only beneficiaries that are individuals, estates, or charitable organizations holding contingent remainder interest(s). Also, the interest in the trust must not have been acquired by purchase (e.g., only by gift, bequests, etc.). Thus, if an existing shareholder creates a trust with S Corporation stock with Big State University (a qualified charitable organization) as the remainder of the trust, the trust can continue as a shareholder in the S Corporation without causing the loss of S Corporation status.

Each potential current beneficiary of the trust is counted as a shareholder for the 75-shareholder limitation. A potential current income beneficiary is any person, with respect to the applicable period, who is entitled to, or at the discretion of any person may receive, a distribution from the principal or income of the trust. If an electing small business trust is a shareholder in an S Corporation, the trust must pay income tax on the income from the S Corporation at the highest rate imposed on estates and trusts (currently 39.6%). This provision is effective for tax years beginning after December 31, 1997.

Tax-Exempt Organization Shareholders

Under changes made by the SBA of 1996, certain tax-exempt organizations (e.g., a qualified retirement plan or charitable organization) are eligible to be S Corporation shareholders.[8] The organization will count as one shareholder for purposes of determining the number of shareholders in an S Corporation. It should be noted that all items of income, loss, credit, or deduction from the S Corporation will be taxable as unrelated business taxable income (UBTI) to the tax-exempt shareholder. This provision is effective for tax years beginning after December 31, 1997.

S Corporation Subsidiaries

In a major departure from prior tax law, the SBA of 1996 allows an S Corporation to have subsidiaries.[9] An S Corporation may now own 80% or more of the stock of a "C" Corporation or 100% of another qualified S Corporation without loss of S status. However, unlike a C corporation, an S Corporation cannot file a consolidated tax return with its subsidiaries. This provision is effective for tax years beginning after December 31, 1997.

S Corporation Terminations

Because of prior difficulties caused by inadvertent termination of the S Corporation election, there are several new provisions in the SBA of 1996 to alleviate this problem. Congress gave the IRS more authority to waive the effects of these inadvertent terminations,[10] such as an invalid election caused by the corporations failure to qualify as a small business corporation because it did not obtain the proper shareholder consents. The IRS may also treat late-filed S Corporation elections as timely if there is reasonable cause justifying the late filing. This provision is retroactive, and thus, is effective for tax years beginning after December 31, 1982.

Another change makes it easier to close the books of an S Corporation upon the termination of a shareholder's interest. The termination election need only be made by the S Corporation and all "affected shareholders," instead of all shareholders.[11] Thus, after the termination election is made, the closing of the books applies only to the affected shareholder(s), and not the other continuing shareholders. This provision is effective for tax years beginning after December 31, 1996.

Finally, any prior S Corporation termination election in the five-year period beginning before January 1, 1997 may be ignored.[12] Subsequently, any small business corporation that terminated its election during this period can immediately reelect S status without getting the previously required IRS consent.

There are other more esoteric provisions of the SBA of 1996 that deal with S Corporations that are not included here because they are not applicable to most taxpayers Therefore, if a small business elects to operate as an S Corporation, it should retain a knowledgeable tax advisor to ensure compliance with all the subtleties of the modified S Corporation provisions. In addition, new possibilities exist for the use of an S corporation in individual estate planning. The importance of using a qualified tax advisor cannot be underestimated when electing S corporation status.

SIMPLE PENSION PLANS

Small businesses account for nearly one-third of every U.S. worker over age twenty-five. Yet, only one-third of small businesses offer a retirement plan while approximately 85 percent of large businesses offer some form of a retirement plan.[13] The SBA of 1996 created a new type of retirement plan for small businesses called the savings incentive match plan for employees (SIMPLE) plan.[14] The Congressional purpose for providing SIMPLE pension plans is to increase the number of small businesses offering retirement plans without unduly burdening these small businesses with administrative complexities. The new SIMPLE Plans also waive the "top-heavy" provisions associated with traditional pension plans.

A SIMPLE plan can be adopted by employers that don't maintain another employer-sponsored retirement plan and have no more than 100 employees who earned $5,000 or more during the tax preceding year. A SIMPLE plan can consist of either an IRA for each employee or be part of a § 401(k) plan. If the plan is established as an IRA, the nondiscrimination rules generally applicable to qualified plans (including the top-heavy rules) are waived and simplified reporting requirements apply. Generally, contributions to a SIMPLE plan aren't taxable until withdrawn by the taxpayer. If a SIMPLE plan is adopted as part of a section 401(k) plan, the plan doesn't have to satisfy the special nondiscrimination tests applicable to 401(k) plans and isn't subject to the top-heavy rules. However, the other rules applicable to qualified plans continue to apply.

SIMPLE IRAs

A SIMPLE retirement plan allows employees to make elective contributions to an IRA. But, employee contributions have to be expressed as a percentage of the employee's compensation and can't exceed $6,000 per year.[15] In future years, however, the $6,000 annual limitation will be indexed for inflation, in $500 increments. To qualify for a SIMPLE plan, employers must satisfy one of two contribution calculation formulas. The *matching contribution formula* generally requires that the employer match the employee's elective contributions on a dollar-for-dollar basis up to 3 percent of the employee's compensation. An *alternative contribution to this formula* provides that an employer can elect to contribute a lower matching percentage for all employees (but not less than 1 percent of each employee's compensation).[16] The lower percentage, however, can only be elected for two out of any five years.

Example. A small employer maintains a SIMPLE IRA plan for his employees. One of the employees, John, elects to contribute 5 percent of his salary to this SIMPLE plan. John is paid $30,000 for the 1997 tax year. The employer must withhold $1,500 (5% x $30,000) from John's paychecks and match it with $900 (3% x $30,000) and contribute a total of $2,400 to an IRA established for John.

As an alternative to matching employee contributions up to 3 percent, an employer may elect to make a 2 percent mandatory contribution on behalf of *each and all eligible employees* who had at least $5,000 in compensation.

Example. A small employer business maintains a SIMPLE IRA plan for his employees. The employer has five employees each of whom earn over $5,000 for 1997. The five employees earned total wages of $80,000 for the year. Instead of matching elective employee contributions, the employer can elect to make total $1,600 contribution (2% x $80,000) pro rata for each employee.

No contributions, other than the employees' elective contributions and the required employer matching contributions can be made to a SIMPLE plan. All contributions to an employee's SIMPLE account are fully vested when made.[17] Distributions from a SIMPLE account generally are taxed according to the rules applicable to IRAs. Similarly, tax-free rollovers can be made from one SIMPLE account to another. In addition, after an individual has participated in a SIMPLE plan for two years, the SIMPLE account can be rolled over into an IRA tax-free. Even when, an employee is no longer participating in a SIMPLE plan (e.g., a terminated employee) and two years have passed since the employee first participated in the SIMPLE plan, the employee's SIMPLE account is treated like any other IRA.

Early withdrawals from a SIMPLE account generally are also subject to the 10 percent early withdrawal tax applicable to IRAs. However, withdrawals made during the two-year period beginning on the date the employee first participated in a SIMPLE plan are subject to a 25 percent penalty, instead of the normal 10 percent penalty on early withdrawals from IRAs.[18]

Each eligible employee can choose, within the 60-day period preceding the beginning of any year, to make elective deferrals to the SIMPLE plan, and to modify any previous elections regarding the amount of contributions for that year.[19] An employer must contribute each employee's elective deferral to the employee's SIMPLE account within 30 days after the end of the month to which the contributions relate. Employees must be allowed to terminate participation in the SIMPLE plan anytime during the year. The plan may provide that an employee who terminates participation cannot resume participation until the following year. A plan can (but isn't required to) permit an employee to make other changes to his or her contributions during the year (e.g., reduce the contribution percent).

SIMPLE § 401(k) Plans

In general, a SIMPLE § 401(k) plan is deemed to satisfy the special nondiscrimination tests applicable to employee elective deferrals and employer matching contributions if the plan satisfies the special contribution conditions applicable to SIMPLE plans.[20] In addition, the plan isn't subject to the top-heavy rules for any year for which this safe harbor is satisfied. The plan, however, is subject to all other § 401(k) plan rules. The safe harbor is satisfied if, for the year, the employer doesn't maintain another qualified plan, and

(1) the employee's elective deferrals are no more than $6,000;
(2) the employer matches the employee's elective deferrals up to 3 percent of compensation (or, alternatively, makes a 2 percent of compensation nonelective contribution for all eligible employees with at least $5,000 in compensation); and
(3) no other contributions are made to the plan.[21]

Contributions under the safe harbor rules have to be 100 percent vested. Also, the employer cannot reduce the matching percentage below 3 percent of compensation. The SIMPLE plan provisions are effective for tax years beginning after December 31, 1996.

It is extremely important to seek the advice of a qualified pension advisor when establishing a SIMPLE plan. Once established, however, the administration of a SIMPLE retirement plan should be of relatively little burden to a small business owner.

INDEPENDENT CONTRACTORS

Many businesses attempt to use the independent contractor form of relationship in order to avoid paying benefits and to escape employment taxes (e.g., FICA and FUTA). This subject has been a contentious one for a number of years. The new rules do not solve the problem, but rather put structure on the procedures to deal with the determination of status. The new rules *do not* define the difference between employees and independent contractors. Working definitions of employees and independent contractors can be found in various IRS Publications.[22]

The SBA of 1996 modified § 530 of the Revenue Act of 1978 (P.L. 95-600) dealing with independent contractors. Under § 530, a safe haven was created which generally allows an employer to treat a worker as not being an employee for employment (not income tax) tax purposes, despite the worker's actual common-law status, unless the employer has no reasonable basis for the treatment. The modified rules are effective for tax years after 1996. The changes are designed to provide both the IRS and employers with clearer standards that will reduce the number of taxpayer-IRS disputes over the operation of the *safe-harbor rule* and to reduce unnecessary litigation. The provision contains four safe harbors for having a "reasonable basis." These are: (1) published rulings or case law; (2) a past IRS audit[23] of the taxpayer; (3) longstanding industry practice; and (4) "any other reasonable basis."[24] Also, the Act reverses a longstanding IRS position by stating that a worker would not otherwise have to be considered an employee for § 530 to apply.[25] In addition, the Act loosens the longstanding *industry practice* safe harbor test considerably. Under the old law, a practice is an *industry practice* if 25 percent of the taxpayer's competitors do it.[26] After 1996, the 25 percent test does not have to be met and a lower percentage (e.g., 10%-15%) may qualify as an *industry practice.*

Burden of Proof

The new provisions shift the burden of proof to the IRS once the employer establishes a "prima facie case" that it was "reasonable" not to treat the workers as employees.[27] According to the Senate Finance Committee report (provided the employer has cooperated with the IRS in furnishing any requested information) a prima facie case means a mere showing that one of the safe harbors listed in § 530 applies. Also, in the case where an employer tries to apply the "any other reasonable basis" safe harbor(number 4 above), the burden may not be easily shifted to the IRS. The burden also shifts to the IRS to determine whether the employer has treated anyone holding a substantially similar position as an employee. The SBA of 1996 also requires, that before raising the worker(s) classification issue in an audit, the IRS must furnish an employer with written notice of the provisions of § 530.[28]

LEASED EMPLOYEES

Leased employees are used by businesses, including small businesses, in an attempt to remove a particular group of workers from the employer's regular payroll and thereby avoiding any benefit package costs. As an example, Komputer Kompany uses a facilities management firm to operate its data center, since it does not have the expertise to do so or a desire to pay employee benefits to this group of workers. Under the right set of conditions these workers could be treated as employees of the facilities management firm, not Kompute Kompany. The new tax law provisions tighten-up the requirements to avoid being considered common law employees of the end user of the worker's service.

Under the SBA of 1996, an employer will not be required to treat a worker as a leased employee unless the individual's services are performed under the "primary direction and control" of the *recipient* employer.[29] This replaces the prior test which stated that leased employees were entitled to benefits (e.g., health insurance) if the services were of a type "historically performed" by employees of the recipient. This change reduces the risk to an employer that a leased employee will be entitled to employee benefits.

According to Congressional Committee Reports, factors to be considered in determining if an individual is under the "primary direction or control" of the recipient taxpayer include whether the individual is subject to direct supervision and whether the individual must perfom services in a manner dictated by the recipient. A recipient may exercise "primary direction or control," by directly supervising an individual, although the recipient does not have the power to hire or fire the individual, the individual works for another employer, or another employer pays the individual's wages and withholds employment and income taxes.

Example. Bob works full-time in the accounting department of Very Small Corporation of America (VSCA). However, he is actually an employee of Temp Inc. which pays his wages, withholds employment and income taxes, and can terminate him. Bob is subject to the direct supervision and day-to-day control of VSCA and must perform services required by VSCA. If Bob has been on the job for a substantial period of time he is considered a leased employee of VSCA and is entitled to the same benefits as regular employees of VSCA (if any).

EXPENSING QUALIFIED SMALL BUSINESS ASSETS

For many years small businesses have been able to immediately expense a limited amount of the cost of capital assets acquired during a year, instead of depreciating them over several years (capitalization). A key requirement in this situation is that the assets involved be in-service tangible personal property (i.e., no real estate). The SBA of 1996 increases the amount that can be expensed annually from $17,500 to $25,000.[30] The increase will be phased-in according to the schedule in Table 2.

Example. Betty is a self-employed individual. During 1997 she purchases and places into service $22,000 of equipment used in her business. She may elect to expense $18,000 of the $22,000 in 1997.[31] The remaining $4,000 is written-off under regular tax depreciation rules (MACRS).

Table 2

YEAR	ANNUAL LIMITATION
1997	$18,000
1998	$18,500
1999	$19,000
2000	$20,000
2001	$24,000
2002	$25,000
2003 on	$25,000

WORK OPPORTUNITY TAX CREDIT

The 1997 Act extends the Work Opportunity credit to wages paid to a qualified individual who begins work on or after September 30, 1997, and before June 30, 1998.

Under the 1997 Act, the revised credit is 25 percent of the first 400 hours of employment and 40% for 400 or more hours of employment, assuming the employee works at least 120 hours. The credit applies to wages paid during the one-year period beginning on the day the individual begins work. Note, for targeted group employees hired after September 30, 1996 and before October 1, 1997 the credit was 35 percent of wages paid during the first year of employment, up to maximum wages of $6,000.

The target groups that are eligible for the credit are:

- a qualified welfare recipient
- a qualified veteran
- a qualified ex-felon
- a high-risk youth
- a vocational rehabilitation referral
- a qualified summer youth employee
- a qualified food stamp recipient
- a supplemental Security Income (SSI) recipient

An employer can qualify by obtaining written certification of the target group status before the individual starts work, or can submit a completed prescreening notice within 21 days after the employment date. In addition, the employer must reduce any tax deduction for salaries paid by the amount of any credit claimed.

Example. On October 15, 1997, a business hires a certified employee from one of the targeted groups. The employee is paid $6.00 per hour and works 300 hours during 1997. The credit for 1997 is $450 (25% x ($6.00 x 300 hours)). The deduction for wages paid in 1997 would be $1,350 ($1,800 - $450).

LIFE INSURANCE POLICY LOANS

Under the SBA of 1996, a deduction is not allowed for interest paid or accrued on any indebtedness used to acquire life insurance policies or annuity or endowment contracts owned by the taxpayer that cover any individual who is an officer, employee, or anyone financially interested in any trade or business carried on by the taxpayer.[32] There is no exception for any variation in the aggregate amount of debt on the policies or contracts covering the individual. There is an exception (i.e., the same as prior law) for interest on indebtedness on life insurance policies that cover up to 20 "key persons." A key person is an individual who is either an officer or a 20 percent owner of the taxpayer. The number of individuals that can be treated as key persons may not exceed the greater of

(1) five individuals, or
(2) the lesser of 5 percent of the total number of officers and employees of the taxpayer or 20 individuals.

Also, any interest paid or accrued on life insurance contract debt covering a key person after December 31, 1995 is deductible only to the extent the rate of interest does not exceed Moody's Corporate Bond Yield Average-Monthly Rate for Corporate bonds for each month interest is paid or accrued.

Example. Black Corporation has three qualified "key employees." The corporation borrowed $100,000 and used the proceeds to buy single premium life insurance on the key employees. The interest rate on the loan is 10 percent, therefore the corporation pays $10,000 (10% of $100,000) interest in 1996. For 1996, assume Moody's Corporate Bond Yield Rate averaged 9 percent. The deduction for interest on this key employee life insurance loan is limited to $9,000 (9% of $100,000) because the actual interest exceeded the limited based on Moody's Corporate Bond Rate.

MEDICAL SAVINGS ACCOUNTS

Medical Savings Accounts (MSAs) represent an experiment in the 1996 tax laws. The law allows for the creation of up to 750,000 experimental medical savings accounts for employees. To do this, the employer must purchase a high deductible (and low cost) major-medical policy for each employee and combine it with a medical savings account funded by the employee. The employee's contributions to the medical savings account are not income and any costs to the employer are deductible. The experiment was designed to determine if some significant medical coverage could be provided as an alternative to current medical coverage such as health insurance and HMOs.

One of the tax law changes in 1996 that is not a *business tax* provision per se is the Medical savings account. The Health Insurance Portability and Accountability Act (HIPAA) of 1996 creates a four-year "test" of these new medical savings accounts.[33] The MSA is basically an IRA used for medical expenses. The test, in theory, is limited to about 750,000 health insurance policies. For the four-year test period, personal contributions to an MSA are deductible and employer contributions to an MSA are excludible from income (and wages for social security purposes). Earnings accumulated in the MSA are not taxed nor are distributions for medical expenses either taxed or penalized. Withdrawals for other than medical expenses are includible in income and are subject to an additional 15 percent penalty tax. Distributions after age 65, death, or disability are not penalized, but are included in income.

Example. Bill has a qualified Medical Saving Account. After meeting the required deductible of the plan, the plan pays $1,200 of Bill's qualified medical expenses in the current year. The $1,200 payment is not income to Bill and is not reported on his tax return.

Qualifications

Starting in 1997, MSAs are available to the self-employed who buy a high-deductible health insurance plan or to employees being provided similar coverage by a "small business" employer. The law defines a small business employer as one with no more than 50 workers. The law provides relief for businesses that once qualified to provide MSAs but then grew to employ up to 200 workers. To qualify as part of a tax-preferred MSA plan, a health insurance policy must have a deductible amount of $1,500 to $2,250 for individual coverage and $3,000 to $4,500 for family coverage. Out-of-pocket expenses (the deductible plus any copayments) cannot exceed $3,000 for individual coverage and $5,500 for family coverage. After 1998, these amounts will be indexed for inflation.

Limits

Annual MSA contributions, either by the employee or employer, are limited to 65 percent of the deductible for individuals and 75 percent of the deductible for families. The law requires insurance companies or financial institutions offering MSAs to periodically report to the IRS the total number of MSAs established. Those reports must be filed twice in 1997 and once a year from 1998 through 2000. If the IRS determines that the number of MSA policies will exceed 750,000 by year's end, then it will publish guidance restricting future use of MSAs to current self-employed participants and to those who work for employers currently offering MSAs. Only self-employed workers who participated in an MSA anytime between 1997 to 2000, and those who work for employers who had established an MSA before 2000, may make contributions to an MSA after 2000. This provision is effective for tax years beginning after December 31, 1996.

Example. Joan has self-only coverage under a Medical Saving Account high deductible health plan with an annual deductible of $1,800. The annual contribution limit is 65% of $1,800 ($1,170), and the monthly contribution limit is $97.50 ($1,170/12). If Joan is only eligible for an MSA for the last eight *months of the year (i.e., April to December), the contribution limit for the year is $780 (eight months x $97.50).*

CONCLUSION

A number of changes in the tax law of interest to many small businesses are discussed in this paper. In addition, there were other tax law changes made in 1996 that are not discussed in this paper, because of space limitations, or because they would only be of interest to a small number of taxpayers. Nevertheless, when these issues are present, small business owners should work closely with a CPA or tax advisor to make sure that they receive the full benefit of any tax law change for which they are eligible.

CITATIONS

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5. § 1361(b)(1)(A).
6. § 1361(c)(1).
7. § 1361(c)(2)(A)(v).
8. § 1361(b)(1)(B).
9. § 1361(b)(3).
10. § 1362(f).
11. § 1377(a)(2).
12. § 1362(g).
13. Schwanhausser, Mark, "Big Plans for Small Business," The San Diego Union-Tribune, May 13, 1997, Section C, p.1.
14. § 408(p)(1).
15. § 408(p)(2)(A)(ii).
16. § 408(p)(2)(B).
17. § 408(p)(3).
18. § 72(t)(6).
19. § 408(p)(5)(C).
20. § 401(k)(11)(A).
21. § 401(k)(11)(B).
22. For Example see IRS Pub. 15A.
23. Taxpayers may not rely on a prior audit for tax years after 1996 unless the audit examined the employment tax status of the workers involved.
24. Revenue Act of 1978, § 530(a)(2).
25. Revenue Act of 1978, § 530(e)(3).
26. Revenue Act of 1978, § 530(e)(2)(B).
27. Revenue Act of 1978, § 530(e)(4).
28. Revenue Act of 1978, § 530(e)(1).
29. § 414(n)(2)(C).
30. § 179(b)(1).
31. Betty's taxable income has to be at least $18,000 for her to get the 1997 maximum expense allowance.
32. § 264(a)(4).
33. § 220(a).