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Client Alert: Financial Crisis Update 3

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The Senate last night overwhelmingly approved (75-24) the same form of the bank bailout bill that failed in the House of Representatives on Monday after Senate Democratic and Republican leaders agreed to attach it to an unrelated tax bill which contains over \$100 billion in tax benefits. Senate leaders also agreed to add one provision to the bailout bill that temporarily raises the cap on FDIC insurance on bank deposits to \$250,000 per account. The increase in the FDIC insurance limit had been endorsed by both Senator Obama and Senator McCain and had been requested by the FDIC after the House failed to pass the bill on Monday.

- **AMT Patch** - The bill would extend an expiring provision of law that prevents the Alternative Minimum Tax from applying to millions of middle class taxpayers. This provision alone will cost the Treasury \$78.8 billion in lost revenue in fiscal year 2009.
- **Research and Development Tax Credit** - The bill would extend the R&D tax credit through the end of fiscal year 2009 at a cost of \$8.4 billion. The R&D tax credit had expired at the end of calendar year 2007 and its renewal has been a major legislative priority for the business community.
- **Deductibility of State Sales Taxes** - The bill would also extend another expiring tax provision that allows taxpayers in states without an income tax (Texas, Florida) to deduct state sales taxes instead. This tax provision is especially important to several Texas members of the Republican Study Committee who were largely responsible for defeating the bank bailout bill in the House on Monday.

In addition, Senate leaders added \$3.3 billion in federal aid to rural schools to the tax bill to attract support from Western lawmakers from both political parties who voted against the bill.

The Senate-passed version of the bank bailout bill is expected to be voted on by the House on Friday. While passage of the bill is not yet assured, its prospects have brightened considerably since Monday. In addition to the \$100 billion in "sweeteners" added to the bill by the Senate, Tuesday's announcement by the SEC that it would clarify its

mark-to-market rules was greeted with enthusiasm by House conservatives who had sought to change the mark-to-market rules during the initial negotiations over the bill last weekend. The political environment also changed after the Dow Jones Industrial Average dropped a record 778 points after the bank bailout bill was defeated in the House on Monday. Constituents who saw their 401(k) accounts lose \$1.1 trillion in value in a few short hours suddenly stopped calling their Members of Congress to oppose the bailout and began calling to demand that Congress do something to prevent an economic meltdown. Finally, the business community in the form of the U.S. Chamber of Commerce, the National Federation of Independent Business, the National Association of Home Builders and other trade associations mounted a massive lobbying campaign aimed at the members of the House who voted against the bill on Monday. All of these developments now make it likely that the bank bailout bill, as modified, will be passed by Congress by the end of the week and signed into law by President Bush by Monday.

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