



New Breaks for Small Businesses

The 2010 Small Business Jobs Act enacted September 27, 2010 includes an assortment of incentives and tax breaks for small businesses. The following is a brief overview of some of the key provisions included in the new law. Watch for additional details in future newsletters.

- Cell Phones No Longer Listed Property - This means that cell phones can be deducted or depreciated like other business property, without the complicated recordkeeping required for listed property. This is effective for tax years beginning after Dec 31, 2009.
- Business Owners' Health Insurance Deduction Reduces Self-Employment Tax - The new law allows business owners to deduct the cost of health insurance incurred in 2010 for themselves and their family members in calculating their 2010 self-employment tax.
- Boosted Deduction for Start-up Expenditures – For 2010, businesses can deduct up to \$10,000 (was previously \$5,000) in trade or business start-up expenditures. However, the \$10,000 limit is reduced by the amount by which start-up expenditures exceed \$60,000 (was previously \$50,000).
- Increased Small Business Section 179 Expensing – Small business taxpayers can elect to write off the cost of certain capital expenses in the year of acquisition in lieu of recovering these costs over a period of years through depreciation.

For tax years beginning in 2010 and 2011, the new law allows a taxpayer to expense up to \$500,000 (up from \$250,000 under prior law) of qualifying property which includes machinery, equipment and certain software placed in service during the year. For 2010 and 2011, the annual expensing limit is reduced by the cost of qualifying property that is placed into service during the year exceeding the \$2 million (was \$800,000) investment limit.

- Certain Real Property Can Be Expensed – The new law also makes certain real property eligible for Sec 179 expensing. For property placed in service in any tax year beginning in 2010 or 2011, the up-to-\$500,000 deduction of property expensed can include up to \$250,000 of qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property).
- 50% Bonus First-Year Depreciation Extended - Businesses normally can only deduct the cost of capital expenditures over time through depreciation—most commonly at the rate of about 14% or 20% of the cost of machinery or equipment for the first year. For 2008 and 2009, businesses were permitted to write off 50% of the cost of new machinery and equipment placed in service during those years. In the new law, Congress extends the first-year 50% write-off to qualifying property placed in service in 2010 (2011 for certain property).
- General Business Credits for 2010 Can Be Carried Back 5 Years – Under the new law, for the first tax year beginning in 2010 (2010 for calendar year taxpayers), eligible small businesses (ESB) (generally one with \$50 million or less in average annual gross receipts for the prior three years) can carry back unused general business credits for five years. ESBs include sole proprietorships, partnerships and non-publicly traded corporations.

- o General Business Credits of Eligible Small Businesses in 2010 Aren't Subject to AMT - Under the Alternative Minimum Tax (AMT) rules, taxpayers can generally only claim allowable general business credits against their regular tax liability, and only to the extent that their regular tax liability exceeds their AMT liability. A few credits, such as the credit for small business employee health insurance expenses, can be used to offset AMT liability. The new law allows eligible small businesses, as defined above, to use all types of general business credits to offset their AMT in tax years beginning in 2010.
- o Other Provisions With Limited Application – Calculations of the built-in gains tax on S-Corporations converted to C-Corporations, special rules for long term contract accounting and limitation on the penalty for failure to disclose certain reportable transactions (including listed transactions) on a return.

If you have questions related to any of these new tax benefits or wish to schedule a tax planning appointment to see how your business might benefit, please give this office a call.

New Penalties for Failure to File or Furnish Information Returns

Tax law requires businesses to provide information returns, such a 1099s, to each payee that the business has paid \$600 or more for the year. The law also includes penalties for failure to file the same information returns with the IRS.

To ensure compliance with these requirements, there are substantial penalties, and, as part of the recently passed Small Business Jobs Act of 2010, those penalties have been doubled. The penalties are generally based upon how late the returns are filed with the IRS or provided to the recipient of the income and are broken down into three tiers:

- Tier 1** – Where the returns are filed or provided late but within 30 days of the prescribed due date.
- Tier 2** – Where the returns are filed or provided more than 30 days after the prescribed due date and before August 1 of the calendar year in which the filing was required.
- Tier 3** – Where the returns are filed or provided after August 1 of the calendar year in which the filing was required.

In addition, the maximum penalties for the year are based on business size determined by the business's gross receipts. Businesses with gross receipts of \$5 million or less are subject to the small business penalty maximums.

The following table shows the penalties for information returns required to be filed in 2010 and those imposed for returns required to be filed after 2010.

	Small Businesses		General	
	Filings in 2010	Filings after 2010	Filings in 2010	Filings after 2010
Tier 1	\$15 (Max \$25,000)	\$30 (Max \$75,000)	\$15 (Max \$75,000)	\$30 (Max \$250,000)
Tier 2	\$30 (Max \$50,000)	\$60 (Max \$200,000)	\$30 (Max \$150,000)	\$60 (Max \$500,000)
Tier 3	\$50 (Max \$100,000)	\$100 (Max \$500,000)	\$50 (Max \$250,000)	\$100 (Max \$1,500,000)

In addition, the minimum penalty for each intentional failure-to-file act increases from \$100 to \$250.

Rental Owners Included in the Reporting Requirement Effective in 2011 – Effective for 2011 filings due in 2012, the 2010 Small Business Act provides that solely for purposes of filing information returns, a person receiving rental income from real estate will be considered to be engaged in a trade or business of renting property. Thus, recipients of rental income from real estate generally are subject to the same information reporting requirements as taxpayers engaged in a trade or business. In particular, rental income recipients making payments of \$600 or more to a service provider (such as a plumber, painter, or accountant) in the course of earning rental income are required to provide an information return (typically Form 1099-MISC) to IRS and to the service provider. The new law does provide the IRS with the ability to permit exceptions to the filing requirement for hardship cases and when minimal rental income is received, but neither “hardship” nor “minimal” are yet defined.

In order to comply with these requirements and avoid these substantial penalties requires collecting the payee’s name, SSN number and contact information before making payment. If you need assistance setting up a procedure for collecting the required information or filing your information returns for the year, please give this office a call.

Time is Running Out for the Home Energy Property Credit

Planning to make an “energy-saving” improvement to your home? 2010 is the final year to take advantage of the tax credit available so you will need to act quickly as there are only three months left. Whether you simply want to cut your utility bills or winterize your home, do it soon!

The name “Home Energy Property Credit” given by Congress is not as descriptive as it could have been and is easily confused with other credits. This credit is for energy-saving improvements to a taxpayer’s **principal** residence. The credit is limited to \$1,500 (30% of up to \$5,000 of qualified expenditures) for improvements made in 2009 and 2010. So, if you claimed this credit in 2009, the maximum that can be claimed in 2010 is the \$1,500 maximum less any amount claimed in 2009.

Qualified improvements, the use of which must originate with the taxpayer, must have a reasonable expected life of at least five years, and include:

- o Energy-efficient **Exterior Windows and Skylights**,
- o Energy-efficient **Exterior Doors**,
- o Energy-efficient **Metal Roofs** with appropriate pigmented coatings,
- o Energy-efficient **Asphalt Roofing** with appropriate cooling granules,
- o Energy-efficient **Heating Systems**,
- o Energy-efficient **Air Conditioning Systems** and
- o **Insulation Materials or Systems** designed to reduce heat loss or gain.

Credit is not allowed for on-site preparation, assembly or the installation of the component. It is a non-refundable personal credit; thus, the credit can only be used to bring your tax (including the alternative minimum tax) down to zero. Any excess is not refundable and cannot be carried over to a subsequent year.

Each manufacturer must comply with the government’s established standards for the product to be qualified as “energy-efficient.” And each manufacturer who meets those standards will provide a written certification that the product meets the definition of

qualified property under IRC Sec 25C. Taxpayers cannot simply rely on an Energy Star label in claiming the Sec 25C credit for exterior windows and skylights.

Reliance on the certification is allowed only if installation of the component is consistent with the certification (for example, the item must be installed in the appropriate climate zone identified in the certificate statement).

Caution - At the time this article was prepared, it was uncertain if this credit will offset the alternative minimum tax (AMT). The law allowing it to offset the AMT in prior years expired for years after 2009 and will require Congressional action to extend.

Don't confuse this credit with the "Residential Energy-Efficient Property Credit" which also provides a 30% tax credit for energy-generation installations (such as solar, fuel cells, geothermal and wind energy). That credit offsets the AMT, is available through 2016, and has no annual maximum credit.

If you have questions related to this credit, please give this office a call.

Over-the-Counter Medication & Medical Reimbursement Plans

For many years, taxpayers have not been able to deduct as a medical expense on their tax return the cost of unprescribed over-the-counter medications. However, taxpayers with Flexible Spending Arrangements (FSA), Health Reimbursement Arrangements (HRA), Health Savings Accounts (HSA) and Archer Medical Savings Accounts (Archer MSA) could reimburse themselves for the cost of over-the-counter drugs, and, as a result, pay for the medication with tax-deductible dollars.

As part of the new Health Care legislation, that benefit will go away in 2011 and the cost of over-the-counter drugs, except for insulin, will no longer be reimbursable unless they are prescribed by a physician. This essentially puts those with the tax-favored FSA, HRA, HSA and MSA plans on an equal status with other taxpayers with respect to over-the-counter medication after 2010.

Taxpayers with these plans should, where appropriate, stock up on essential over-the-counter medication before the end of 2010.

Changing Seasons, Changing Prices

Changing the prices of your company's services and inventory items can solve one of two problems, depending on why you're looking for a solution. Say your materials suppliers have upped their prices. You may choose to increase your affected products to maintain your profit margin. Or maybe an item or service has not been moving well. A drop in price might trigger improved sales.

Those examples, of course, are simplifications of what needs to be a thoughtful, studied process. They're critical business decisions that should be made with the guidance from your trusted ProAdvisor. We are experts that don't just know QuickBooks: We understand the flow of profit and loss, and we can be valuable allies in your march towards continued growth.

We'll explore the tools that QuickBooks offers to help simplify price changes once your decisions have been made. They're not overly difficult to use, but we can help ensure that your intentions are carried out accurately. And there are related inventory issues that may be impacted by your modifications.