

Small Business Jobs Act of 2010

On September 27, 2010, President Obama signed The Small Business Jobs Act of 2010, which includes \$12 billion in tax benefits. In an effort to spur spending on capital investments, the Act includes several depreciation incentives benefits, as well as items targeted to small- and mid-sized businesses. Some of the key points of the legislation include:

DEPRECIATION INCENTIVES

- The 50 percent bonus depreciation on qualified property will apply to property placed in service during 2010. Qualified property continues to be new assets with a useful life less than 20 years.
- In certain cases assets with a life of 10 years or longer may take bonus depreciation in 2010 and 2011
- Transportation property is also eligible for bonus depreciation in 2010 and 2011
- Up to \$500,000 of assets placed in service in 2010 and 2011 may be expensed in the current tax year. The benefit begins to phase-out at \$2 million and is completely gone at \$2.5 million in asset additions.
- Qualified leasehold improvements and restaurant and retail property will qualify for immediate deduction in 2010 and 2011 up to \$250,000.
- The first year business-auto write-off is increased by \$8,000 for vehicles that are qualified property for bonus depreciation purposes, i.e. are new, acquired, and placed in service in 2010.
- Employer-provided cell phones and similar telecommunications equipment will no longer be listed property after 2009, i.e. they can be deducted or depreciated without the strict business use substantiation.

SMALL BUSINESS TAX BREAKS

- Eligible small businesses with a general business credit generated in 2010 may now use the credits to offset AMT. Any unused credit may then be carried back five years instead of one.
- Qualified small business stock acquired after September 27, 2010 and before January 1, 2011, may be sold in five years completely tax free.

DECOSIMO CAN HELP

Decosimo is committed to helping you make sense of tax legislation and how it affects you and your business.

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SMALL BUSINESS TAX BREAKS (continued)

- C corporations that convert to S corporation status have to pay a corporate level tax on “built-in gains” recognized during any of the first ten years of its S corporation life. This 10-year built-in gain period is now shortened to seven years for gains recognized in 2009 and 2010. Further, the bill shortens the recognition period to five years for gains recognized in taxable years beginning in 2011. The shortened recognition period sunsets at the end of 2011 and ten years become the norm again.
- Health insurance costs will be deductible from income subject to self-employment tax for 2010.
- Deductible start-up expenses have been increased from \$5,000 to \$10,000 for active trade or businesses beginning with 2010. The deduction will be reduced for total start up expenses in excess of \$60,000.

OFFSETS (REVENUE RAISERS)

- The new law allows 401(k), 403(b), and governmental 457(b) plans to permit participants to roll their pre-tax account balances into a designated Roth account. If the rollover is made in 2010, the participant can elect to pay the tax in 2011 and 2012.
- Persons engaged in passive rental activities are required to send information returns to the IRS and to vendors for payments of \$600 or more made after 2010.
- The penalties for failure to file correct information returns will increase for returns required to be filed after December 31, 2010.
- Holders of annuity contracts outside of a tax-qualified retirement plan or IRA may elect to receive a portion of the contract in the form of a stream of annuity payments and leave the remainder to accumulate tax-deferred income.

DECOSIMO CAN HELP

Please contact us at your earliest convenience. Decosimo can help you realize the maximum benefits from the tax law for 2010, 2011, and the years going forward.

SMALL BUSINESS JOBS ACT OF 2010

Although the bill’s title makes it appear that it applies to small businesses only, individuals, self-employed, and mid-sized businesses can benefit from several of the provisions signed into law on September 27, 2010.

IMPORTANT CONSIDERATIONS

- Some benefits are time sensitive and must be acted upon by December 31, 2010.
- These provisions affect individuals, LLCs, partnerships, and corporations.
- Some depreciation benefits apply to businesses of any size.

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