Congress recently passed the 2010 Small Business Jobs Act which includes a wide-ranging assortment of tax breaks and incentives for small business. We are writing to give you an overview of some of the provisions of this new law. Please call our office if you would like more details on how the new changes may affect your specific business.

Section 179 expense Business taxpayers can elect to write off the cost of certain capital expenditures — generally, machinery, equipment and certain software — in the year of acquisition in lieu of recovering these costs over time through depreciation. Under pre-2010 Small Business Jobs Act law, taxpayers could expense up to $250,000 of qualifying property placed in service during the tax year. Under this new law, for tax years beginning in 2010 and 2011, the $250,000 limit is increased to $500,000.

The new law also makes certain real property eligible for expensing. For property placed in service in any tax year beginning in 2010 or 2011, the up-to-$500,000 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).

Extension of 50% bonus first-year depreciation Businesses are allowed to deduct the cost of capital expenditures over time according to depreciation schedules. In previous legislation, Congress allowed businesses to more rapidly deduct capital expenditures of most new tangible personal property, and certain other new property, placed in service in 2008 or 2009, by permitting the first-year write-off of 50% of the cost. The new law extends the first-year 50% write-off to apply to qualifying property placed in service in 2010.

Increase in first-year expense limit for passenger automobiles The IRS imposes dollar limits on the depreciation deductions and the Code Sec 179 expensing deduction that can be claimed with respect to passenger automobiles. Generally, for passenger automobiles placed in service in 2010 the adjusted first-year limit is $3,060, or $3,160 for automobiles built on a truck chassis. The 2010 Small Business Act provides that these limits are increased to $11,060 and $11,160 respectively for automobiles placed in service during 2010.

Boosted deduction for start-up expenditures The new law allows taxpayers to deduct up to $10,000 in trade or business start-up expenditures for 2010. The amount that a business can deduct is reduced by the amount by which startup expenditures exceed $60,000. Previously, the limit of these deductions was capped at $5,000, subject to a $50,000 phase-out threshold.

S corporation holding period Generally, a C corporation converting to an S corporation must hold on to any appreciated assets for 10 years following its conversion or face a business-level tax imposed on the built-in gain at the highest corporate rate of 35%. This holding period is reduced where the 7th tax year in the holding period preceded the tax year beginning in 2009 or 2010. The 2010 Small Business Jobs Act temporarily shortens the holding period of assets subject to the built-in gains tax to 5 years if the 5th tax year in the holding period precedes the tax year beginning in 2011.

Deductibility of health insurance for the purpose of calculating 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.

OFFSETS (Revenue Raisers)

Information reporting required for rental property expense payments For payments made after Dec. 31, 2010, the new law requires persons receiving rental income from real property to file information returns with IRS and service providers reporting payments of $600 or more during the tax year for rental property expenses. Exceptions are provided for individuals renting their principal residences on a temporary basis (including active members of the military), taxpayers whose rental income doesn't exceed an IRS-determined minimal amount, and those for whom the reporting requirement would create a hardship (under IRS regs).

Allow rollovers from elective deferral plans to designated Roth accounts 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. The amount of the rollover will be includible in taxable income except to the extent it is the return of after-tax contributions. If the rollover is made in 2010, the participant can elect to pay the tax in 2011 and 2012. Plans will be able to allow these rollovers immediately as of date of enactment.

Please keep in mind that these are just the highlights of some of the more important changes in the new law. If you would like more details about any aspect of the new legislation, please do not hesitate to call our office.

Very truly yours,

The SSA P.C. Team