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Your Accounting for a New Economy

New Legislation Provides Tax Breaks for Small Businesses

Is your company taking advantage of all tax breaks The American Recovery and Reinvestment Act of 2009 (ARRA) entitles them to? The new legislation, which was signed into law this year, provides many new tax breaks small business can and should make the most of.

Below are just some examples of the tax breaks aimed at small businesses:

- **Bonus Depreciation** – Small businesses have the option of depreciating an additional 50% of the adjusted basis on property bought and placed into service in 2009. This is in addition to the usual depreciation that may be claimed for one year on qualifying property.
- **Credits instead of Bonus Depreciation** – Companies that do not claim bonus depreciation are permitted under the new law to accelerate a portion of their AMT and research & development (R&D) credit carryovers for qualifying property placed in service in 2009.
- **Enhanced Section 179 Expensing Rules Extended** – In an extension of the 2008 stimulus legislation, the law allows small businesses to expense up to \$250,000 of Section 179 property in 2009. The amount that may be expensed is reduced if the cost of the Section 179 property placed in service in 2009 exceeds \$800,000. If purchases exceed \$1,050,000, Section 179 expensing is not allowed.
- **Expansion of the Work Opportunity Tax Credit (WOTC)** – The WOTC provides businesses that hire members of certain “targeted groups” with a tax credit of up to \$2,400 per employee. Under the ARRA the WOTC has broadened its provisions to include unemployed veterans, “discounted youth” – defined as young people between the ages of 16 and 25 who have not been regularly employed or in school over the previous six months. These additional categories apply to new hires who being work in 2009 or 2010.

- **Net Operating Loss Carry Backs of Up to Five Years** – Before the ARRA businesses were generally allowed to “carry back” net operating losses to the previous two tax years, which may generate a tax refund for a preceding year. Now, small businesses that average less than \$15 million in gross receipts over the past three years will be allowed to carry back 2008 losses for up to five years. However, the normal carry back of two years will apply for losses incurred in 2009.
- **Discharge of Indebtedness** – Under the new law, certain companies that buy back their debt at a discount in 2009 and 2010 only will be allowed to defer taxes until 2014 and then recognize the deferred debt in income ratably over the next five years.
- **Enhanced Breaks on Sales of Small Business Stock** – The ARRA allows investors to exclude 75% of the gain from the sale of certain small business (a company with assets less than \$50 million and conducts active trade or business) stock that has been held for five years or more. This is an increase of 25% over what was previously allowed. To qualify, the stock must be purchased after the date of enactment and before January 1, 2011.
- **S Corporation Built-In Gains Tax Relief** – For tax years beginning in 2009 and 2010, ARRA shortens, from 10 years to 7 years, the amount of time that an S corporation that has converted from a C corporation must hold on to its assets to avoid taxes on any built-in gains at the time of the conversion.
- **Extension of Green Energy Credits** – ARRA extends through 2013 existing renewable energy production tax credits for solar, biomass, geothermal, and certain other alternative energy forms. The credit for producing electric energy from wind is extended through 2012. The law also creates a new tax credit of 30% for certain renewable energy investments, up to \$2,000 for solar or geothermal installations, \$4,000 for wind, and \$500 for each one-half kilowatt of fuel cell capacity. The investment tax credit, currently available for 2009 and 2010 only, must be claimed in lieu of the production credit.

It can be difficult to decipher the sometimes complicated intricacies of tax law. If you have any questions about the ARRA and the tax benefits available for you company do not hesitate to contact Brad Gross, Tax Partner at 214-461-1406 or by email at bgross@lgt-cpa.com.

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