Tax breaks intended to energize economy

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Sitting down with your accountant isn't always a cause for celebration, but small business owners have reason to be grateful for small mercies as they file their 2010 taxes.

That's because of the Small Business Jobs Act passed in September.

The biggest temporary change is an increase in bonus depreciation for assets purchased from 50 percent to 100 percent. Next year, it reverts to 50 percent, and it's set to expire in 2013, unless the Internal Revenue Service extends it.

Bonus depreciation applies to purchases made after Sept. 8, 2010, and before the end of 2011.

Depreciation must be taken during the tax year that the asset was purchased.

What's especially useful is that business owners can write off assets against other income even if their company has a net tax loss for the year, said Michael E. McDevitt, tax director at Colorado Springs accounting firm, BiggsKofford.

"I have several clients in industries that are slow right now, and they chose to buy equipment now and carry back the loss," he said.

Business owners can carry back a net operating loss for two years, and they can amend their 2008 or 2009 tax returns in order to get a tax refund.

Wondering why?

The idea is that increased depreciation stimulates the economy by encouraging business owners to buy new equipment now, even if their business didn't do well last year.

Another tax item that can really help business owners for the 2010 filing season is Section 179 expensing, said Judy Kaltenbacher, tax partner in charge at the city's largest accounting firm, Stockman Kast Ryan & Co.

This item, however, requires business owners to have net income for the tax year in which they use it.

For the 2010 and 2011 tax years, business owners can expense up to $500,000 worth of equipment on $2 million in assets used for the business.

Items that qualify include computer equipment or tangible personal property such as desks or other furniture. Real estate doesn't qualify, but some leasehold improvements will. Check with your tax advisor for details, of course.

After 2012, this reverts to only $25,000 in equipment costs one maximum of $200,000 in assets placed in service.

"This is a rare opportunity for larger businesses and smaller ones to expense more than usual," Kaltenbacher said.

Other opportunities for the 2010 tax year:

Self-employed tax break: In 2010 only, for self-employed people who pay health insurance, taxes are reduced.

"The amount of health insurance they pay reduces the amount of income that's subject to tax," Kaltenbacher said.

Start-up costs: In another boon for the current tax year, the amount of allowable start-up costs has doubled. For the past few years, business owners could deduct the first $5,000 in start-up costs, but for 2010, small business owners can expense up to $10,000. For 2011, it reverts to $5,000.

"For small businesses, this will pretty much cover most of their start-up costs," Kaltenbacher said.

Small businesses and Form 1099

Many in the industry think the Internal Revenue Service will repeal a recently passed requirement that significantly increases the burden on small businesses to file more Form 1099s. For now, however, it behooves small business owners and owners of rental property to keep track of their purchases.

As the law stands, owners of rental property must file a Form 1099 for all service providers at that property. For instance, if a plumber or painter or carpet cleaner provides services within one year that cost more than $600, each provider has to be sent a Form 1099.

And small business owners must file a Form 1099 if they spend more than $600, at say, an office supply store.

For businesses, the law already required the form for service providers, but not for supplies or property. And there’s a penalty for not filing the form.

To make it worse, businesses need to obtain Employer Identification Numbers from merchants or Social Security numbers from people hired to provide services.

“If this doesn’t get repealed, there will be a lot of people — and a lot of mom-and-pop businesses at the end of 2011 — who don’t have the information for this reporting,” Kaltenbacher said.

Credit for health care premiums

Small business owners should check to see if they qualify for the small business tax credit for health care premiums paid by employers, but in McDevitt’s experience, very few employers do.

In order to get the maximum allowable tax credit of 35 percent, an employer can have up to 10 employees and average salary must be $25,000 or less.

If a company has 25 employees or the average salary is more than $45,000, then that employer doesn’t qualify at all.

“Only a handful of companies in the Springs will get the full 35 percent,” McDevitt said.

So far, he has calculated the credit for 50 companies this tax season, and none have qualified for the full amount. A few qualified for 1 percent or 2 percent of the cost of health care premiums paid.

He said business owners should concentrate instead on the opportunities provided by the temporary increased bonus depreciation and increased Section 179 expensing.

Tax tips for small businesses

Don’t just drop off paperwork with your tax adviser; he or she will need to know specific details about your business to figure out all the ways to save money on your taxes.

Find out if you qualify for the small business tax credit for health care premiums paid by employers.

Track expenses and have Social Security numbers or Employer Identification Numbers for the people or businesses from whom you buy supplies.

Own any rental property? Track expenses and get the necessary data for people or companies that provide services for the property, e.g. plumbing, painting, repair.

Look at your fixed assets. Need to replace something in the next couple of years? Now is the time to do it, with bonus depreciation temporarily increased to 100-percent.

Self-employed? Make sure to take your reduced payroll tax this year.

If you qualify, be sure to file Schedule M and take the Making Work Pay Credit.

Incentives you may have missed

Barrier removal deduction: Businesses may be able to take an annual deduction for expenses related to removing physical, structural and transportation barriers for people with disabilities.

Disabled access credit: This is a nonrefundable tax credit for an eligible small business that pays or incurs expenses to provide access to people with disabilities. The expenses must be incurred to make the small business compliant with the Americans with Disabilities Act.

Work opportunity credit: Provides businesses with an incentive to hire individuals from targeted groups that have a particularly high unemployment rate or other special employment needs. Example: vocational rehabilitation referrals, for individuals with a physical or mental disability that results in a substantial handicap to employment.

Source: DBTAC Rocky Mountain ADA Center, one of 10 regional centers funded by the National Institute on Disability and Rehabilitation Research, a division of the U.S. Dept. of Education.