

Year-end Tax Moves for Business Owners

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Small-business owners may also benefit from certain tax strategies implemented at the end of the year. Of course, any new legislation may have a substantial impact. Accordingly, here are several ideas to consider:

Section 179 deduction: Under Section 179 of the tax code, a business may “expense,” or currently deduct, the cost of qualified assets placed in service during the year. Due to recent tax legislation, the maximum Section 179 deduction allowed for 2010 is \$500,000. The Section 179 deduction is reduced on a dollar-for-dollar basis if the cost of assets placed in service exceeds \$2,000,000.

Section 179 deduction - Qualified real property expensing: For any tax year beginning in 2010 or 2011, a taxpayer can elect to treat up to \$250,000 of qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property) as expensing-eligible property. The dollar cap applies to the aggregate cost of qualified real property. This change applies to property placed in service after Dec. 31, 2009, in tax years beginning after that date. However, no amount attributable to qualified real property can be carried over to a tax year beginning after 2011, but to the extent that any amount cannot be carried over to a tax year beginning after 2011, the Code will be applied as if no Code Sec. 179 expensing election had been made for that amount.

Bonus first-year depreciation: 50% bonus first-year depreciation has been extended for one year, i.e., makes it available for qualifying property acquired and placed in service in 2010 (as well as 2011, for certain long-lived property).

Startup expenses: For tax years beginning in 2010, the deduction for startup expenses under Code Sec. 195 is increased from \$5,000 to \$10,000 and the phase-out threshold is increased from \$50,000 to \$60,000.

HIRE Act tax breaks: The Hiring Incentives to Restore Employment (HIRE) Act of 2010 creates two key tax breaks for employers: (1) The employer’s share of the 6.2% Social Security tax on wages is waived if you hire a “previously unemployed” worker; and (2) An employer may qualify for a special tax credit for retaining the worker. Both tax breaks are no longer available after 2010.

Travel: Travel expenses incurred by your employees—such as airfare, lodging and 50% of the cost of meals—may be deducted for business-related trips. When appropriate, move up business trips planned for January into December. This allows you to write off travel expenses on your 2010 return instead of waiting until 2011. Caveat: Unreimbursed travel expenses must be deducted as miscellaneous expenses subject to the usual 2%-of-AGI limit.

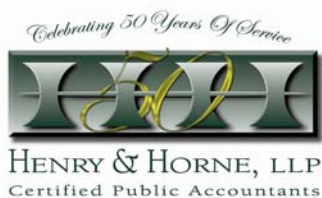
Bad business debts: In these uncertain economic times, a business may have difficulty collecting some debts. As a general rule, the bad debts of a business may be deducted from gross income when they become worthless. Business owners should keep records of all collection efforts, such as letters, telephone calls, e-mail communications and collection agency activities, to support deductions based on the worthlessness of the debts.

Repairs and improvements: Generally, if you simply repair a business asset, you may currently deduct the entire cost. In contrast, the cost of an improvement to business property must be capitalized. Try to take care of minor repairs before the end of the year to offset your taxable income for 2010. If you make repairs and improvements at the same time, the IRS may lump in the cost of the repairs with the improvements as a general betterment plan.

Section 199 deduction: A deduction under Section 199 may be claimed by a business entity with “manufacturing” activities. For 2010, the deduction equals the lesser of 9% (up from 6% in 2009) of either taxable income from qualified production activities or taxable income.

Tax planning cannot take place in a vacuum. Have the year-end tax strategies for your small business coordinated by your Henry & Horne, LLP tax professional.

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