

Business Owners Offered Broad Slate of Deductions

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This tax year presents new challenges and new opportunities for business owners. You are likely questioning how the increasingly confusing and ever-changing tax laws will affect you and your business. Couple this with the impact of the recent economic slowdown and it's no surprise that savvy business owners are looking for ways to reduce tax liabilities and preserve cash balances. There are several new or expanded deductions and other incentives that, depending on your specific situation, may help reduce the overall tax burden of your business for 2009 and 2010.

Here are some ways a business can ease its tax burden:

Enhanced Depreciation Deduction and Bonus Depreciation

The American Recovery and Reinvestment Tax Act of 2009 provides several incentives for business investment in capital and equipment. These provisions extended prior increases in the limitation on expense deductions for depreciable assets (Section 179) and the allowable 50% bonus depreciation on new equipment for the year it's placed in service.

More specifically, the Recovery Act extended the available expense deduction limitation under Section 179 of \$250,000, and the phase-out amount of \$800,000, through tax years beginning in 2009.

Bonus depreciation is also extended through 2009 (and through 2010 for certain longer-lived and transportation property). This increased benefit is still available to your business if you had investments in assets you placed in service during 2009.

Unless extended, the 50% bonus depreciation deduction is generally not available for assets placed in service in 2010. However, for tax years beginning in 2010, the Section 179 maximum expensing deduction and the beginning-of-phase-out amounts fall to an inflation adjusted \$134,000 and \$530,000, respectively, unless Congress extends the higher limits another year.

Extended Carryback Period

Many businesses have experienced losses in recent years. Although weathering a loss year can be difficult, the current tax rules surrounding net operating losses can provide some reprieve. Because of changes under the Recovery Act and the Worker, Homeownership and Business Assistance Act of 2009, businesses are allowed to carry back these losses to certain profitable years and generate an instant refund of prior taxes paid. This allows businesses of all sizes to carry back net operating losses for up to five years. In addition, the provision has been extended to net operating losses generated in 2008 or 2009.

Manufacturing Deduction

Code Section 199 allows for an often-overlooked deduction related to qualifying domestic-production activities. If you are engaged in production activities within the United States, this is a deduction of which you will want to employ. For 2009, the deduction was equal to 6% of the lesser of qualified production-activities income for the tax year or taxable income that does not take the deduction into account. The deduction cannot exceed 50% of W-2 wages allocable to domestic gross receipts. For years beginning in 2010, the deduction percentage increases to 9%. Typical industries that can benefit from this deduction not only include traditional manufacturing but also extend to the construction, engineering and architectural-service industries as well.

A Useful Energy Deduction

Congress has passed legislation to encourage property owners to build energy-efficient properties. The Emergency Economic Stabilization Act of 2008 extends these benefits through December 31, 2013, which means the deduction can be claimed for buildings placed in service after January 1, 2006 until that time. The deduction applies to improvements of a building's systems for interior lighting, heating, cooling, ventilation and hot water. It also can be applied for improvements made to a building's envelope.

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The deduction is part of a plan to reduce total energy and power costs of at least 50%. The tax deduction is up to \$1.80 per square foot for commercial property owners, architects, contractors, homeowners and home builders.

Research and Experimentation Tax Credit

More taxpayers are eligible for the Code Section 41 research and experimentation credit than take advantage of it.

Its complexity probably inhibits its use, especially small businesses. Calculating the tax credit is one of the most complex computations in the code, but it provides a benefit for qualifying research activities regardless of the size of the business.

There are several ways to compute the credit. Generally the credit is 20% of qualified research and experimentation expenses above a base amount. Alternatively, there are simplified rules that can be elected that reduce the benefit of the credit below the 20% amount but allow for more simplified computations and compliance needs.

This credit has expired for qualified activities performed after December 31, but there's a strong likelihood it will be extended as part of current federal legislation.

Work Opportunity Tax Credit

Recent modification to this credit has increased its benefit on an elective basis for employers who hire from targeted groups.

These populations include qualified Supplemental Security Income and food stamp recipients, qualified ex-felons, military veterans and others. The credit is available for workers who start before September 1, 2011. The maximum credit per eligible employee is generally \$2,400 (40% of the first \$6,000 of qualified first-year wages). For qualified summer youth employees, the maximum credit is \$1,200 (40% of the first \$3,000 of qualified first-year wages).

Business owners should consider these deductions and other incentives while completing 2009 tax filings as well as planning into the 2010 tax year. These deductions and incentives may not apply to all businesses. It's best to seek advice from a tax professional.



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