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Small Business Alert

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Tax-Savers for Businesses in the New Stimulus Law

The massive new “American Recovery and Reinvestment Act of 2009” hammered out by Congress—and signed by President Obama on Feb. 17, 2009—includes numerous tax breaks designed to help both individuals and small businesses. Generally, the tax provisions are retroactive to Jan. 1, 2009.

Tax Breaks for Businesses

Ramp up Sec. 179 deductions.

The new law preserves the higher Sec. 179 deduction limits for another year. A business can write off up to \$250,000 of qualified assets (including both new and used property) placed in service in 2009. Deductions are reduced on a dollar-for-dollar basis to the extent assets placed in service exceed \$800,000.

Prior to this new law change, the Sec. 179 deduction for 2009 was scheduled to be \$133,000 with a \$530,000 reduction threshold.

Add on bonus depreciation.

Similar to the enhanced Sec 179 tax break, an employer can claim 50% bonus depreciation for qualified new assets placed in service in 2009.

Carry back NOLs further.

Ordinarily, a business can carry back net operating losses (NOLs) for a period of two years. Under the new law, a small business with gross receipts of \$15 million or less can carry back NOLs for up to five years. This change applies to NOLs in tax years be-

ginning or ending in 2008.

As soon as the business files a 2008 return claiming an NOL, it starts the process of getting cash back.

Bypass bonus depreciation for credits.

Under the 2008 stimulus law, a corporation was allowed to take advantage of accumulated AMT and research credits in lieu of claiming bonus depreciation assets placed in service in 2008. The new recovery law extends this option through 2009.

A business can change an 2008 election to 2009 or make a 2009 election when no 2008 election was made. This differs sharply from previous IRS guidance.

Sidestep BIG tax for S corps.

The built-in gains (BIG) tax applies to C corporations converting to S corporation status. It hits the company if it disposes of appreciated assets acquired when it was a C corp. Normally, the holding period for assets subject to the BIG tax is ten years, but the new law shortens the period to seven years for conversions in tax years beginning in 2009 and 2010.

This tax change gives more flexibility to business owners who might benefit from a switch to S corp status.

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Hire more target-group workers.

An employer may claim a Work Opportunity Tax Credit (WOTC) of up to \$2,400 for each worker hired from one of several disadvantaged “target groups.”

The new law creates two new groups eligible for the credit. For 2009 and 2010, the WOTC covers unemployed veterans and “disconnected youth” between the ages of 16 and 24.

The WOTC was combined with the Welfare-to-Work Credit for individuals who begin work after Dec. 31, 2006, and before Sept. 1, 2011.

Scale back estimated tax payments.

The new law decreases the estimated tax installments required for individuals for 2009 if more than half of the income reported on the taxpayer’s ‘08 return comes from small business activities and last year’s adjusted gross income was less than \$500,000.

Instead of basing payments on 100% of the prior year’s tax, a 90% figure may be used. For this purpose, a “small business” is defined as a trade or business with an average of 500 or fewer employees.

The first quarterly installment for 2009 must be paid by April 15.

(The new tax breaks for individuals can be found in the April 2009 edition of *The Advisor* newsletter. Please visit our website for past issues of our newsletters:

<http://www.crisergoughparrish.com/newsletter.htm>)

Source: The Tax Strategist, March 2009

Pursuant to federal regulations imposed on practitioners who render tax advice (“Circular 230”), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

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