

SMALL BUSINESS JOBS ACT OF 2010

The Small Business Jobs Act of 2010 (SBJA) was signed by President Obama on September 27th, and it benefits more than just small businesses. It also provides tax-saving opportunities for larger businesses and individuals — including small-business investors, the self-employed and employees saving for retirement.

KEY CHANGES AFFECTING BUSINESSES

- ❖ **SECTION 179 EXPENSING** – SBJA helps small-business owners invest in their own businesses by increasing the Internal Revenue Code Sec. 179 expensing election limit. For tax years beginning in 2010 and 2011, the limit will now be \$500,000, with a dollar-for-dollar phaseout starting when purchases for the year exceed \$2 million.

SBJA also temporarily expands the definition of eligible property to include qualified leasehold-improvement, restaurant and retail-improvement property. The maximum amount of such property that can be expensed is \$250,000.

- ❖ **BONUS DEPRECIATION** – Another depreciation-related provision extends the special allowance for certain property, generally if acquired in calendar year 2010. Businesses can recover the costs of qualifying depreciable property more quickly by immediately deducting 50% of the cost. Bonus depreciation isn't subject to any asset purchase limits, so businesses ineligible for Sec. 179 expensing can take advantage of it.

Property that qualifies for bonus depreciation includes tangible property with a recovery period of 20 years or less, computer software purchased by the business, water utility property, and qualified leasehold improvement property.

- ❖ **OTHER KEY CHANGES** – Here are some additional changes businesses should be aware of:

- New five-year carryback of the general business credit,
- Increase in the start-up expenditures deduction,
- Shortening of the S corporation built-in gains period, and
- Removal of cell phones from the definition of "listed property" that's subject to tighter substantiation requirements and special depreciation rules.

KEY CHANGES AFFECTING INDIVIDUALS

- ❖ **EXCLUSION ON SMALL BUSINESS STOCK GAINS** – To make investing in certain small businesses more attractive, SBJA temporarily increases the qualified small business (QSB) stock gain exclusion. The exclusion will be 100% for stock acquired after SBJA's enactment date (that is, the date the president signs it into law) and before Jan. 1, 2011, that's held for at least five years. Additionally, the act eliminates the alternative minimum tax (AMT) preference item on such gain, making it tax free for AMT purposes as well.
- ❖ **SELF-EMPLOYMENT TAX** – If you're self-employed, SBJA permits you to deduct for 2010 self-employment tax purposes any costs incurred in 2010 for health insurance for you and your spouse, dependents and children age 26 or under.
- ❖ **ROTH 457(B) PLANS** – If you're a government employee who participates in a 457(b) plan, be aware that SBJA may allow your employer to start providing you the option to designate some or all of your contributions as Roth contributions. The contributions won't reduce your taxable income, but you won't have to pay any tax on qualified distributions.
- ❖ **ROLLOVERS TO ROTH ACCOUNTS** – Under SBJA, your 401(k), 403(b) or 457(b) plan may allow (but isn't required to allow) you to roll any portion of your pretax account balance into a Roth account. The amount of the rollover would be includible in your taxable gross income – except to the extent it's the return of any after-tax contributions. If the rollover is made in 2010, you can elect to pay the tax over a two-year period in 2011 and 2012.

HOW YOU CAN BENEFIT

Whether or not you're a small-business owner, you may be able to reap significant tax savings by taking advantage of the opportunities SBJA offers. We'd be pleased to help you determine exactly how you can benefit.