

Stu's View

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Tax Benefits for Small Businesses

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The American Recovery and Reinvestment Act of 2009 offers some advantages for printers. Take some time to read the Act and call a tax advisor, especially if you have made fixed asset purchases in 2008 or 2009, experienced a profit in the last 5 years, or hired a veteran recently.

We've helped our clients take advantage of several provisions of this Act, including:

- Depreciation: Section 179 and Section 168(k)
- Net Operating Losses (NOL) / Carry Back
- Work Opportunity Tax Credit (WOTC)

Depreciation:

Typically, tangible fixed asset purchases are tax deductible over 5 or 7 years. The government has enacted several ways for small businesses to expense purchases faster to accelerate the depreciation so that greater tax deductions can be taken in the first year of purchase. This can help reduce or eliminate your current year's tax bill.

IRS code Section 179 allows you to expense 100% of fixed asset purchases totaling up to \$250,000 in the first year for purchases in 2008 and 2009. This means that some or the entire fixed asset cost can be written off in the year of purchase, providing a tremendous tax advantage.

Fixed assets purchases above \$250,000 in cost can be expensed using typical depreciation laws until a threshold of \$800,000 is reached. For fixed asset purchases of \$800,000 or more, the initial \$250,000 allowance is reduced by \$1.00 for each dollar spent over the \$800,000 until it is completely phased out at \$1,050,000. The allowance will return in 2010 to its original level of approximately \$133,000.

But wait...there's more in 2009 if you also take advantage of Section 168.

Section 168(k), commonly referred to as “Bonus Depreciation,” allows for 50% of fixed asset purchases to be expensed in the first year (with no purchase limitation amount). After the first 50% is expensed, you can claim additional depreciation for Year One according to the normal depreciation schedule on the remaining purchase balance (the other 50%). Section 168(K) is for purchases made in 2009 and placed in service in 2009.

The Combo: Section 179 and Section 168(k) (Bonus Depreciation). For purchases over \$250,000 in one year, 50% of the balance after a Section 179 depreciation deduction can be expensed, plus typical depreciation, according to the normal depreciation schedule.

Let’s look at an Example:

	Company A	Company B	Company C
Taxable income before depreciation	\$550,000	\$550,000	\$ 550,000
2009 Equipment Purchases	250,000	700,000	2,000,000
Depreciation Expense			
Section 179 Depreciation	250,000	250,000	0
Section 168 Bonus Depreciation	0	225,000	1,000,000
Regular Depreciation (using 7 years)	0	32,153	142,900
Total Depreciation	250,000	507,153	1,142,900
Taxable Income (Loss)	300,000	42,847	(592,900)
Amt to be depreciated over the next 6 years	0	192,847	857,100

Net Operating Loss (NOL) Carry Back:

For companies (\$15 million in sales or less) that experienced a dip in sales due to the economy, an attractive feature may be the extension of the carry back period for net operating losses (NOLs). The NOL Carry Back allows businesses to carry back losses and spread them across previously profitable years. In the past, the law generally limited the NOL carry back period to two years. The stimulus package increased the carry back period to five years. The longer time period means that small businesses can carry back losses to previously profitable years and generate much needed tax refunds for an improved cash position. It was applicable to fiscal year taxpayers with calendar years ended in 2008, and for other non-calendar year taxpayers for either 2008 or 2009.

Work Opportunity Tax Credit (WOTC)

A third benefit worth exploring is the Work Opportunity Tax Credit (WOTC). This provision rewards employers that hire individuals from certain targeted groups, such as disabled veterans and economically challenged individuals. The stimulus package folds two more groups into the mix: unemployed veterans and disconnected youth. The credit may be applied to individuals who are hired and begin work in 2009 and 2010.

American Recovery and Reinvestment Act of 2009

These are just a few of the tax relief programs offered to small businesses through the American Recovery and Reinvestment Act of 2009. There are Small Business Loan incentives and other benefits to printing companies. As many companies have experienced the need for recent wage reductions, owners might want to explore tax benefits to employees as well, and then communicate them to staff. Overall, let's hope that the aggregate recovery plan works and stimulates the economy with positive impact for the printing industry.

To explore these and other programs in detail, visit www.irs.gov or www.margolisbecker.com.

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