Year-Round Small Business Tax Tips - Part 2

AMERICAN EXPRESS OPEN | APRIL 15TH, 2009 - 07:06 AM
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Small Business Tax Law Changes

Updates to the tax code are a way of life. This year, with so much economic turmoil, the changes are even more important to small business owners. Many of these modifications were recently signed into law as part of the American Recovery and Reinvestment Act of 2009.

We asked Brad Graves, CPA and Partner with Haskell & White LLP, an Irvine, California-based CPA and consulting firm, what tax changes business owners should be aware of for 2009 to ensure they take advantage of all available deductions.

Q: What are the new deductions small business owners should know about?

A: The American Recovery and Reinvestment Act has extended the 2008 increase in Section 179 deduction limits for depreciable property through 2009. The limit will remain at $250,000 ($285,000 if the business is in a qualified enterprise zone or renewal community), but it will drop back down to $125,000 for years beginning after 2009. In addition to Section 179, the Act extends the Bonus Depreciation provisions allowing taxpayers to deduct an additional 50% of the adjusted basis of qualifying depreciable property. Because of this, businesses should plan their asset purchases to maximize these deductions. It may be necessary to accelerate or defer asset purchases depending on the businesses circumstances. The depreciation limits on automobiles, trucks and vans have also been increased for the year.

Q: If a business has experienced losses, what tax breaks might be available?

A: The net operating loss carryback period has been extended for small businesses, defined as those with gross receipts of $15 million or less. Those businesses may carry back 2008 net operating losses for up to five years, where prior law generally allows only two-year carry back. Businesses with losses in 2008 may now go back to years that were otherwise closed — say, 2003 to 2005 — to claim refunds of federal taxes paid in those years.

Q: Are there any changes to the laws governing the sale of small business company stock?

A: A new 75% exclusion (rather than 50%) of gains from the sale of certain small business stock held for more than 5 years is also in place, for stock originally issued after the enactment date of the Act and before 2011. The taxable portion of the gain is taxed at the lesser of ordinary income rates or 28%. This provision is intended to spur investment in new businesses commenced in the next two years by offering a reduced tax liability upon sale of the business after holding for 5 years.

OPEN Tip: To simplify record-keeping and tax filing, keep your personal and business expenses separate. Start keeping track of business expenses with The Gold Card from American Express OPEN. Apply now and we'll waive the annual fee for the first year, a savings of $125.

The information in this article is intended as a reference tool. You should consult with your tax advisor as well. Time invested in tax planning and preparation can pay off in business savings and improved systems that can serve your company this year and in the tax seasons to come.

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