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How the Federal Stimulus Program Benefits Small Businesses

It's not too late to take advantage of the provisions for small businesses in the Obama administration's stimulus package.

When Congress put together the American Recovery and Reinvestment Act of 2009, better known as the federal stimulus package, it recognized that small business is a key driver of economic activity and a critical contributor to the economic recovery.

The stimulus package affects small businesses in a variety of ways. Here are some of the key provisions.

Depreciation and Section 179 changes

"These changes represent two of the significant business provisions in the act," says Brad Graves, a CPA with the Irvine, CA, firm of Haskell & White. "Businesses should plan their asset purchases to maximize these deductions, although it may be necessary to accelerate or defer asset purchases depending on the circumstances."

The stimulus package extended a 2008 increase in Section 179 deduction limits from \$125,000 to \$250,000 for depreciable property through 2009 (\$285,000 if your business is in a qualified enterprise zone or renewal community). The deduction limit will revert to \$125,000 after 2009, but in the meantime, you gain a tax advantage if you invest in property, including everything from real estate to off-the-shelf computer software.

In addition, the stimulus package extends the 2008 bonus depreciation allowance for certain property, Graves says, which means that you can deduct an additional 50 percent of the adjusted basis of qualified property, "after reduction for any Section 179 deduction but before regular depreciation." The depreciation limits on automobiles, trucks and vans have also been increased.

Net operating loss

If your business had gross receipts of \$15 million or less and a net operating loss in 2008, you can apply those losses over the past five years rather than the past two years. "That means businesses with losses in 2008 may now go back to 2003, 2004 and 2005 — years that were otherwise closed — to claim refunds of federal taxes paid in those years," Graves says, adding that this exception applies only to a net operating loss (NOL) generated in 2008.

COBRA insurance

One of the toughest areas for laid-off employees is the loss of health insurance. Originally, those employees were responsible for their entire health insurance premiums, but under the new legislation, they have to pay only 35 percent and you are responsible for the remaining 65 percent. However, you can claim a credit on payroll tax return Form 941 that is equal to the portion you paid. (Note: COBRA generally does not apply to plans sponsored by employers with fewer than 20 employees.)

Work opportunity tax credit

You may claim tax credits of up to \$2,400 per individual if you hire employees from two groups newly designated by the legislation: unemployed veterans and disconnected youths. "Qualified veterans are those discharged or released from active duty five years prior to their being hired," Graves says. "A disconnected youth is between 16 and 25 who hasn't been regularly employed or attended school in the past six months."

Stock gains

The stimulus package allows you to exclude 75 percent (up from 50 percent) of gains from the sale of certain small business stock held for more than five years, "as long as the stock was originally issued after the enactment date of the act and before 2011," Graves says. "This provision is intended to spur investment in new businesses commenced in the next two years by giving investors the opportunity for a reduced tax liability when they sell an interest in the business after the five-year period."

It's important to speak with a tax advisor to determine if these changes apply. Chances are that some part of the federal government's efforts to stimulate the economy will put money in your pocket.