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Thoughts

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Small businesses face both tax opportunities and challenges in 2010

As 2010 unfolds, small businesses are confronted with tax challenges and opportunities on many fronts. Lackluster consumer spending, combined with tight credit, has many small businesses in a holding pattern. Congress may respond with a new tax credit to encourage hiring. Small businesses are also faced with uncertainty over many temporary provisions in the federal Tax Code. Many of these incentives have expired. At the same time, small businesses are uncertain how health care reform, the fate of the federal estate tax and proposed retirement savings initiatives may impact them.

Hiring and retention tax credit

To encourage businesses to hire more workers, the Senate has passed a hiring and retention tax credit (Hiring Incentives to Restore Employment Act). The credit exempts employers from paying the 6.2 percent Social Security tax for qualified new hires up to the Social Security wage base of \$106,800. The new hire must have been unemployed for at least 60 days and added to the employer's payroll before January 1, 2011. Employers would also be eligible for an additional \$1,000 tax credit for each new hire that they keep on the payroll for at least 52 consecutive weeks. The House has not scheduled a vote on the Senate's hiring and retention credit and it is unclear if it will. The House approved a jobs bill late last year (Jobs for Main Street Act, H.R. 2847), which does not include a hiring and retention credit.

Extenders

Businesses may be surprised that some of the tax breaks they took in 2009 are not available in 2010. That's because many of these popular business tax incentives are temporary and they expired at the end of 2009. They include the research tax credit, 15-year recovery periods for qualified leasehold improvement, restaurant, and retail improvement property, enhanced corporate contributions to qualified organizations, special incentives for producers of alternative energy, and others. In December 2009, the House approved legislation extending these temporary business incentives through December 31, 2010 (Tax Extenders Act of 2009, H.R. 4213). The Senate, however, has yet to act on the House bill or vote on its own version of an extenders package. Traditionally, the extenders have been renewed but this year there is a chance that renewal may be later rather than sooner. High unemployment numbers have Congress focused on job creation. A growing number of lawmakers view many of the extenders as having little if any impact on immediate job creation in the private sector.

Expensing/bonus depreciation

Under a temporary provision expiring at the end of 2009, taxpayers could expense up to \$250,000 in annual investment expenditures for qualified property. The maximum amount that could be expensed for property placed in service in 2009 was reduced by the amount that the qualified property

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