

Tax Letter

Small Business Jobs Act 2010 (P.L. #111-240)

Dear Friends and Client,

The Act (H.R. 5297) was signed into law on 9-27-2010. It has three objectives: (i) Enhancement of SBA loan programs and other avenue for small business to access to credits, (ii) Enhancement of opportunities for small business export and international trade, and (iii) Tax provisions and Small Business relief. Since this is a tax letter, we chose to discuss the following key tax provisions before other areas of the new law.

The key Tax Provisions

(a) For tax years beginning in 2010 and 2011 - IRC Section 179 write-off will be increased to annual maximum \$500,000 subject to total annual acquisition of qualify business properties up to \$2,000,000. Further, it extended to cover qualify real property for a maximum write-off \$250,000 per year for 2010 and 2011. Qualify real property including qualify leasehold improvement, qualify restaurant property, and qualify retail improvement.

(b) For tax year 2010, the IRC Section 168(k) 50% bonus depreciation was revived for business use equipment and property placed in service during a taxable year after 12/31/2009.

(c) ESB (Eligible Small Business) general business credits derived at and determined for 2010 can be carried back 5 years to offset regular and AMT tax liabilities. ESB is any non publicly traded company, including corporation, partnership and sole proprietorship, for which the precedent 3 years annual average gross receipt equal to or less than \$50,000,000. General business credits refer to 36 different type of tax credits available for business according to IRC Section 38(b), such as work opportunity credit, low-income housing credit, disable access credit, renewable electricity production credit, employer social security tax credit, employer health insurance credit and various types of energy efficient credits, etc.

(d) The “built-in-gain” tax liability for “S” Corporations will be reduced from 10 years to 7 years for taxable years 2009 and 2010. It will further be reduced from 7 years to 5 years for taxable years 2011 only. It will return to 10 years beginning 2012.

(e) For 2010 only, the qualified small business start-up expenses deduction limit will be increased to \$10,000 subject to a \$60,000 income phase-out threshold.

(f) Additional Taxpayer burden to file annual Form 1099. The Health Reform Act increased the filing requirement for all Goods and Services exceeding annual \$600. It also eliminated the reporting exemption for payments made to large corporations. Further, this Small Business Jobs Act specifically extends the requirement to include “Real Property Rental”. Effective for payments made in 2011, Form 1099 must be prepared and file for each and every vendor, supplier, service provider, large or small, for any reasons including rental apartment, condo, etc.

In the next issue of our tax letter, we will make an attempt to summarize the enhancement made to various (SBA) Small Business Administration’s loan programs, a pilot project providing certain special small business line of credit guarantee, and the key element of another pilot project specifically designed to assist small business to develop export business and international trade.

Should you have any questions or wish to discuss the subject matter further, please give us a call at 415-381-0681.

Sincerely,

Cho F. Chan CPA, Inc.
An Accountancy Corporation