

MONTHLY NEWSLETTER - NOVEMBER 2010

For the benefit of clients and friends of the Firm,

***Small Business Jobs Act* brings fresh round of familiar tax breaks**

If you are a small business owner who thought all the best tax breaks were behind you, think again. The recently passed *Small Business Jobs Act of 2010* restores many familiar tax perks and adds a few new ones.

The new law extends the first-year 50% bonus depreciation rule that expired last year, and makes it retroactive to include qualified new equipment purchases made any time in 2010. Congress also expanded the Section 179 business expensing provision to allow a deduction of up to \$500,000 for purchases of new or used equipment in 2010 and 2011. The previous limit was \$250,000. What's more, under the old rule, the deduction was reduced for companies with annual equipment purchases above \$800,000. Now the threshold has been raised to \$2 million.

One very practical and welcome tax change is the removal of cell phones from the "listed property" category, which means you no longer have to meet strict recordkeeping requirements for your business use of a cell phone. You also no longer have to include the personal use of a business cell phone in an employee's income.

The *Small Business Jobs Act* expands the business tax credit carryback limitation from one year to five for private companies with gross receipts of no more than \$50 million. And capital gains tax on sales of qualified small business stock will be reduced to zero for original issue stock purchased by the end of 2010. However, you still need to hold the stock for five years to qualify.

If you start a new business this year, you might score an added tax perk. The annual start-up cost deduction of \$5,000 was raised to \$10,000 for 2010. The deduction is reduced dollar-for-dollar for any start-up expenses exceeding \$60,000.

For 2010 only, self-employed individuals can deduct health insurance costs from their self-employment income in computing self-employment tax.

Roth IRAs are back in the news. You probably knew that a traditional IRA could be converted into a Roth in 2010 with the resulting taxable income spread equally in 2011 and 2012. Now you can do the same thing with a 401(k), 403(b), or 457(b) plan if your retirement plan will allow it.

Waiting for the catch to all this good tax news? Here it is. The new law calls for even more information return filing and increased penalties for failing to file such information. Beginning in 2011, rental property owners will be required to report payments of \$600 or more made to goods and service providers.

The new small business tax law gives business owners a lot to think about and not much time to act. To maximize the benefits for your business, give our office a call today.

What to do if you get an IRS or state tax notice

The IRS plans to conduct more “correspondence audits” than it has in the past because the Service is finding that these audits produce more revenue than office and face-to-face audits. Correspondence exams can be as simple as asking about a tax return data discrepancy, correcting an error on a return, or asking for a missing form. But the IRS is also using these audits to focus on other issues, including such things as employee business expenses, the earned income credit, charitable deductions, and the tax credit for buying a home.

As states struggle with budget issues, they, too, are getting more aggressive in collecting taxes. One particular state issue is “use taxes.” Like sales tax, the use tax is assessed on items you purchase out of state and use in your home state. If you purchase items on the Internet from an out-of-state company or buy from Canada or overseas, you may be contacted about use taxes.

If you get a letter from the IRS or the state, contact us as soon as possible. Don’t ignore the correspondence because it will not go away. Let us know about the notice when you receive it. It is much easier for us to work with agencies and resolve the problem quickly if we’re involved from the beginning.

Reducing business overhead: How to fight the battle of the bulge

You may not realize this, but one of the best opportunities to increase your business’s bottom line can be found by reviewing its overhead. These expenses, consisting of mundane but necessary essentials such as office supplies, utilities, credit card processing and insurance, each have their own unique savings opportunities. Business owners and managers often get complacent and let these recurring items grow over time, eventually bloating their company’s overhead costs. So, how do you harness these potential savings opportunities to fight this overhead battle of the bulge?

Consider these practices as a way to cut your costs.

- 1) Get new bids from vendors in such competitive industries as credit card processing and shipping. They’ll be eager for your business, thus allowing you to negotiate better rates on these items.

- 2) Review insurance policies that may need updating. As your business's circumstances change over time, it is important to determine if you are over-insured or if certain types of coverage are not needed anymore.
- 3) Learn to buy strategically. Many common items used in your business can be purchased at deep discounts through wholesale clubs or trade associations which usually have pre-negotiated discounts on many goods and services.
- 4) Develop a cost reduction mindset and discard the flawed notion that profitability only comes through a sales-oriented strategy.
- 5) Involve all your employees. Those employees performing day-to-day tasks are often better equipped to spot money-saving opportunities. Offer a cash or time off reward to motivate employees.

Learn to be prudent and resourceful in managing your overhead, and you'll see immediate results in your bottom line.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

Respectfully submitted,

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