

Changes Affecting Small Businesses

Recent legislation includes changes that will affect small businesses in 2011. Here are some of the changes worth noting.

Depreciation

If you're a business owner, you probably know that you're allowed to deduct the cost of capital assets that you purchase for your business. Typically, part of the cost is deducted each year based on the useful life of the property, according to a depreciation schedule. Special rules allowed an accelerated "bonus" 50% first-year depreciation deduction for qualifying property placed in service during 2008, 2009, and 2010. This accelerated depreciation deduction is allowed for purposes of the alternative minimum tax (AMT) calculation, as well as for calculating regular tax.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 increased the bonus depreciation percentage allowed to 100% for qualifying property acquired and placed in service after September 8, 2010, and before January 1, 2012. This change enables business owners to significantly accelerate the deductions that result from new capital expenditures. (Note: one of the requirements for the accelerated depreciation deduction is that the "original use" of the property must commence in the specified time period--i.e., previously used property doesn't qualify.)

IRC Section 179 expensing

Internal Revenue Code (IRC) Section 179 allows you to elect to deduct (or "expense") the cost of depreciable tangible personal property that you acquired for use in your business in the year that you purchase it, rather than over time through depreciation deductions. As a result of legislation passed in September 2010, the maximum amount that can be expensed under IRC Section 179 for 2010 and 2011 increased to \$500,000 (reduced when the total cost of qualifying property placed in service during the year exceeds \$2 million). This legislation also temporarily expands the definition of property that qualifies for a deduction under IRC Section 179 to include some real property, including certain improvements made to nonresidential buildings and retail property, as well as qualified restaurant property. However, the maximum Section 179 expense limit that applies to real property is \$250,000.

Other considerations

- Health care reform legislation passed in early 2010 established a tax credit for small businesses that offer health insurance coverage to their employees. For 2011, the maximum credit is 35% of employer premium

- expenses. To be eligible for the credit, you must have the equivalent of fewer than 25 full-time employees for the year; average annual wages must be less than \$50,000; and you must contribute at least 50% of the premium cost of the qualifying health plan you offer to employees. (Note: The full 35% credit is available only if you have 10 or fewer full-time employees with average annual wages of \$25,000 or less.)
- New "simple cafeteria plans," created by the 2010 health care reform legislation, can be established starting in 2011 by businesses that have employed an average of 100 or fewer employees during the prior two years. If you're eligible, such a plan can allow you to offer valuable benefits to employees (e.g., group term life insurance, dependent care assistance program) while automatically meeting nondiscrimination rules that normally apply to cafeteria plans.
 - Beginning this year, many employers will begin reporting the cost of employer-provided health-care coverage on employees' W-2s for informational purposes only (this is optional in 2011, mandatory in 2012). While the amount reported is not included in employees' income, and will not affect their tax liability, you'll want to be prepared to answer employee questions.

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This article is written by Forefield, Inc.

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