



Recovery Act Tax Changes for Businesses

The American Recovery and Reinvestment Act of 2009 (commonly referred to as the Recovery Act), which was signed into law on Feb. 17, 2009, makes a number of beneficial changes for business. Here's a review of the more widely applicable provisions that could have an impact on you and your company.

Liberal expensing limits continued for another year.

The Recovery Act gives a one-year lease on life to enhanced expensing rules, which allow qualifying businesses the option to currently deduct the cost of business machinery and equipment, instead of recovering its cost via depreciation over a number of years. For tax years beginning in 2009, the maximum amount that a business may expense is \$250,000, and the expensing election begins to phase out when a business buys more than \$800,000 of expensing-eligible assets. These dollar limits are the same as those that were in effect for 2008.

Bonus first year depreciation extended for another year.

The Recovery Act extends for another year the ability for businesses to take an extra "bonus" depreciation deduction for the first year new assets are placed in service. The bonus first-year depreciation deduction generally equals 50% of the cost of qualified property (most types of tangible property other than buildings and their structural components, improvements to certain types of leased property, and most software) acquired and placed in service during 2009. Certain types of property with a long life, and certain types of aircraft, may be placed in service before Jan. 1, 2011 and still qualify for the 50% bonus first year depreciation allowance. Also, the Recovery Act increases the first-year depreciation deduction for business autos first placed in service in 2009 by \$8,000.

Extended election to speed up recognition of accumulated AMT and R&D credits instead of claiming bonus depreciation.

Many corporations are struggling and are not able to use the bonus depreciation tax break. A law enacted last year gave such corporations an alternative tax break. For tax years ending after Mar. 31, 2008, corporations otherwise eligible for bonus depreciation for qualifying assets placed in service in 2008 (or 2009 for certain longer lived

assets) could instead elect to accelerate recognition of part of their accumulated pre-2006 research tax credits or certain alternative minimum tax credits. The Recovery Act extends this election so that it is available for property placed in service in 2009 (or 2010 for certain longer lived assets). Please note that this alternative choice is highly specialized and requires a detailed analysis of a corporation's tax situation.

Deferred tax on debt forgiveness income when debt is repurchased.

A business generally will wind up with debt discharge income if it repurchases its debt for less than the outstanding amount of the debt. For debt that's repurchased in 2009 or 2010, if the taxpayer elects, the Recovery Act permits the tax that's owed on such debt discharge income to be paid over five years, beginning with 2014. For example: assume that in 2007 a taxpayer borrows \$20 million. In 2009, the taxpayer reacquires that debt for \$10 million and makes the proper election to include the income over a five-year period. The taxpayer realizes \$10 million of COD Income, but doesn't report that income in 2009. Instead, the taxpayer recognizes \$2 million of COD Income ($\$10 \text{ million} \div 5$) in each of the five tax years from 2014 to 2018, inclusive.

Small businesses may elect longer NOL carryback period.

In general, net operating losses (NOLs) may be carried back two years and forward 20 years. (Different rules apply for certain specialized types of losses.) For NOLs arising in a tax year beginning or ending in 2008, the Recovery Act permits small businesses to elect to increase the NOL carryback period from two years to three, four or five years. A small business for this purpose is a trade or business whose average annual gross receipts are \$15 million or less for the three-tax-year period (or shorter period of existence) ending with the tax year before the year in which the loss arose. The longer NOL carryback period gives small businesses that experienced losses the ability to get refunds of

income taxes paid in earlier years. The refunds can be used to fund capital investment or other expenses.

Bigger exclusion for sale of qualified small business stock. Before the Recovery Act, individuals could exclude 50% of their gain on the sale of qualified small business stock (QSBS) held for at least five years (60% for certain empowerment zone businesses). To qualify, a QSBS must meet a number of conditions (e.g., its gross assets can't exceed \$50 million and it must meet active business requirements). Under the Recovery Act, the percentage exclusion for QSBS sold by an individual increases to 75% for stock acquired after Feb. 17, 2009 and before Jan. 1, 2011.

Reduced estimated taxes in 2009 for individuals with small businesses. To the extent that tax isn't collected through withholding, taxpayers generally must make quarterly estimated payments of the "required annual payment." The required annual payment is the lesser of: (1) 90% of the tax shown on the return or (2) 100% of the tax shown on the preceding year's return (110% if adjusted gross income (AGI) for the preceding year exceeded \$150,000). The Recovery Act provides that for

a tax year beginning in 2009, the required annual payment for individuals with small businesses is the lesser of (1) 90% of the tax shown on the return for the tax year, or (2) 90% of the tax shown for the preceding tax year. An individual qualifies for this relaxed estimated tax payment rule only if: AGI on preceding year's return is less than \$500,000 (\$250,000 if married filing separately); and at least 50% of the gross income shown on the previous year's return was from a small trade or business (one that employed no more than 500 people, on average, during the calendar year ending in or with the preceding tax year).

More workers eligible for work opportunity tax credit (WOTC). Employers that hire workers from one or more targeted groups (e.g., long term family assistance recipients) can claim a tax credit that varies with the type of person hired. For individuals beginning work for the employer after Dec. 31, 2008, the Recovery Act creates a new targeted group for the WOTC, consisting of unemployed veterans and disconnected youth who begin work for the employer in 2009 or 2010.

For further information, please feel free to contact Cheryl Johnson at 203-222-3126 or cjohnson@levettrockwood.com.

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