

American Recovery and Reinvestment Act of 2009 Helps Small Businesses

Congress approved and the President signed new economic recovery legislation, the American Recovery and Reinvestment Act of 2009 (ARRA) two months ago. Here are some key tax highlights for small businesses and their employees:

Net Operating Loss Carry-back

Small businesses with deductions exceeding their income in 2008 can use a new net operating loss tax provision in ARRA to get a refund of taxes paid over the past five years instead of the usual two.

To accommodate the change in tax law, the IRS has updated Publication 536, **Net Operating Losses (NOLs)** for Individuals, Estates and Trusts, as well as the instructions for **Form 1045** and **Form 1139**, which small businesses will use to take advantage of the carry-back provision.

An IRS news release and question-and-answer document have more information on the net operating loss carry-back provision.

Technical information is contained in Revenue Procedure 2009-19.

Section 179 Deduction

A qualifying taxpayer can choose to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property.

Under ARRA, qualifying businesses can continue to expense up to \$250,000 of section 179 property for tax years beginning in 2009. Without ARRA, the 2009 expensing limit for section 179 property would have been \$133,000. The \$250,000 amount provided under the new law is reduced if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$800,000.

The new law does not alter the section 179 limitation imposed on sport utility vehicles, which have an expense limit of \$25,000.

More Help for Small Business

The Recovery Act also includes the following business-related provisions:

Reduction of Estimated Tax Payments: Normally, small businesses have to pay 110 percent of their previous year's taxes in estimated taxes. The Recovery Act permits small businesses to reduce their estimated payments to 90 percent of the previous year's taxes.

Extension of Bonus Depreciation Deductions Through 2009: Bonus depreciation is extended through 2009, allowing businesses to take a larger tax deduction within the first year of a property's purchase.

Capital Gains Tax Break for Investment in Small Business: Investors in small business who hold their investments for five years can exclude from taxation 75 percent of their capital gains.

Other Provisions for Employers and Employees

Increased Transportation Subsidy: Employer-provided benefits for transit and parking are up in 2009 (see related article; see first hyperlink group below).

Up to \$2,400 in Unemployment Benefits Tax Free in 2009: Individuals should check their tax withholding.

COBRA: Health Insurance Continuation Subsidy: The IRS has extensive guidance for employers, including an updated Form 941, as well as information for qualifying individuals.

First-Time Homebuyer Credit Expands: Homebuyers who purchase in 2009 can get a credit of up to \$8,000 with no payback requirement.

Enhanced Credits for Tax Years 2009, 2010: Details available on the earned income tax credit, additional child tax credit and American Opportunity Credit, a new higher education benefit.

Payroll Checks Increased This Spring: The Making Work Pay Tax Credit will mean \$400 to \$800 for many Americans. The IRS has issued new withholding tables for employers (see related article on withholding).

Money Back for New Vehicle Purchases: Taxpayers who buy certain new vehicles in 2009 can deduct the state and local sales taxes they paid. IRS

The IRS's American Recovery and Reinvestment Act of 2009 Web site <<http://www.irs.gov/newsroom/article/0,,id=204335,00.html>> at www.irs.gov/newsroom/article/0,,id=204335,00.html <<http://www.irs.gov/newsroom/article/0,,id=204335,00.html>> has more information and links to all of this information.

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