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Three Significant Tax Laws Passed: While we were busy preparing tax returns, Congress passed several tax laws with implications for many small businesses.

2010 HIRE Act: With relatively little fanfare, the Hiring Incentives to Restore Employment Act (the HIRE Act) became law on March 18, 2010. The legislation includes three business tax breaks intended to boost hiring along with a package of changes intended to tighten the screws on offshore transactions and entities that Congress thinks can be used to hide income and assets from the IRS. The business tax breaks include: **Section 179 Deduction Rules Extended through 2010; Temporary Employer Social Security Tax Exemption for Wages Paid to New Hires (see new Form W-11); and Temporary Tax Credit for Retaining Qualified New Employees**

The IRS posted Q&As for two of these new tax incentives authorized by the HIRE Act: (1) the payroll tax exemption for hiring unemployed workers, and (2) the business credit for retaining certain newly hired individuals in 2010. The Q&As, along with an IRS news release introducing these two new incentives, are available at www.irs.gov/businesses/small/article/0,,id=220745,00.html. Also, click here for more info and click here to read CCH's Tax Briefing on this law.

Patient Protection and Affordable Care Act of 2010 and Health Care and Education Reconciliation Act of 2010: As I'm sure you are aware, the recently enacted and highly publicized Health Reform legislation is massive and covers numerous areas, both tax and non-tax. Various provisions are scheduled to become effective immediately, while other become effective from 2011 through 2018. Click here for PPC's overview, which summarizes the major tax provisions affecting individuals and small to mid-sized businesses and is presented based on the timeline for when the provisions are scheduled to take effect. For CCH's Tax Briefing, click here, and click here for the Journal of Accountancy's review of the law.

For IRS' worksheet to determine if your small business is eligible for the Small Business Health Care Tax Credit see more information about the credit, including a step-by-step guide and answers to frequently asked questions.

Estate Tax Planning: For 2010, there is a one-year repeal of the federal estate and the generation skipping tax, and a reduction in the gift tax. Also for 2010, there is a new system that provides that for the first $1.3 million of assets, with an additional $3 million available for a spouse, there will be a step-up in basis to the fair market value on the date of death on an asset by asset basis, and any assets in excess of the $1.3 million will have what is called a "carryover basis." For those assets subject to the carryover basis rule, the heir will receive those assets subject to the basis being set at the lower of the fair market value at the date of death or the decedent's original cost basis, similar to the carryover basis rules that apply to gifts.

Although it hasn't happened yet, it is possible that Congress will reinstate the estate tax law retroactively to January 1, 2010, and remove the carryover basis rule.

Two actions to take now: 1) have an estate attorney review your will and trust documents to see if the language is appropriate for the current and potential tax situations, and 2) collect and record the ownership and tax basis information of all assets owned, e.g. residences, stocks, bonds, investments, artwork, and collectibles.

Roth IRA Conversion: Two advantages of Roth IRAs over traditional IRAs are that qualifying withdrawals from Roth IRAs are federal-income-tax-free and the original Roth account owner need not take required minimum distributions after reaching age 70 1/2, and so can pass the account's assets on to his or her heirs. Beginning this year, the $100,000 modified AGI restriction on converting a traditional IRA to a Roth IRA went away. This, coupled with lower IRA asset values, makes 2010 a great time for many people to make a conversion. According to a story appearing in the 2/5/10 *CPA Letter Daily*, 58% of the responding CPAs said that anticipation of higher future tax rates was the most likely trigger for 2010 conversions, and 54% are advising clients to pay tax on the Roth IRA conversion in full in 2010, despite the ability to defer the resulting income into 2011 and 2012.

2010 Cost-of-Living Limits

IRA Contribution Limit $5,000

IRA 50 & Over Catch-up Contribution $1,000

401(k) Deferral Limit $16,500

401(k) 50 & Over Catch-up Contribution $5,500

SIMPLE Deferral limit $11,500

SIMPLE 50 & Over Catch-up Contribution $2,500

Annual Compensation limit $245,000

Defined Contribution IRC Sec 415 limit $49,000

Compensation limit for SEP eligibility $550

IRC Section 179 $250,000

Estate Tax Exclusion Unlimited subject to New Carryover Basis Rules

Social Security Wage Base $106,800

2009 & Prior Years' Limits

2010 Standard Mileage Rates:

Business mileage rate **$0.50**

Medical & Moving mileage rate **$0.165**

Charitable mileage rate $0.14/mile

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Have a Question?

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