

# Doron F. Eghbali Tax Law

## Tax Relief for Your Business in 2010

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The Hiring Incentives to Restore Employment Act (the HIRE Act) went into effect on March 18, 2010. The HIRE Act includes some tax relief for businesses. Let us analyze some of its tax provisions.

### **2009 Tax Relief Extended for 2010**

The HIRE Act extends the maximum Section 179 deduction for qualifying assets placed in use in 2010 to \$250,000. Without the extension, the maximum Section 179 deduction would have been \$134,000. The HIRE Act is partly an extension of what Congress passed for 2009.

### **SOME DETAILS**

#### **1. DEPRECIABLE ASSETS UNDER SECTION 179**

Usually, you need to depreciate the cost of assets with useful life beyond one year over time. Nonetheless, Section 179 allows business owners to deduct the cost of qualifying assets as a one-time cost in a particular year. The maximum deduction, subject to some limitations, under Section 179 is \$134,000. However, with the HIRE Act, that figure has been increased to \$250,000.

#### **2. DEFINITION OF QUALIFYING ASSETS**

Qualifying assets under Section 179 include tangible assets such as:

- Computer
- Phone Systems
- Machinery
- Software
- Equipment

Note, real estate is not a tangible asset; and hence not a qualifying asset under Section 179. In addition, this list is not comprehensive.

#### **3. DEDUCTION FOR THE YEAR PUT INTO USE**

Section 179 deduction is applicable for the year in which you first put that asset into use. The great news for those whose business uses a fiscal tax year rather than a calendar year is that they have additional time to take advantage of Section 179 deduction.

## **EXAMPLE**

If you purchase a qualifying asset now and your next fiscal tax year starts August 2010, then you can take advantage of one \$250,000 for this current fiscal year and use another \$250,000 for the fiscal year starting August 2010 and ending July 2011.

## **4. CAVEATS**

### **a. THRESHOLD OF \$800,000 IN PURCHASE OF QUALIFYING ASSETS FOR A GIVEN YEAR**

This means that a business can take advantage of the \$250,000 for purchase of qualifying assets put into use this year, if the total amount of such purchase does not exceed \$800,000. Although this threshold is very generous, for every dollar above this threshold, a dollar is reduced from the \$250,000 deduction.

## **EXAMPLE**

Let us assume your small or medium-sized business put into use some old and new qualifying assets in 2010 for the total purchase price of \$950,000. This means you can only take advantage of \$100,000 of the available \$250,000. This is because you exceeded the \$800,000 by \$150,000. The \$150,000 dollar for dollar phaseout rule reduced your \$250,000 available deduction to \$100,000.

### **b. DEDUCTION ALLOWED TO THE EXTENT OF YOUR TAXABLE NET INCOME**

You are only allowed to take advantage of this \$250,000 to the extent of your taxable net income before the deduction. Section 179 does not allow you to create or increase your losses for a given year. So, if you had a loss in the prior year and this year, you are highly advised to discuss this with a competent tax professional.

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