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YEAR-END TAX PLAN MOVES FOR BUSINESS OWNERS

By Victor Sy, CPA

1. **Bonus Depreciation:** Put new business equipment and machinery in service before year end to qualify for new 100% bonus depreciation. This applies only for qualified property acquired and placed in service between September 9, 2010 and December 31, 2011. Prior law allowed 50% bonus depreciation.
2. **Expensing Allowance:** You may elect to expense \$500,000 of qualified depreciable property for 2011. You get to deduct the cost of the asset in 2011 instead of depreciating it over many years. The maximum amount will be reduced to \$125,000 beginning in 2012. The maximum amount is also reduced dollar-for-dollar by the amount of section 179 property placed in service in excess of \$2,000,000 (\$500,000 beginning in 2012).
3. **Differential Wage Payment Credit for Employers:** Eligible small business employers that pay differential wages can claim a credit of 20% of up to \$20,000 of differential pay. Differential wages are payments to employees who are called to active duty by the U.S. uniformed services for more than 30 days. Payments represent wages that they would have otherwise received from the employer (credit won't be available after Dec. 31, 2011).
4. **Payroll Tax Break:** If you hired in 2010 a worker who had been unemployed for 60 days or more, you were exempt from paying the employer's 6.2% share of Social Security payroll tax. If you kept that new-hire on payroll for a continuous 52 weeks, your business will be eligible for a nonrefundable tax credit of up to \$1,000 after the 52-week threshold is reached. This credit will be taken on your 2011 business tax return.
5. **Retirement Plan:** Set up a [self-employed retirement plan](#) to save taxes while you shelter funds for retirement.
6. **Empowerment Zone tax breaks:** The designation of an economically depressed census tract as an "Empowerment Zone" makes businesses and individual residents within the Zone eligible for special tax incentives, including the 20% wage credit liberalized Code Sec. 179 expensing rules, tax-exempt bond financing, and deferral of capital gains tax on sale of qualified assets sold and replaced. Empowerment Zone designations expire on Dec. 31, 2011.
7. **15-Year Writeoff for Specialized Realty Assets:** Qualified improvement property for leasehold, restaurant, and retail placed in service after Dec. 31, 2011, will **no longer be eligible for a 15-year depreciation** writeoff under MACRS. Instead, such property will have to be depreciated over **39 years**.
8. **Percentage Depletion:** For tax years beginning after Dec. 31, 2008, and before Jan. 1, 2012, the 100%-of-taxable-income limitation of percentage depletion for oil and gas from marginal wells applicable to independent producers and royalty holders owning interests in marginal wells is suspended. For tax years beginning on or after Jan. 1, 2012, the 100% of the taxable income limit returns for marginal wells.
9. **Alternative Vehicle Refueling Credit:** You may claim a 30% credit for the cost of installing qualified alternative vehicle refueling property for use in your trade or business (up to \$30,000 maximum per year per location). This credit won't apply to property (except for hydrogen refueling property) after Dec. 31, 2011.
10. **Basis In An S Corporation or Partnership:** Increase your basis to deduct a loss that would not be allowed for lack of basis. A partner's share of partnership losses is deductible only to the extent of his partnership basis as of the end of the partnership year in which the loss occurs. An S corporation shareholder can deduct his pro-rata share of an S corporation's losses only to the extent of the total of his basis in his S corporation stock, and debt owed to him by the S corporation.