

September 24, 2010
Small Business Jobs Act of 2010

Dear Clients and Friends:

The House passed H.R. 5297, the Small Business Jobs Act of 2010 (the "Act") on September 23. The measure had been previously passed by the Senate and is expected to be signed into law on September 27, 2010 by the President. The Act includes a number of important tax provisions, including: a liberalized and expanded expensing for 2010 and 2011, revived bonus depreciation for 2010, five-year carryback of unused general business credits for eligible small businesses and other important provisions.

Some of the major provisions are highlighted below:

Tax Breaks:

- Increases Section 179 expensing limitation for 2010 and 2011 to \$500,000 with a phase-out threshold of \$2 million.
- Allows taxpayers to expense up to \$250,000 of the cost of qualified leasehold improvements.
- Allows taxpayer to revoke a previous Section 179 election without IRS consent. This applies to any tax year beginning after 2002 and before 2012 (instead of before 2011, as under current law).
- Extends first-year 50% bonus depreciation through 2010.
- Increases first year business automobile write-offs by \$8,000 for vehicles that are qualified property for bonus depreciation purposes (this increases the first year write-off to \$11,060 for automobiles and \$11,160 for light trucks or vans).
- Increases the deduction for startup expenses from \$5,000 to \$10,000 for tax years beginning in 2010.
- Allows for 100% exclusion of gain from qualified small business (QSBS) stock. This would apply to gain from the sale of QSBS stock (a) acquired after the enactment date of the small business jobs act and before January 1, 2011, and (b) held for at least five years.
- Extends the carryback period for eligible small-business tax credits to five years for 2010.
- Reduces the recognition period for purposes of the tax on net recognized built-in gains of S corporations to seven years for taxable years beginning in 2009 or 2010 and to five years for taxable years beginning in 2011.

- Provides for deduction of health insurance costs in computing self-employment taxes in 2010.
- Removes cell phones (and similar telecommunications equipment) from the definition of listed property for tax years beginning after December 31, 2009.
- Limits the penalty for failure to disclose reportable transactions based on the resulting tax benefits.

The Act includes certain significant revenue raising provisions, including:

- Increased information reporting for rental property owners. Persons receiving rental income from real property will be required to file information returns with the IRS and to service providers reporting payments of \$600 or more during the year with respect to rental property expenses.
- Increased penalty for failure to file timely and correct information returns effective for returns required to be filed on or after January 1, 2011.
- Increased penalty for failure to furnish a payee statement.

Please keep in mind that we have described only the highlights of the most important changes in the new law. If you would like more details about any aspect of the pending legislation, please contact your GH&J tax advisor for further details at (310) 873-1600.

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