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by Associated Industries Member Guest Columnist
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2010 Tax Law changes impact businesses

The New Year brings several important new tax changes that may impact your business.

Combined Plans Allowed for Smaller Employers. For plan years beginning Jan 1, employers with 500 or fewer employees are now allowed to establish a combined defined-benefit 401(k) plan ("DB (k) plan").

Limitations and restrictions are similar to the defined benefit rules for the defined benefit plan component and the defined contribution rules for the defined contribution plan component. The 401(k) component has minimum matching contribution requirements and the participant must use automatic enrollment to qualify.

Standard Mileage Rate Changes. The optional automobile mileage allowance (including vans, pickups or panel trucks) decreases from 55¢ per mile to 50¢ per mile for business travel in 2010. Additionally, the mileage depreciation component increases to 23¢ per mile from 21¢ per mile.

The 50¢ reimbursement is treated as a tax-free accountable-plan reimbursement as long as employees substantiate the time, place, business purpose and mileage for each trip. Rates apply to employee owned or leased autos.

Domestic Production Activities Deduction (DPAD) Increased. The Section 199 deduction for domestic production activities increases to 9% for 2010 years (up from 6% for the 2009 tax year). This is the final increase of the DPAD which can result in an effective tax rate decrease of 3% for manufacturers who manufacture, produce, extract or grow a product. The deduction is also available for architectural firms.

Non-spouse Beneficiary Rollover Option Made Mandatory for Qualified Plans. Qualified retirement plans are *required* to offer non-spouse beneficiaries the opportunity to roll over an inherited plan account balance to an IRA set up to receive the rollover on the non-spouse beneficiary's behalf. Previously, plans had the *option* to offer non-spouse beneficiaries a rollover election.

Business Tax Incentives No Longer Available for 2010. Congress has let the following tax incentives expire.

- Additional first-year 50% bonus depreciation for qualified property has expired. The \$8,000 annual depreciation limit for qualified passenger automobiles also expired at the end of 2009.
- Maximum Section 179 Bonus Depreciation is reduced to \$134,000 from \$250,000; additionally, the benefit phase out reduces the deduction dollar-for-dollar for property placed in service during the tax year in excess of \$530,000 (previously \$800,000).
- The new energy efficient homes construction credit under Section 45L.

The following items have expired, but are in the Tax Extenders Act. Congress is expected to revive them when it approves that bill in 2010.

- Larger deduction allowance to corporations who donate computer equipment for educational purposes.
- Fifteen-year straight-line cost depreciation for qualified leasehold, restaurant building and retail improvements.
- Allowance of five-year depreciation for certain farming business machinery and equipment.
- Credit for eligible small business employers equal to 20% of the sum of differential wage payments to military reservists called to active duty.
- Capital gain real property incentive for contributions made for conservation purposes.
- The Research and Experimentation Tax Credit under Section 41.

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