THE
SMALLBIZ BUILDER

PADGETT
THE SMALL BIZ PROS

May 2010 PADGETT BUSINESS SERVICES® Vol. 8, No. 5

THIS MONTH:

Determining Insolvency

It is becoming common to experience debt relief in these challenging times. Debt relief is usually taxable if not relieved through bankruptcy proceedings. However, canceled debt is not included in income to the extent that you are insolvent immediately before the cancellation. You are insolvent if all of your liabilities exceed the fair market value of all of your assets. Because of the difficulty in determining insolvency, the IRS has developed a comprehensive insolvency worksheet. It can be found in the newly revised edition of Publication 4681, *Canceled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals).* The result can then be used to determine whether and to what extent your canceled debts are excluded from gross income.

HIRE Act

Recently signed into law, the “Hiring Incentives to Restore Employment Act of 2010” (the HIRE Act), includes several provisions of extreme importance to many businesses. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to contact our office.

Payroll tax holiday and up-to-$1,000 credit for employers who hire unemployed workers. To help stimulate the hiring of workers by the private sector, the new law exempts any private-sector employer that hires a worker who had been unemployed for at least 60 days from having to pay the employer's 6.2% share of the Social Security payroll tax on that employee for the remainder of 2010. As an additional incentive, the employer is eligible for an additional non-refundable tax credit of up to $1,000 for any qualifying worker hired under this initiative that is kept on payroll for a continuous 52 weeks. In order to be eligible, the employee's pay in the second 26-week period must be at least 80% of the pay in the first 26-week period.

Workers hired after Feb. 3, 2010 are eligible for the payroll tax forgiveness and the retention bonus, but only wages paid after March 18 receive the exemption for payroll taxes. Restrictions do apply, so check the law carefully. For example: these tax breaks do not apply to hiring family members.

Extension of enhanced small business expensing. The new law gives a one-year extension on enhanced expensing rules, which allow qualifying businesses the option to currently deduct the cost of business machinery and equipment, instead of recovering it via depreciation over a number of years. For tax years beginning in 2010, the maximum amount that a business may expense is $250,000, and the expensing election begins to phase out when a business buys more than $800,000 of expensing-eligible assets. These dollar limits are the same as those that were in effect for 2008 and 2009.

Robert W Anderson, E.A
144 Central Street, Suite 202
Gardner, MA 01440

Tell: (978) 632-2324
Fax:(978) 630-8691
email: Bob@PadgettGardner.com

Effective Dates for Major Tax Provisions of Health Care Laws

The Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 phases in tax changes over a span of eight years and contains key provisions of importance to both individual and business taxpayers. Below is an expected timeline for when certain tax-related provisions will become effective. Please call our offices for details of how the new changes may affect your specific situation.

2010

- 10 percent excise tax on indoor tanning services begins July 1.
- Adoptions tax credit is made refundable, effective Jan. 1, 2010; the thresholds for qualifying expenses are increased; and the adoption credit is extended through 2011.
- Forgiven student debts for certain medical professionals are excluded from taxable income beginning in the 2009 tax year.

2011

- Businesses must begin reporting the value of health care benefits on employees' W-2 statements.
- Money in flexible spending arrangements, health savings accounts, and other health reimbursement arrangements cannot be used for over-the-counter medicines unless they are prescribed by a doctor.
- The penalty for using health savings account funds for nonqualified uses will rise to 20 percent from 10 percent.

2012

- New information reporting is required for businesses making payments in excess of $600 over the course of a calendar year to corporations.

2013

- A new 0.9 percent surtax will be added to the 1.45 percent Hospital Insurance payroll taxes paid by individuals earning more than $200,000 per year or joint filers earning more than $250,000 per year.
- A 3.8 percent tax will be imposed on unearned income of individuals earning more than $200,000 per year ($250,000 for joint filers).
- The threshold for claiming medical expense deductions rises from 7.5 percent of adjusted gross income to 10 percent, but will remain at 7.5 percent of income for individuals 65 or older until 2016.
- Contributions to health care flexible spending arrangement will be limited to $2,500 as of Jan. 1, 2013.

Warranty Expense

If you purchase an extended warranty for an auto used for business purposes, the cost must be deducted over the life of the warranty. Take the full cost and divide by the number of months in the warranty period. Multiply the number of months the warranty was in effect for the year by the monthly amount. For example: You purchase a 2-year extended warranty on September 1. In the first year, you can only deduct 4 months of the total cost of the warranty. In year 2, 12 months of the cost can be deducted. If the auto isn't used 100% for business, you can only deduct the portion that applies to the business.