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New tax act provides opportunities and pitfalls

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The American Recovery and Reinvestment Act of 2009, enacted in February after much debate, modifies a number of tax provisions utilized by businesses. The act provides for potential tax savings in a number of areas, which are intended to help stimulate the economy. Highlights include the following:

*Certain small businesses can carryback net operating losses for five years. Prior to the passage of the act, the maximum carryback of net operating losses generally was two years. The new law extends the maximum carryback period for qualifying 2008 operating losses to five years for small businesses with gross receipts of \$15 million or less.

*The Act extends the bonus depreciation provision for qualifying property, which allows business to write off 50% of the cost of qualifying depreciable property acquired in 2008. Under the act, this immediate write off is extended to qualifying property that is placed in to service in 2009.

*The Act extends for 2009 provisions which allow small businesses to quickly recover the cost of some capital expenditures. For capital expenses incurred in 2009, small businesses can write-off \$250,000 in expenditures and the phase-out threshold for such expenses is \$800,000.

*The Act provides incentives to hire veterans and disconnected youth. Businesses are allowed to claim a work opportunity tax credit equal to 40% of the first \$6,000 of qualified first-year wages paid to employees of certain targeted groups. The Act expands this credit to include two new targeted groups: (1) unemployed veterans; and (2) disconnected youth. Individuals qualify as "unemployed veterans" if they begin work in 2009 or 2010, were discharged or released from active duty at any time in the five year period ending on the hiring date, and received unemployment compensation for more than four weeks during the year before being hired. Individuals qualify as "disconnected youths" if they are between the ages of 16 and 25, and have not been regularly employed or attended school in the past 6 months.

Taxpayers should consult their advisors regarding the impact of the new act on their businesses.

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