Vol. 71, October 2011

TAX LETTER

Business Tax Credits and Deductions Scheduled to Expire on Dec. 31, 2011

Dear Clients and Friends

Unless Congress do something, the following key business tax credits and deductions will expire at the end of 2011. Business taxpayers, if applicable, may want to take advantage of these tax provisions before their expiration. Otherwise, pay attention to the legislative development for possible extension of the expiring credits and deductions. This letter serves as a reminder only.

Expiring Tax Credits - include but not limit to the following:

Research Credit. In general, these are credits given to research expenditures spent on or before 12/31/2011. the credit amount equals to the sum of (1) 20% of excess, if any, of the qualified research expenses for the year over a base amount, (2) the basic research credit equals to 20% of basic research disbursement over the qualified organization base period amount, or (3) 20% of the taxpayer's expenditures paid for the qualified energy research undertaken by an energy research team and/or group. { IRC Sec. 41 (a) }

Work Opportunity Tax Credit (WOTC). The WOTC allows employers who offered employment to members of certain targeted groups to be benefited for a tax credit for a percentage of **1st year** "**wages"** up to $6,000 per employee hired from the targeted group. For hiring qualified veterans, the credit could be up to $12,000 per veteran hired. Further, for hiring qualified summer youth employees, the credit could be up to $3,000 per qualified summer employee. The term "**wages**" for this WOTC purposes means wages paid or incur by the employer for qualified employee(s) who began employment before 12/31/2011.
{ IRC Sec. 51(c) }

New Market Tax Credit (NMTC). Taxpayer who holds a qualified equity investment in a qualified community development entity (CDE) could be entitled to a NMTC. The credit amount is 39% of the qualified equity investment during a 7-year credit period. The 39% is spread out among these 7-year period, 5% each year for the first 3 years, and 6% each year for the following 4 years. However, the NMTC is subject to a national, annual total dollar limit. Currently, the last NMTC dollar limitation is for 2011, no more national/annual dollar limit has been approved for years subsequent to 2011.
{ IRC Sec. 45D(f) }

New Energy Efficient Home Credit (NEEHC). If qualify, a contractor can claim a NEEHC of $2,000 or $1,000 for each qualified new energy efficient home constructed/built by the contractor or acquired by a third party buyer for use as a residence during the tax year. The NEEHC will not apply to the Homes built or acquired after 12/31/2011. { IRC Sec. 45L }

Expiring Tax Deductions - include but not limit to the following:

Bonus Depreciation. The Bonus Depreciation for qualify business use properties (exclude real properties) acquired and placed in use from 9/8/2010 to 12/31/2011 is 100%. For qualify properties acquired and placed in service from 1/1/2012 to 12/31/2012, the bonus depreciation will be 50%. { IRC Sec. 168(k) }

Sec. 179 Expensing. A first year expensing of amount paid or incurred to acquire and placed in service qualify business properties (exclude real properties) is allowed. For qualify property acquired and placed in service from 1/1/2010 to 12/31/2011, the allowable maximum amount is $500,000 subject to a dollar-for-dollar phase out when total qualify properties acquired during the taxable year exceed $2,000,000. For qualified property acquired and placed in service after 12/31/2011, the annual expensing amount will be $125,000. The dollar-for-dollar phase out limit will be $500,000. Beginning 2013, the expensing amount and the phase-out limit will be annually indexed for inflation. { IRC Sec. 179 }

Qualify Real Properties. There are 3 type of real properties qualify for special tax treatments during 2010 and 2011. The property types are: (1) qualify leasehold improvement, (2) qualify restaurant property, and (3) qualify retail improvement. The special tax treatments are: (a) special $250,000 expensing , and (b) a 15-year depreciation write-off under MACRS. Beginning 1/1/2012, the $125,000 special expensing will no longer be allowed, and the length of depreciation write-off will be returned to 39 years.
{ IRC Sec. 179(f) and Sec. 168(e)(3) }

Enhanced Charitable Contribution Deductions (ECCD). Under ECCD, before 12/31/2011 expiration, C corporations are allowed an increased deductions for their donations of (1) wholesome food inventory for human consumption, (2) book inventory to public schools if donee certification requirements are met, and (3) computer equipment and/or technology to schools or libraries for use in U.S. and meeting the donee's specific educational purposes or functions. The amount of deduction allow will be the lesser of (a) donor's cost basis plus 50% of any appreciation, or (b) 200% of the cost basis of the property donated.
{ IRC Sec.170(e) }

S Corporation Charitable Contribution Incentive. This is a temporary incentive expiring 12/31/2011. Under this incentive, the shareholder of an "S" corporation will be distributed a charitable contribution deduction from the "S" corporation equal to his prorate share of the fair market value of the property donated. On the other hand, the same shareholder required to adjust his or her capital basis in the "S" corporation for an amount equal to his prorate share of the cost basis of the donated property. Without this incentive, the "S" corporation can only distribute the cost basis of the donated property as a charitable contribution deduction to the shareholder. This way, for the shareholder both the deduction amount and the capital basis adjustment amount will be the same. { IRC Sec. 1367(a) }

Any questions or further discussion, please give us a call at 415-381-0681 or 415-381-0683.

Sincerely

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