

Tax Changes Affect Your Business: Find Out How

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Your work as hard as you can. You toil long hours. You put your blood, sweat and tears into your business. And at the end of the day, you feel like too much of it goes to Uncle Sam. You're not alone. Federal taxes on business rank as the fifth largest problem to running a small business, according to NFIB's most recent *Problems and Priorities* survey of its members.

But as bad as it seems, it has been worse. Currently, our highest tax rate is 35 percent, much better than the 94 percent tax rate that was around during World War II, and even better than the 50 percent bracket that existed in 1982.

The good news is that by working with a professional tax preparer, you can find a way to shrink the chunk the government takes out of your business and your personal income. Small-business owners who attended the NFIB National Small Business Summit in Washington last week got the opportunity to learn about important tax code changes from Joey Musmar, a partner in the CPA firm Miller Musmar.

Recent legislation passed by Congress and signed into law by President Bush has brought positive changes to the tax code for small-business owners. Musmar highlighted several of these:

Section 179 Expensing

Section 179 allows small businesses to elect to deduct all or part of the cost of certain qualifying property in the year it is placed in service, instead of over a specified recovery period. But there are limits on the amount you can deduct in a year and on the types of properties that qualify. Before the changes were passed in 2002, you could only deduct \$25,000. That limit quadrupled and now stands at \$100,000. But beware; there is a threshold. After you've invested more than \$400,000 in qualifying property, the expensing fades out.

Vehicle Expensing

Much has been made in the media about the SUV deduction – that vehicles weighing more than 6,000 lbs. can be written off. But any car you use in your business qualifies for depreciation, and that amount recently increased from \$7,650 to \$10,710.

Bonus Depreciation

Some items you buy qualify for an extra write-off of 50 percent the first year after they're purchased. What qualifies for this sweet deal?

- ✦ Property with a depreciable life of 20 years or less
- ✦ Computer software, including off-the-shelf products
- ✦ Qualified leasehold improvement property
- ✦ Water utility property

But remember: Buildings and any used property still don't qualify for the deduction.

Unfortunately, as good as these options are, they won't last forever. Many recent changes to the tax code, including individual income tax rate reductions, all have expiration dates attached sometime between now and the end of the decade.

NFIB is fighting to make the increased limits and reduced rates permanent, and/or increase them. But as the provisions stand, you should plan to make all your large purchases before 2006 to enjoy the increased write-offs. Make sure you plan to hold onto your purchased goods at least five years, though. Otherwise, you'll be subject to depreciation recapture. You can help in the fight to make these tax changes permanent!