

Tax Changes for Small Businesses

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During 2010, new laws, such as the Affordable Care Act and the Small Business Jobs Act of 2010, created or expanded deductions and credits that small businesses and self-employed individuals should consider when completing their tax returns and making business decisions in 2011.

Health Insurance Deduction Reduces Self Employment Tax

With the enactment of the Small Business Jobs Act of 2010, self-employed taxpayers who pay their own health insurance costs can now reduce their net earnings from self-employment by these costs. Previously, the self-employed health insurance deduction was allowed only for income tax purposes. For tax year 2010, self-employed taxpayers can also reduce their net earnings from self employment subject to SE taxes on Schedule SE by the amount of self-employed health insurance deduction claimed on line 29 on Form 1040.

Taxpayers can claim the self-employed health insurance deduction if the insurance plan is established under their business and if any of the following are true:

- They were self-employed and had a net profit for the year,
- They used one of the optional methods to figure net earnings from self-employment on Schedule SE, or
- They received wages from an S corporation in which the taxpayer was a more-than-2-percent shareholder.

During tax year 2008, the most recent year for which data is available, the self-employed health insurance deduction was claimed on 3.6 million tax returns, reducing taxpayers' adjusted gross incomes by \$21 billion.

Small Business Health Care Tax Credit

In general, the Small Business Health Care Tax Credit is available to small employers that pay at least half of the premiums for single health insurance coverage for their employees. It is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate- and lower-income workers.

Small businesses can claim the credit for 2010 through 2013 and for any two years after that. For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible tax-exempt organizations. Beginning in 2014, the maximum tax credit will increase to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible tax-exempt

organizations.

The maximum credit goes to smaller employers — those with 10 or fewer full-time equivalent (FTE) employees — paying annual average wages of \$25,000 or less. The credit is completely phased out for employers that have 25 or more FTEs or that pay average wages of \$50,000 or more per year. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, employers that use part-time workers may qualify even if they employ more than 25 individuals.

Eligible small businesses will first use Form 8941 to figure the credit and then include the amount of the credit as part of the general business credit on its income tax return.

The IRS has developed a [page on IRS.gov](#) devoted to this credit with answers to frequently asked questions and with explanations of the credit through various tax scenarios.

General Business Credit for Employers

The general business credits of eligible small businesses in 2010 are not subject to alternative minimum tax. The new law allows general business credits to offset both regular income tax and alternative minimum tax of eligible small businesses as described in Section 2012 of the Small Business Jobs Act. The provision is effective for any general business credits determined in the first taxable year beginning after December 31, 2009, and to any carryback of such credits. For a list of the general business credits, see [Form 3800](#).

Small Businesses Can Benefit from Higher Expensing / Depreciation Limits

For tax years beginning in 2010 and 2011, small businesses can expense up to \$500,000 of the first \$2 million of certain business property placed in service during the year.

In general, businesses can choose to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property, after the relevant section in the Internal Revenue Code.

Section 179 property is property that you acquire by purchase for use in the active conduct of your trade or business, including:

- Tangible personal property.
- Other tangible property (except buildings and their structural components) used as:
 1. An integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services;

2. A research facility used in connection with any of the activities in (1) above; or
 3. A facility used in connection with any of the activities in (1) above for the bulk storage of fungible commodities.
- Single purpose agricultural (livestock) or horticultural structures.
 - Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
 - Off-the-shelf computer software.

Section 179 property generally does not include land, investment property (section 212 property), property used mainly outside the United States, property used mainly to furnish lodging and air conditioning or heating units.

The Small Business Jobs Act (SBJA) of 2010 increases the section 179 limitations on expensing of depreciable business assets for tax years beginning in 2010 and 2011 and expands temporarily the definition of section 179 property, for tax years beginning in 2010 and 2011, to include certain qualified real property a taxpayer elects to treat as section 179 property. Qualified real property means qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.

The \$500,000 amount provided under the new law is reduced, but not below zero, if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$2 million.

For tax years beginning in 2012, the maximum amount is \$125,000; before enactment of the 2010 tax relief legislation, it was set at \$25,000.

Depreciation limits on business vehicles

The total depreciation deduction (including the section 179 expense deduction and the 50 or 100 percent bonus depreciation) you can take for a passenger automobile (that is not a truck or a van) you use in your business and first placed in service in 2010 is increased to \$11,060. The maximum deduction you can take for a truck or van you use in your business and first placed in service in 2010 is increased to \$11,160. If you do not take any bonus depreciation for the passenger automobile, truck, or van you use in your business and first placed in service in 2010, the maximum deduction you can take for a passenger automobile is \$3,060 and for a truck or van is \$3,160.

50 or 100 Percent Bonus Depreciation

Generally, businesses can take a special depreciation allowance to recover part of the cost of

qualified property placed in service during the tax year. The allowance applies only for the first year you place the property in service.

Businesses that acquire and place qualified property into service after Sept. 8, 2010 can now claim a depreciation allowance of 100 percent of the cost of the property. The property must be placed in service before Jan. 1, 2012 (Jan. 14, 2013 in the case of certain longer-lived and transportation property). Businesses that acquire qualified property during 2010 on or before Sept. 8, 2010 can claim a depreciation allowance of 50 percent of the cost of the property. The property must be placed in service before Jan. 1, 2013 (Jan. 1, 2014 in the case of certain longer production period property and for certain aircraft.)

The allowance is an additional deduction you can take after any section 179 deduction and before you figure regular depreciation under MACRS for the year you place the property in service. The types of property that can be depreciated are described in [IRS Publication 946](#), How to Depreciate Property.

Small Businesses To Use EFTPS for Deposits Beginning in 2011

The paper coupon system for Federal Tax Deposits will no longer be maintained by the Treasury Department after Dec. 31, 2010. Most businesses must now make deposits and pay federal taxes through the Electronic Federal Tax Payment System (EFTPS).

Using EFTPS to make federal tax deposits provides substantial benefits to both taxpayers and the government. EFTPS users can make tax payments 24 hours a day, seven days a week from home or the office.

Deposits can be made online with a computer or by telephone. EFTPS also significantly reduces payment-related errors that could result in a penalty. The system helps taxpayers schedule dates to make payments even when they are out of town or on vacation when a payment is due. EFTPS business users can schedule payments up to 120 days in advance of the desired payment date.

Information on EFTPS, including how to enroll, can be found [on line](#) or by calling EFTPS Customer Service at 1-800-555-4477.

Some businesses paying a minimal amount of tax may make their payments with the related tax return, instead of using EFTPS. More details regarding taxes required to be deposited using EFTPS, dollar thresholds and other specific requirements are described on page 2 of [IRS Publication 15, \(Circular E\) Employer's Tax Guide](#).

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