Year End Tax Planning 2011 – Business

- **Capital Expenditures/Depreciation** – Businesses should consider making expenditures that qualify for the business property expensing option.

    - **Section 179** – For tax years beginning in 2011, the expensing limit is $500,000, the investment ceiling limit is $2,000,000, and a limited amount of expensing may be claimed for qualified real property. However, unless Congress changes the rules, for tax years beginning in 2012, the dollar limit will drop to $139,000, the beginning-of-phase out amount will drop to $560,000, and expensing won't be available for qualified real property. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most, if not all, of their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities.

    - **Bonus depreciation** – Businesses also should consider making expenditures that qualify for 100% bonus first year depreciation if bought and placed in service this year. This 100% first-year write-off generally won't be available next year unless Congress acts to extend it. Thus, enterprises planning to purchase new depreciable property this year or the next should try to accelerate their buying plans, if doing so makes sound business sense.

- **Work Opportunity Tax Credit (WOTC)** – Nail down a work opportunity tax credit (WOTC) by hiring qualifying workers before the end of 2011. Under current law, the WOTC won't be available for workers hired after this year. The credit is up to 40% of the first $6,000 of wages paid to each qualifying worker.

- **Enhanced Work Opportunity Tax Credit (WOTC)** – Under the new law, employers will be able to claim the WOTC for hiring qualified veterans who begin work for the employer before January 1, 2013. The new act also broadens the categories of qualified veterans.

- **Retirement Plans** – Establish a retirement plan prior to year end to take advantage of a possible small incentive. The tax law offers a small incentive of a $500-per-year tax credit for the first three years of a new SEP, SIMPLE, or other retirement plan to cover the initial setup expenses.

    Generally plans must be established before year end to qualify for a deduction in 2011. IRA's and SEP's (Simplified Employee Pension) are exceptions and generally must be funded by April 15, 2012.

Contribution limits for 2011 are as follows:

	401(k)	IRA	Simple IRA	Self-employed
Under age 50	$16,500	$5,000	$11,000	20% of income up to $45,000
Age 50 and over	$22,000	$6,000	$14,000	

- **Health Insurance Tax Credit** – As an encouragement for employers to offer health insurance to their employees, a federal tax credit is available to qualifying employers. A qualified employer has fewer than 25 employees and average annual wages of less than $50,000. The credit is up to 35% of the nonelective contributions made on behalf of employees for medical insurance. The calculation is based upon the average compensation and number of employees.

- **Losses from Pass Through Entities** – (S-Corporations/Partnerships LLCs, etc.) If you are an owner of a pass-through entity, and the business will incur a loss in 2011, review your "at risk" situation and consider increasing your basis before year end in order to take advantage of that loss on your personal tax return. The rules can be complicated, but there may be steps to take to deduct passive losses or increase your basis.

- **Dividends** – (C-Corporations) Consider paying a dividend. Profits of traditional C corporations are taxed twice: once when earned by the corporation, and again when distributed as a dividend to the shareholders. Many have seen the current 15 percent tax rate on qualified dividends as an opportunity to pay out accumulated earnings at relatively low tax rates. Although there is no deduction to the corporation, the dividend is taxed at the low rate of 15%. It is likely that the tax rate on dividends will increase in the future, so you may wish to consider the possibility of distributing profits to lock in the current 15 percent rate.