

## TAX AND ACCOUNTING UPDATE APRIL 2011

### Federal Tax Update - *What you need to know for 2011*

#### Corporate Tax Reform

Various proposals are being considered in Washington to revamp the US corporate tax code. The proposals aim to reduce the corporate tax rate, which is among the world's highest at 35%. However, any changes to the tax code are required to be "revenue-neutral," so cuts to the tax rate would need to be offset by eliminating or reducing allowable deductions and credits. Depending on which deductions and credits are affected, there will be winners and losers. Speculation is that manufacturers may be impacted by changes to accelerated depreciation for equipment, deductions for domestic manufacturing, and the R&D credit. Any reform will be challenging in the current political environment, and there is doubt as to whether any meaningful reform is possible before the 2012 elections. However, local manufacturers should stay informed of the impact of corporate tax reform proposals and ensure their interests are heard in Washington.

#### Tax Relief Act - Investment incentives for businesses through 2012

##### **Bonus Depreciation**

A bonus depreciation allowance had previously applied to certain property placed in service between January 1, 2008, and December 31, 2010. The Act extends and expands the bonus depreciation provisions by allowing taxpayers to claim a 100% bonus allowance on qualifying property placed in service after September 8, 2010, and through December 31, 2011. For qualifying property placed in service after December 31, 2011, and through December 31, 2012, the bonus depreciation allowance will be 50% of the basis of such property.

##### **Additional First-Year Expensing**

Business taxpayers may elect to deduct the cost of certain fixed assets placed in service during the taxable year under the section 179 "expensing" provisions. For 2011, the allowance is limited to \$500,000, but the limitation is phased out to the extent that the cost of qualifying property placed in service during the year exceeds \$2 million. Within this overall annual limitation of \$500,000, taxpayers can also deduct the cost of certain real property acquisitions up to \$250,000 per year.

##### **Energy Incentives**

The Act extends various energy incentives that would have expired.

1.800.745.8233

Web Site: [www.stambaugh-ness.com](http://www.stambaugh-ness.com)

Phone: 717.757.6999 • Fax: 717.757.4550

2600 Eastern Boulevard, Suite 101

York, Pennsylvania 17402-2916

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### Federal Tax Update (continued)

#### Hiring Incentives to Restore Employment Act

##### **Incentive to Retain Employees**

To encourage employers to retain new employees, the Act provides a new business tax credit with respect to each qualified retained employee. Qualified retained employees generally include those who were both hired between Feb 3 and Dec 31, 2010, and unemployed for 60 days prior to being hired. The credit is the lesser of \$1,000 or 6.2 percent of the wages paid to the retained employee during the 52-consecutive-week period.

#### Patient Protection and Affordable Care Act

##### **Small Business Health Care Credit**

The credit is targeted to help employers with low and moderate income workers afford to offer employees health insurance coverage. Generally, employers that have fewer than 25 full-time equivalent (FTE) employees and pay wages averaging less than \$50,000 per employee per year may qualify for the credit. For each year from 2010 through 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and can be claimed as part of the general business credit.

##### **1099 Reporting Update**

There has been much controversy about the potential compliance burden imposed on taxpayers by expanded 1099 reporting requirements. The Senate on Tuesday, April 5 passed legislation to repeal both the expanded Form 1099 information-reporting requirements mandated by last year's health care legislation and also new 1099 reporting requirements imposed on taxpayers who receive rental income. The comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (HR 4) was approved by the Senate by a vote of 87-12. The House of Representatives passed the bill on March 3, and since the House and Senate have approved the same version it now goes to President Barack Obama for his signature.

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### Accounting Update - Ongoing Projects

Private Company Financial Reporting: Historic change in financial reporting is on the horizon for many of the nation's 29 million private companies and small businesses.

A Blue Ribbon Panel on Private Company Financial Reporting was formed to provide recommendations on the future of standard setting for private companies. The panel finalized its major recommendations at a meeting on December 10, 2010. A report containing the panel's recommendations for a new separate standard-setting board and for modifications to U.S. GAAP to recognize the unique needs of private company financial statement users was submitted in late January to FAF (Financial Accounting Foundation). FAF's Board of Trustees discussed the report at its February 15 meeting. A proposal for public comment is expected to be released this spring.

International Convergence of Accounting Standards: The goal of international convergence is to develop a single set of accounting standards for companies to apply worldwide for financial reporting.

The most recent progress report prioritizes projects and sets a project completion date of June 2011. Priority projects include financial instruments, revenue recognition, leases, the presentation of other comprehensive income, and fair value measurement.

Accounting for Leases: FASB and the IASB initiated a joint project to develop a new approach to lease accounting that would ensure that assets and liabilities arising under leases are recognized in the statement of financial position. Changes are anticipated to impact balance sheet ratios and debt service coverage calculations.

Exposure drafts have been issued and comments received. Next step(s) are for the Accounting Standards Boards to consider feedback, re-deliberate, and issue a final standard in 2011.

*Disclaimer: Topics presented do not represent a comprehensive list of federal tax or accounting activity.*

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