

This Month:

- ◆ 2008 Extenders Act
- ◆ Election to Deduct Startup & Organizational Expenses Eliminated

Election to Deduct Startup & Organizational Expenses Eliminated



The IRS has issued regulations that eliminate the need to make a formal election to deduct startup expenses, effective generally for expenses paid or incurred after Sept. 6, 2008.

Instead, taxpayers are deemed to have made the appropriate election for the year in which the active trade or business begins, or the year in which the corporation or partnership begins business. However, taxpayers may apply all the provisions of the new regulations to expenses paid or incurred after Oct. 22, 2004, provided the period of limitations on assessment of tax has not expired for the year the election is deemed made.

Before the issuance of these regulations, a taxpayer making any of the above elections had to do so by filing a separate election statement and attaching it to the return for the year in which the active trade or business begins.

2008 Extenders Act

As you know, the "Tax Extenders and Alternative Minimum Tax Relief Act of 2008" (the 2008 Extenders Act) as well as several other Acts, was enacted recently. It provides extensions for several popular tax breaks and the addition of several new relief provisions, including disaster area tax relief. Here's an overview of the key provisions in the new legislation:

The following tax breaks are now extended through 2009:

State and local sales tax. The option to deduct state and local general sales taxes instead of state and local income taxes is particularly helpful for those who live in states with no income tax.

Standard deduction for real property taxes. Provides a standard deduction for real property taxes for those who do not itemize.

Teacher expense deduction. This provision allows teachers an above-the-line deduction for up to \$250 of out-of-pocket educational expenses.



Qualified Tuition deduction. This provision allows an above-the-line tax deduction for qualified higher education expenses.

Research and development credit. In addition to the extension, the alternative simplified credit is increased from 12% to 14% for the 2009 tax year, and the alternative incremental research is repealed for the 2009 tax year.

IRA charitable rollover. This provision allows individuals aged 70 1/2 and older to donate up to \$100,000 from their individual retirement accounts (IRAs) and Roth IRAs to public charities without having to count the distributions as taxable income.

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Enhanced charitable deduction for qualified computer contributions. This provision encourages businesses to contribute computer equipment and software to elementary, secondary, and post-secondary schools.

Basis adjustment to stock of S corporations making charitable contributions of property. Under this provision, amount of a shareholder's basis reduction in the S corporation stock will be equal to the shareholder's pro rata share of the adjusted basis of the contributed property (rather than the pro rata share of the fair market value of the contribution).

Other changes and new provisions:

AMT patch. The new law increases the exemption amount for 2008. The increased exemption, though modest, should keep many taxpayers out of the AMT regime for 2008.

Incentive stock options. The law provides a break for taxpayers who exercised incentive stock options that later turned worthless. The provision only applies to stock options exercised before 2008.

Child tax credit. The floor decreases to \$8,500.

Qualifying restaurant and leasehold improvements. The 15-year write-off period (rather than 39) is extended through the end of 2009. This includes certain retail space improvements.

Disaster relief. The new law provides increased tax relief for victims of midwestern storms, Hurricane Ike and certain other natural disasters. And for all Federally-declared disasters occurring after 2007 and before 2011, relief includes increased expensing for cleanup, and enhanced depreciation for certain property, and a 5-year carryback.

Energy credits. The new law extends many of the energy tax incentives including the credit for energy efficient commercial buildings, residential energy efficient property, etc. New incentives for small wind and geothermal projects were also introduced.

We hope this information is helpful. If you would like more details about these changes, or any other aspects of the new law, please do not hesitate to call.



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