

inside business

by Michelle Pickett
and Kirk Wilson

Tax cut provides short-term benefits for businesses

Editor's note: This is the first in a two-part analysis on the impact President Bush's tax cut on the economy. Saturday's column will predict how married couples and individuals will be affected.

The Jobs and Growth Tax Relief Reconciliation Act of 2003, signed by President Bush on Wednesday, is the third largest federal tax cut ever enacted. The measure provides various growth incentives for businesses both here in Santa Barbara and across the country.

Here is what the measure means for business:

Section 179 Election — Small Business Expense Deduction.

This deduction is quadrupled from \$25,000 to \$100,000. The cost to purchase Qualifying Property (either new or old) can be deducted in the year the property is placed in service, beginning in 2003 and before 2006.

The accompanying phase-out threshold has been raised from \$200,000 to \$400,000. The deduction is also limited to the aggregate taxable income from the trade or business. In 2006, the \$25,000 deduction and \$200,000 threshold return, unless new legislation is enacted.

Planning Notes:

- You may make the election at any time before the end of the given tax year. If you are in a lower tax bracket in the year in which the property is placed in service and anticipate higher taxable income and tax rate in future years, it may be prudent to skip the election and benefit from greater depreciation deductions in future years to reduce taxable income.
- The \$100,000 deduction is reduced dollar-for-dollar by the amount that the cost of the qualified property exceeds the \$400,000 threshold. Accordingly, if it is possible to plan the timing of equipment purchases, it is prudent to keep the cost of such purchases below the \$400,000 threshold in any given year.
- California law has nothing comparable with the Section 179 expense election. Therefore, any deductions taken on your federal return under Section 179 will be disallowed for California income tax purposes.

Section 179 Election and Off-The-Shelf Computer Software.

Off-the-shelf computer software placed in service in 2003 and before 2006 is now included as "Qualifying Property" for purposes of the Section 179 election.

Section 179 Election and Large SUVs.

Taxpayers who purchase "large" SUVs for business purposes can take advantage of the \$100,000 deduction if the SUV is placed in service after Dec. 31, 2002 and before Jan. 1, 2006 and has a loaded gross vehicle weight rating of more than 6,000 pounds.

Increased Bonus Depreciation.

The additional first-year depreciation allowance has been increased from 30 percent to 50 percent for new property acquired after May 5, 2003, and placed in service before Jan. 1, 2005.

This depreciation allowance is subject to recapture as ordinary income when the depreciated property is sold at a gain before its recovery period has ended. You must affirmatively elect to take the 30 percent bonus depreciation.

Delayed Corporate Estimate Tax Payments.

The due date for corporate estimated tax payments, normally due on Sept. 15, 2003, is now due on Oct. 1, 2003.

Although the provisions of the act are temporary, the benefits in real dollars can be enormous for Santa Barbara residents and may affect many of their personal financial decisions and businesses decisions.

To better understand how to benefit from the tax cut, you will need to contact your tax professional.

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Coming Tomorrow: How the tax cut affects individuals and married couples.

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