

Accountants be advised

New federal tax law has several significant changes. **Interviewed by Chelan David**

Ben Franklin once famously said, "Nothing in life is certain except death and taxes." While certainly unavoidable, both can be kept at bay to some extent. Whereas healthy habits can help keep the Grim Reaper from making a premature visit, keeping attuned to the shifting tax code can reduce outlays to Uncle Sam.

Following changes to the tax code is important for businesses and individuals alike, says Mary Ann Quay, co-managing partner of Vicenti, Lloyd & Stutzman LLP. "You need to plan ahead, be aware of what's going on and then determine whether or not it affects you," she advises. "If it does affect you, you need to maximize that deduction or benefit before the end of the year."

Smart Business spoke with Quay about recent changes to the tax law, why these modifications were made and what businesses should know about the Section 179 deduction.

What are some recent changes to the U.S. tax law?

The new law that was signed by President Bush on May 17 has a lot of significant changes in it. Its biggest impact is keeping the tax rate on investment income — capital gains and qualifying dividends — at a very low rate. The rates on this type of investment income were scheduled to increase in 2009, and the new law has extended the current low rates through 2010.

The second significant item that affects individuals is the exemption for the alternative minimum tax has been increased for 2006. This is just a one-year change, however, and the anticipation is that there will be more legislation later to address the problems we currently have with this type of tax.

Another big change for individuals has to do with Roth IRAs and high-income taxpayers. Under the old law, if you were a high-income taxpayer, which is over \$100,000 of income, you could not convert a regular IRA into a Roth IRA. After 2009, high-income taxpayers will be able



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to convert their IRAs into Roth IRAs if they choose to do so.

The new law also allows the income that is recognized on a conversion done in 2010 to be spread out over two years. Normally, all of the income has to be recognized in the year of conversion. The one major item that affects businesses is the Section 179 deduction.

How can a business take advantage of the Section 179 deduction?

This is a special deduction that allows businesses to immediately write off expenditures that they make for capital items. Under normal procedures, you would have to capitalize them on your books and take depreciation, which means write them off over a number of years. Instead, you can now purchase up to \$100,000 of equipment, furniture, fixtures or computers and immediately write them off.

This law has been around for awhile, but the new law allows it to continue at the \$100,000 level, adjusted for inflation, instead of dropping back to \$25,000, which it was scheduled to do in 2008. This is indexed, so in 2006 the amount that can be deducted is \$108,000 and,

presumably, that will go up for the next few years.

Why were the changes to the tax law made?

This is part of a comprehensive bill that was started back in 2005 by Congress. A lot of things that should have been included in the bill got left out because they couldn't agree. There might be some stand-alone legislation later on this year that would address some of these things, such as, state and local sales tax deductions as well as some other popular deductions and credits.

What changes have been made to the Domestic Production Activities Deduction?

This is a special deduction for manufacturers and other businesses that produce goods and services here in the United States. Prior to this year, the amount of a deduction could not exceed the W-2 wages that you paid for the year. Now, the deduction can not exceed 50 percent of your wages that are allocable to domestic production. This will reduce the amount of deductions that a business can take.

Why is it so important for companies to stay abreast of changes to the tax code?

All companies are concerned about the bottom line. Any thing you can do to decrease your taxes is going to make that bottom line better. Frequently, these tax code changes are very complicated, and in many cases they only affect a small number of companies. But if they do affect your company, they can potentially have a large effect on your cash flow and your taxable income.

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