



From the Desk of Dean Zerbe.



Change in Washington The Outlook for Taxes

by Dean Zerbe

(January 21, 2009)

As they clean up the confetti and roll up the dance floor, Congress and the new administration turn to the business at hand, the economy. Following is a preview of the near-term (the stimulus bill) and long-term tax outlook for small and medium businesses.

Energy and Bonds. The House stimulus bill contains a significant number of provisions relating to energy, mostly building on last year's energy tax bill. The big one is extending renewable energy production tax credit. In addition, the R&D credit is expanded to 20% for 2009 and 2010 for research in energy and energy conservation, including fuel cells, batter technology, energy conservation, and renewable energy. The House also provides billions of dollars in tax credit bonds and other changes in the treatment of bonds with a stated goal of assisting state and local government. To give the new administration its due, they would argue that the new bond issuances will also help businesses with bond proceeds being used to hire contractors and purchase supplies. One particular note: interest payments on all private activity bonds would no longer be subject to the AMT.

New Wage Credit. In addition to net operating losses, 50% bonus depreciation, and Section 179 continued at \$250,000 (discussed below), the House seeks a new wage credit (40% of first \$6,000) for hiring recent veterans who are unemployed (and received unemployment) or disconnected youth (not in school and not employed in last six months).

IC-DISC (the dog that didn't bark in this stimulus bill). After my speeches, I sometimes hear concerns that Congress may end the IC-DISC program, a program that provides enormous tax advantages to small and medium businesses that export products made here in the U.S. The House did not include the repeal of IC-DISC in the stimulus bill, and I do not expect the Senate to take any action against IC-DISC. With the economy (and manufacturing in particular) in terrible shape, I find it difficult to imagine a scenario where Congress would want to take action now that would hurt manufacturing businesses. So this enormously powerful tax benefit will remain in place for now, but as Jim Young, the team leader on IC-DISC at alliantgroup always reminds me, IC-DISC is good only prospectively; you can't take it retroactively. You and your clients need to act quickly.

Other Credit Expansion. Along with the \$500/\$1,000 refundable tax credit (refundable is Washington-speak for payments to folks with no federal income tax liability but who have a payroll tax liability) there will be a major expansion of the earned income tax credit and the refundable child tax credit.

Bottom line. I expect the Senate will have a good deal to say on the tax issues, particularly individual AMT (extend the current patch for one year) and hopefully tax relief for small and medium business. I anticipate that there will be several amendments in committee and on the floor that will seek to provide additional tax relief for businesses, including an amendment that would make cancellation (or reduction) of indebtedness for businesses not taxable (and also tax relief for companies that buy their own debt at a discount). The \$3,000 hiring credit for businesses is dead, and it is unclear whether the Senate will look at a payroll holiday for business. I am particularly concerned that Congress and the new administration place more focus on encouraging the flow of capital and credit lines to small and medium business, which I hear constantly from business owners and accountants is the top issue they or their clients are facing. So far, the focus is overwhelmingly on the big financial institutions and the big banks. Congress has placed a self-imposed deadline of completing work on the stimulus before the February President's day recess.

Dean Zerbe
National Managing Director
alliantgroup, LP
dean.zerbe@alliantgroup.com
www.alliantgroup.com