How the New Tax Law Fares?

Stuart W. Margolis, CPA, MT and
Brian L. Enverso, CPA, MS, CVA

The 2006 Tax Relief and Health Care Act preserves a variety of popular tax breaks for businesses. The new law extends through 2007, and modifies provisions, which under prior law either expired at the end of 2005 or would have expired at the end of 2006.

The research and development (R&D) credit, which expired at the end of 2005 under prior law, is extended to qualified amounts paid or incurred during 2006 and 2007. In addition, for tax years ending after 2006, the new law enhances the credit so that newer businesses can utilize it.

The work opportunity tax credit, which is a credit for wages paid by employers who hire individuals from certain targeted groups, and the welfare-to-work tax credit, which is a credit for wages paid by employers who hire long-term family assistance recipients, are extended in their current form for 2006 and combined in 2007. Modifications of the combined credit include expanded eligibility.

The new markets tax credit is extended through 2008, permitting a $3.5 billion maximum annual amount of qualified equity investments. QZABs are tax credit bonds issued by States or localities principally for school renovation. Bondholders may claim a tax credit against federal income taxes in lieu of receiving interest. The new law extends QZABs for two years and authorizes states to issue up to $400 million of QZABs for 2006 and 2007.

Expensing of costs associated with cleaning up hazardous ("Brownfield") sites is extended through 2007, and the definition of an eligible contaminated site is expanded to include sites contaminated by petroleum products.

Three tax benefits available to businesses operating in designated District of Columbia enterprise zones are extended through 2007— 20% wage credit, $35,000 of additional

(Continued)

The 2006 Tax Relief and Health Care Act includes Tax Credits for:

- *R&D*
- *Work Opportunity*
- *New Markets*

and More!

How the New Tax Act Fairs?

Stuart W. Margolis, CPA, MS and Brian L. Enverso, CPA, MS, CVA *(Continued)*

expensing under Section 179, tax-exempt bonds—and zero capital gains for property held five years is extended through 2012.

The business tax credit available for employers of qualified employees that work and live on or near an Indian reservation is extended through 2007. A special depreciation recovery period for qualified Indian reservation property is extended to property placed in service through 2007.
The accelerated write-off for certain leasehold improvements (depreciation over 15 years instead of 39 years) is extended through 2007. The rule that encourages businesses to contribute computer technology and equipment to schools by allowing an enhanced deduction for such contributions is extended through 2007.

A new temporary 2-year credit for possessions corporations operating in American Samoa is provided. The credit, which is generally based on the amount of wages paid in American Samoa and depreciation deductions with respect to property located in American Samoa, is effective for the first two years beginning after December 31, 2005 and before January 1, 2008.

The bonus 50% first-year depreciation break that was included in the Gulf Opportunity Zone Act of 2005 is modified by extending the placed-in-service deadline for certain property used in certain highly damaged areas within the Gulf Opportunity Zone.

The new law allows qualifying U.S. businesses operating as branches in Puerto Rico to claim the domestic manufacturing deduction, effective for the first two years of the taxpayer beginning after 2005 and before 2008.

A number of provisions that were enacted on a temporary basis by the Tax Increase Prevention and Reconciliation Act of 2005 were now made permanent. These include the provision treating environmental cleanup settlement funds as governmentally owned (i.e. not subject to tax) if certain standards and requirements are met. The provision simplifying the application of the active trade or business test to certain corporate distributions by applying this test on an affiliated group basis.

This was a summary of some important tax law changes pertaining to businesses. The IRS continues to fuddle through the complexities of the tax code. It is always prudent to contact a professional tax adviser when applying the rules.

MargolisBecker, The Business and Management Advisors, is a CPA firm specializing in the graphic arts industry.
Whatever your goals and needs, we have the solution. Our services include business valuations, mergers and acquisitions, turnaround management, auditing and tax compliance. The Company has prepared the PIA/GATF Ratio Studies since 1960.
If you have any comments or questions, you may reach us at:

888-577-1717
or
talk.to.us@margolisbecker.com

Brian L. Enverso, CPA, MS, CVA

Stuart W. Margolis, CPA, MT

Washington, DC
10001 Derekwood Lane, Suite 210
Lanham, MD 20706
888.577.1717 p 301.577.1313 f 301.577.0431

Philadelphia
555 City Line Avenue, Suite 460
Bala Cynwyd, PA 19004
888.577.1717 p 610.667.4310 f 610.667.2009