

# Tax Update 2010

By Eric S. Adler, CPA

The topics discussed below cover a few important changes to Federal law that may affect your tax planning and the filing of your 2010 tax return. It is best to consult a professional before considering any of the steps below.

The 2010 Hiring Incentives to Restore Employment Act (HIRE) extended the popular enhanced Code Section 179 deduction into 2010. The Sec.179 deduction enables small businesses to deduct up to \$250,000 of the cost of machinery, equipment, vehicles, furniture and other qualifying property (racehorses qualify) placed in service during 2010. The allowable deduction is reduced by the amount of which the cost of Sec.179 property placed in service in the tax year exceeds \$800,000. This special phase-out provision effectively targets the Sec.179 deduction to small businesses and may eliminate it for many larger businesses. Many states, such as California, do not conform to the increased Sec. 179 deduction.

Sec.179 has a few important requirements with regard to Thoroughbred owners. The Thoroughbred must be acquired through purchase and for business use. It is also important to note that the Sec.179 deduction must be used to offset taxable income and cannot be used to otherwise create a tax loss. Sec.179 expensing is available on both new and used property.

**Example:** During 2010, EA Stables purchases a horse at a two-year-olds in training sale for \$650,000. Assuming the stable has a taxable income of at least \$250,000, exclusive of the Sec.179 deduction, an immediate deduction of \$250,000 would be available using Sec.179. The asset would then be depreciable based on \$400,000 of value. If the stable operates with a tax loss, Sec.179 would not be available.

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