

## Small Business and Work Opportunity Tax Act of 2007 (SBWOTA)

On May 25, 2007, the President signed the Small Business and Work Opportunity Tax Act of 2007 (SBWOTA). Passed in conjunction with legislation to continue funding the war in Iraq and to raise the minimum hourly wage, the tax-related provisions are designed in part to provide benefits to small businesses likely to be hit hard by the minimum wage increase.

Following are highlights of key provisions affecting businesses and individuals, as well as GO Zone incentives and other areas of tax law.

### Businesses:

The **Section 179 election** to expense property in its initial year (rather than depreciate it) is extended through 2010 and increased from \$100,000 to \$125,000, effective for years beginning after 2006. The expense deduction begins to phase out if more than \$500,000 of eligible property is placed in service during the year (up from \$400,000). These amounts will be adjusted for inflation annually.

The **Work Opportunity tax credit**, which had been set to expire Dec. 31, 2007, is extended until September 30, 2011. This credit is available to businesses that hire employees from targeted groups of individuals, such as veterans, ex-felons, high-risk youth, and food stamp and supplemental security income recipients. The new law expands this list to include disabled veterans and individuals in counties that have suffered significant population losses. If you hire a target employee, your business can receive a 40% tax credit for the first \$6,000 paid to that worker.

The individual and corporate **alternative minimum tax (AMT) limits** on the use of certain credits are waived, effective for years after 2006 as well as for carryback of these credits. This applies to the Work Opportunity credit and the credit for taxes paid on employee tips. Employers are also now eligible for the full tip credit despite the increase in the minimum wage.

SBWOTA includes **certain S corporation and pension provisions**, but they are generally too obscure and technical to cover in this Alert. Contact your tax advisor to ascertain whether any of these changes affect your tax planning strategies.

### Individuals:

The new law also affects some individual taxpayers. The **“kiddie tax,”** which subjects children (and now young adults) to tax on most unearned income at their parents' marginal tax bracket, had recently been expanded to include those under age 18 (up from age 14). Now, SBWOTA broadens that rule to include those who qualify as dependents because they are either under age 19, or under age 24 and a full-time student, if their earned income doesn't exceed one half of the amount needed for their support.

### GO Zone incentives:

In addition, SBWOTA extends several tax incentives designated for the Gulf Opportunity Zone (GO Zone):

- The increased Sec. 179 expense election, which is generally doubled for qualifying property, is extended through 2008.
- The low-income housing tax credit for GO Zone housing is extended through 2010.
- Tax-exempt bond financing for GO Zone property is expanded to include expenses for all repairs and reconstruction. The provision applies to owner financing provided after May 25, 2007, and before 2011.

### Other changes:

Finally, the act subjects **tax return preparers** to increased levels of penalty for the redefined category of “unreasonable positions” taken on a tax return, as well as for the category of “willful and reckless” tax positions. The legislation also makes **changes in the pension area**, as well as numerous other minor changes and technical corrections. Please consult your tax advisor for details that may affect you.