HARRANG /LONG /GARY /RUDNICK P.C.

ATTORNEYS & COUNSELORS AT LAW

YEAR END TAX PLANNING FOR BUSINESS OWNERS

The following is a checklist of actions that could mitigate business income tax exposure if acted upon prior to December 31st. Although not all suggestions will apply in your particular situation, please consider the following:

1. Hire a worker who has been unemployed for at least 60 days before year end if you are thinking of adding to payroll. Your business will be exempt from paying the employer's 6.2% share of the Social Security payroll tax on the formerly unemployed new-hire for the remainder of 2010. In addition, if you keep that formerly unemployed new-hire on the payroll for a continuous 52 weeks, your business will be eligible for a nonrefundable tax credit of up-to-$1,000 after the 52-week threshold is reached. This credit will be taken on the business's 2011 tax return. To be eligible, the formerly unemployed new-hire's pay in the second 26-week period must be at least 80% of the pay in the first 26-week period.

2. Place new business equipment and machinery into service before year end to qualify for 50% bonus first-year depreciation allowance. Unless Congress acts, this bonus depreciation allowance expires on January 1, 2011.

3. Make expenses qualifying for the $500,000 business property expensing option. The maximum amount you can expense for a tax year beginning in 2010 is $500,000 of the cost of qualifying property placed in service for that tax year. The $500,000

The Closely Held Business Team attorneys at Harrang Long Gary Rudnick are committed to serving the needs of business owners in a responsive and proactive manner. They understand the challenges and the opportunities provided by the law in today's business climate, and are focused on the advancement of each client's success in business.

Randall L. Duncan, Chair
C. Robert Steringer
Arden J. Olson
Mark P. Amberg
John A. Riherd
Joshua P. Stump
Jonathan D. Mishkin, LL.M.
Marjorie A. Elken
John T. Witherspoon
Kate G. Watkinson

amount is reduced by the amount by which the cost of qualifying property placed in service during 2010 exceeds $2 million. Also, within the overall $500,000 expensing limit, you can expense up to $250,000 of qualified real property (certain qualifying leasehold improvements, restaurant property, and retail improvements). Note that at tax return time, you can choose not to use expensing (or bonus depreciation) for 2010 assets. This is something to contemplate if tax rates rise in 2011 and beyond, and you would prefer to have more deductions after 2010 than for 2010.

4. Create a self-employed retirement plan if you are self-employed and have not done so yet.

5. Increase basis in your partnership or S-corporation if doing so will enable you to deduct a loss from it this year. A partner's share of partnership losses is deductible only to the extent of the partner's partnership basis as of the end of the partnership year in which the loss occurs. An S corporation shareholder can deduct a pro-rata share of the S corporation's losses only to the extent of the total of the shareholder's basis in: (a) the S corporation stock; and (b) debt owed to the shareholder by the S corporation.

6. Consider whether to defer cancellation of debt ("COD") income from the reacquisition of an applicable debt instrument in 2010. A business can elect to have the COD income included in gross income ratably over five tax years beginning with the fourth tax year following the tax year in which the repurchase occurs (i.e., beginning with 2014).

Required Tax Disclaimer and Additional Tax and Professional Advice

Internal Revenue Code Circular 230 requires us to disclose that this is not a reliance opinion. This is not intended or written by us to be used, and it cannot be used by you, for the purpose of avoiding penalties that may be imposed on you or another taxpayer, and you should consult directly with your tax professional.

Our attorneys have significant income tax experience in all of the aforementioned areas. If you have questions about the aforementioned, or how it may apply to your circumstances, please do not hesitate to contact our closely held business attorneys Jonathan D. Mishkin, LL.M., Randall L. Duncan or John T. Witherspoon, and we would be pleased to provide guidance and assistance.

Randall L. Duncan
Shareholder

Portland Office: (503) 242-0000
Direct Line: (503) 417-6010
Randall.duncan@harrang.com

Jonathan D. Mishkin, LL.M

Portland Office: (503) 242-0000
Direct Line: (503) 417-6007
jonathan.mishkin@harrang.com

John T. Witherspoon
Associate

Portland Office: (503) 242-0000
Direct Line: (503) 417-6014
john.witherspoon@harrang.com

LOCATIONS:

Portland
1001 SW Fifth Avenue
16th Floor
Portland, OR 97204-1116
Phone: (503) 242-0000
(800) 315-4172
Fax: (503) 241-1458

Eugene
360 E 10th Avenue
Suite 300
Eugene, OR 97401-3273
Phone: (541) 485-0220
(800) 315-4172
Fax: (541) 686-6564

Salem
333 High Street, NE
Suite 200
Salem, OR 97301-3632
Phone: (503) 371-3330
(800) 315-4172
Fax: (503) 371-5336
www.harrang.com