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Industry News

Small Business Jobs Act: A Windfall for Small to Mid-sized Manufacturers

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By Mark Lauber and Karim Solanji

With a resounding and somewhat historic move, Congress passed and the President signed into law the Small Business Jobs Act (SBJA). The SBJA provides tax relief for small and medium sized businesses for 2010. Of particular and significant note are two provisions: the modification to a five year credit carryback and the modification of the Alternative Minimum Tax (AMT) in relation to general business credits.

Five Year Carryback on Unused General Business Credits

Previously, the carryback and carryforward rules for general business credits stated, generally, that unused credits were to be carried back only one year and, if unused in that year, then carried forward up to twenty years. The previous rules did not provide the immediate tax relief many taxpayers needed.

With the SBJA, taxpayers will be able to carry back unused credits generated in 2010 a total of five years before having to carry them forward. This change will allow many taxpayers who have been hit recently by the economy to still receive an immediate tax benefit, even if they are unprofitable in 2010.

General Business Credits Not Subject to AMT

Prior to the SBJA, general business credits generated by a taxpayer were subject to the AMT. This credit subjugation to the AMT drastically limited or completely eliminated the benefit of the general business credit to many taxpayers. With the passage of the SBJA by Congress, many small to medium sized businesses will not have this AMT limitation applied to general business credits generated in 2010.

Congress has defined the businesses that can take advantage of this AMT change as being sole proprietorships, partnerships, and non-publicly traded corporations with \$50 million or less in average annual gross receipts for the prior three years.

With more than 20 million Americans paying AMT, the ability for business owners to reduce their taxable liability through a slew of general business credits, including, the R&D Tax Credit, is especially significant.

Immediate Tax Relief

These two provisions will provide the immediate tax relief needed by many small to medium sized businesses to help them succeed in today's economy. It is noteworthy that these provisions will apply to the Research and Development Tax Credit when it is passed later this year, thereby allowing many taxpayers to take advantage of this credit that previously were unable to due to a lack of utilization.

The Positive Effect on the R&D Tax Credit

Due to the economy the last few years, many manufacturers have been unable to take advantage of the R&D Tax Credit. The main reason being that the taxpayers for these companies were subject to AMT. Now with the SBJA, the R&D Tax Credit can reduce a taxpayer's tax liability, regardless of AMT, thereby opening up the R&D Tax Credit to most of these taxpayers.

Even for smaller manufacturers, the R&D Tax Credit can be significant. Here are some examples:

Example 1 - 4 Year Study
Annual Payroll: \$1.7 MM
Total Credit: \$80,000

Example 2 - 1 Year Study
Annual Payroll: \$6.5 MM
Total Credit: \$50,000

Example 3 - 4 Year Study
Annual Payroll: \$1 MM
Total Credit: \$60,000

Example 4 - 1 Year Study
Annual Payroll: \$3.5 MM
Total Credit: \$60,000

Contact a consulting firm specializing in the R&D tax Credit to learn more. The firm will have the knowledge to help determine if your company can take advantage of the Small Business Jobs Act as it relates to the R&D Tax Credit. If you can, it can result in a substantial reduction in your 2010 tax liability and a tax refund for previous tax years.

[President Obama Signs Small Business Jobs Act - Learn What's In It](#)

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