



Tax Planning Guide Supplement

2010 Tax Relief Act Provides Two-Year Extension of Lower Tax Rates

Putting to rest concerns that the new year would begin without legislative action on tax rates for 2011, on December 17, President Barack Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Relief Act), an \$858-billion package that includes a two-year extension of reduced tax rates on individual income and dividends/capital gains. In addition, the law includes extensions and enhancements of a number of tax breaks for small businesses, a two-year AMT patch, estate tax relief through 2012, and a one-year reduction in payroll taxes.

Among the main provisions of the new legislation are the following:

Income tax rates extended through 2012. Under the 2010 Tax Relief Act, lower individual income tax rates (10%, 15%, 25%, 28%, 33%, and 35%) are extended through 2011 and 2012. These rates went into effect under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), but had been scheduled to revert to their previous levels (15%, 28%, 31%, 36%, and 39.6%) after 2010. The associated changes in itemized deduction and personal exemption rules are also extended for 2011 and 2012, including a two-year continuation of the repeal of the personal exemption phaseout (PEP) and the repeal of the limitation on itemized deductions (“Pease” limitation) for higher-income taxpayers.

Tax rates on capital gains and dividends extended through 2012. As a result of recent tax reform, in 2010, qualified capital gains and dividends were taxed at a maximum rate of 15%, and taxpayers in the 10% and 15% income tax brackets paid no tax on qualified capital gains and dividends. Under the 2010 Tax Relief Act, these rates are extended through 2012. Had no legislative action been taken, the maximum capital gains rate would have risen to 20%, and qualified dividends would have been taxed at ordinary income tax rates, with a top rate of 39.6%.

Child tax credit extended through 2012. Under the 2010 Tax Relief Act, the \$1,000 child tax credit is continued through December 31, 2012, as are recent enhancements to the credit. Under EGTRRA, the credit amount had been scheduled to revert to \$500 after 2010.

Marriage penalty relief continued through 2012. Under EGTRRA, the basic standard deduction for a married couple filing jointly was increased to twice the amount for a single filer, and the 15% income tax rate bracket for

married couples filing jointly was also expanded to twice that of single filers. The new law extends this marriage penalty relief for two years, through December 31, 2012.

Payroll tax reduced for 2011. For wages earned in calendar year 2011, the employee share of payroll taxes is lowered from 6.2% to 4.2%, up to the taxable wage base of \$106,800. Self-employed individuals owe 10.4% on self-employment income up to the threshold.

AMT relief provided for 2010 and 2011. Under the 2010 Tax Relief Act, the exemption amounts for the Alternative Minimum Tax (AMT) are increased for 2010 and 2011. For 2010, the exemption amounts are raised to \$47,450 for singles, \$72,450 for married couples filing jointly, and \$36,225 for married couples filing separately. For 2011, the equivalent amounts are \$48,450, \$74,450, and \$37,225. Without this “patch,” an additional 21 million households may have faced a tax increase, as the exemption amounts would have fallen to \$33,750 for individuals, \$45,000 for married couples filing jointly, and \$22,500 for married couples filing separately.

Education tax breaks extended through 2012. The 2010 Tax Relief Act extends through 2012 a number of education-related tax incentives at their 2010 levels, including Coverdell Education Savings Accounts, the student loan interest deduction, the Section 127 exclusion from income for employer-provided education assistance, and the American Opportunity Tax Credit for college tuition.

Tax breaks for families continued through 2012. Under EGTRRA, the dependent credit available to parents or family members to help pay for care for a child under age 13 or for a disabled dependent or spouse was temporarily increased to up to \$6,000 per family. The 2010 Tax Relief Act extends this increase for two years, through December 31, 2012. Other existing breaks for families that are extended through 2012 include the adoption tax credit, the employer-provided adoption assistance program exclusion, the employer-provided child care tax credit, and the earned income tax credit.

Individual extenders continued through 2011. Under the 2010 Tax Relief Act, a number of temporary individual tax incentives are extended through 2011, including the state and local sales tax deduction, the higher education tuition deduction, the teacher’s classroom expense deduction, and the charitable contributions of IRA proceeds.

Estate tax returns with a top rate of 35% and an exclusion of \$5 million. Under EGTRRA, the Federal estate tax was gradually reduced and disappeared altogether in 2010, but it was scheduled to be reinstated in 2011 at pre-2002 levels. Under the 2010 Tax Relief Act, the estate tax returns with a maximum tax of 35% and an exclusion amount of \$5 million for 2011 and 2012 only. The new law also eliminates the modified carryover basis rules that were in effect in 2010 and replaces them with stepped-up basis rules.

In addition, the 2010 Tax Relief Act provides estates of decedents dying in 2010 with the option to elect not to come under the revived estate tax rules. These estates may choose to apply the estate tax based on 2011 rates, with stepped-up basis rules, or no estate tax, with modified carryover basis rules.

Starting in 2011, the gift tax is reunified with the estate tax, with a top tax rate of 35% and exemption of \$5 million. Starting in 2011, the generation-skipping transfer (GST) tax is equal to the highest estate and gift tax rate in effect for the year (35% for 2011 and 2012).

Energy tax credits for individuals and businesses extended. Many of the energy credits and deductions set to expire at the end of 2010 are extended for one or two years under the new legislation, including business credits for biodiesel and renewable diesel fuel, the credit for refined coal facilities, the new energy-efficient home credit for builders and manufacturers, tax credits for alternative fuel and alternative fuel mixtures, and the credit for the purchase of energy-efficient appliances.

In addition, individuals who make certain energy efficiency improvements to their homes are eligible to claim tax credits worth up to 30% of their investment, up to a total lifetime limit of \$1,500, for products or improvements placed in service through December 31, 2011.

50% bonus depreciation raised to 100%. Under recent tax reform, qualified businesses were given the option of depreciating 50% of the adjusted basis of the property for qualifying property bought and placed in service in 2008 through 2010. The 2010 Tax Relief Act increases the 50% bonus depreciation to 100% for qualified investments made after September 8, 2010 through December 31, 2011, and it also makes 50% bonus depreciation available for qualified property placed in service through December 31, 2012. In addition, certain long-lived property and transportation property is eligible for 100% expensing if placed in service before January 1, 2013.

Section 179 expensing extended through 2012. For 2010 and 2011, businesses are permitted under the Small Business Jobs Act of 2010 to expense up to \$500,000 of Section 179 property, and the amount that may be expensed is reduced only if the cost of the Section 179 property exceeds

\$2 million. Under the 2010 Tax Relief Act, a \$125,000 dollar limit (indexed for inflation) and a phaseout beginning at \$500,000 (indexed for inflation) is in effect for 2012. After 2012, the limit reverts to \$25,000, with a phaseout beginning at \$200,000.

Research tax credit extended through 2011. The Code Section 41 research tax credit, which had expired at the end of 2009, is continued for two years, through December 31, 2011.

Extension of the Work Opportunity Credit (WOTC). The WOTC, which provides businesses that hire members of certain “targeted groups” with a credit of up to \$2,400 on the qualifying first-year wages paid to each employee, would have expired after August 31, 2011. Under the 2010 Tax Relief Act, the WOTC is extended for new hires who begin employment after August 31, 2011 and before January 1, 2012, though certain groups who had previously been targeted no longer qualify for this credit.

Extension of 100% exclusion on sales of small business stock through 2011. Under the Small Business Jobs Act of 2010, investors are permitted to exclude 100% of the gain from the sale of certain small business stock acquired and held for more than five years, up from 75% previously, and the excluded gain is not subject to the AMT. To qualify, the stock must have been purchased before January 1, 2011. Under the 2010 Tax Relief Act, this 100% exclusion is extended for one more year to cover stock purchased before January 1, 2012.

Transit benefits extended one year. Under the American Recovery and Reinvestment Act of 2009 (ARRA), the amount that may be excluded from the taxable income of employees used to pay for qualified mass transit, van pools, or parking was raised to \$230 per month through 2010. This sum of \$230 is equal to the tax-free benefit that employers may provide per employee, per month through a qualified transportation plan. Under the 2010 Tax Relief Act, these benefits are continued for one additional year, through December 31, 2011.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 offers a number of tax breaks for both individuals and businesses. However, many of the opportunities are temporary. For more information and advice about your unique circumstances, contact one of our qualified tax professionals.

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