

What you need to know – The Key Provisions in the Tax Relief Act of 2010

NEW income tax provisions:

- 2% drop in 2011 social security taxes (from 6.2% to 4.2%) for all employees and self-employed individuals.
 - A two year "patch" for Alternative Minimum Tax (AMT) increases the exemption amount from \$45,000 to \$72,450 for married filers. This means fewer taxpayers will have to worry about the higher AMT tax.
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Income tax provisions that are extended through 12/31/12:

(These would have expired on 12/31/10.)

- Tax rates remain at a maximum of 35% (rather than increasing to 39.6%).
 - Tax on qualified long-term capital gains remain at a maximum of 15% (rather than increasing to 20%).
 - Tax on qualified dividends remain at a maximum of 15% (rather than increasing to 39.6%).
 - The Child Tax Credit remains at \$1,000 per child (rather than dropping to \$500).
 - The amount of day care expenses eligible for the Dependent Care Credit will remain at \$3,000 for one child and \$6,000 for two or more children (rather than dropping to \$2,400 and \$4,800).
 - The College Credit remains at a maximum of \$2,500 per child/per year (rather than dropping to \$1,800).
 - Itemized deductions and personal exemptions will remain fully deductible (rather than being reduced for higher income individuals).
 - Coverdell Education Savings Accounts will remain available.
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Income tax provisions that are extended through 12/31/11:

(These expired on 12/31/09. They are retroactively reinstated effective 1/1/10.)

- The \$250 above-the-line deduction for elementary and secondary school teachers.
 - The deduction for state and local general sales taxes.
 - The ability to make tax-free distributions of up to \$100,000 from an IRA directly to a charity.
 - Note....charitable transfers from IRAs that are made during January 2011 can be **treated** as if made during 2010.
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Provisions to encourage businesses to invest in machinery and equipment:

- 100% bonus depreciation on new property acquired and placed in service after Sept 8, 2010 through Dec 31, 2011.
 - 50% bonus depreciation on new property acquired and placed in service during 2012.
 - Extending through 2012 the choice to accelerate the AMT credit in lieu of taking bonus depreciation.
 - For 2012, raising the maximum Section 179 expense amount to \$125,000 (rather than dropping to \$25,000).
 - Note...the Small Business Jobs Act (passed September 2010) temporarily increased the Section 179 expense amount to \$500,000 for all of 2010 and 2011. Section 179 expense is available for both new and used property placed in service during the year. This differs from bonus depreciation which is only available for new property.
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Retroactive reinstatement of business tax breaks that expired in 2009:

(These are extended through Dec 31, 2011.)

- The Research Tax Credit.
 - The Work Opportunity Credit.
 - The 15-year writeoff for qualifying leasehold improvements, restaurant buildings and improvements, and retail improvements.
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Changes to estate and gift taxes for 2010 - 2012:

- The estate tax is retroactively reinstated effective 1/1/10 with a \$5 million exemption and a maximum estate tax of 35%. Additionally, heirs would receive a "stepped-up" basis on inherited assets.
- Note...for individuals who die in 2010, an estate can elect to use the zero tax method. However, the heirs would have to use the less beneficial "carryover basis" rules on inherited assets.
- Starting in 2011, the \$5 million exemption will be portable. Thus, if a married individual dies and doesn't use all of his or her exemption, the unused portion can be used in the spouse's estate.
- Starting in 2012, the \$5 million exemption will be adjusted for inflation.
- Deadlines for filing an estate tax return, for paying estate taxes, for filing a basis-allocation return, and for making disclaimers are all extended until 9 months after this tax act is enacted.
- Starting in 2011, the \$5 million exemption amount will apply to gifts and estate tax. Therefore, an individual may use up part of the \$5 million exemption when gifting. The remaining balance will be used by the estate.
- Note...for 2010 only, the exemption amount for gifts remains at \$1 million
- The gift tax rate will remain at 35% in 2010, 2011, and 2012.