

December 17, 2010

Today, President Obama signed into law the Tax Relief/Job Creation Act of 2010. This law provides many extenders that were originally to have expired December 31, 2010. The tax incentives are detailed below by type:

Individual Tax Changes:

- The current income tax rates, as established by the Economic Growth and Tax Relief Reconciliation Act of 2001, are being retained for a period of two years. As such, the top income tax rate will remain at 35% until December 31, 2012.
- Qualified capital gains and dividend rates which are taxed at a maximum rate of 15% are extended through December 31, 2012.
- The itemized deduction limitation relief continues for another two years. This allows for middle class and high income individuals to retain more of their itemized deductions and reduce their tax bills through December 31, 2012.
- The personal exemption phase-out relief is extended through December 31, 2012. Originally, the phase out was scheduled to come back into effect after December 31, 2010 for individuals who's AGI exceeded \$169,550 for singles and \$254,350 for married couples filing jointly.
- The relief from the "marriage penalty" is extended for two more years until December 31, 2012. This allows for the size of the 15 percent bracket for married couples to be expanded.
- The 2010 Tax Relief Act extends the \$1,000 child tax credit for two more years, through December 31, 2012. The credit can be claimed by individuals with adjusted gross income of \$110,000 or less for joint filers, or \$75,000 or less for individuals. This credit was originally scheduled to drop to \$500 per child after December 31, 2010 and would have been limited in comparison to the credits claimed in recent years.
- The Earned Income Tax Credit increase for families with three or more children has been extended until December 31, 2012.
- The Adoption Credit enhancements have been extended through December 31, 2012.
- The expanded Dependent Care Credit originally passed in 2001 has been expanded to cover two additional years, through December 31, 2012.

- Employers who provide child care facilities may continue to enjoy the Employer-Provided Child Care Credit for those that qualify for two more years, through December 31, 2012.
- Under current law, taxpayers are allowed to deduct certain premiums paid for qualified mortgage insurance for some middle class taxpayers. The 2010 Tax Relief Act extends this deduction for one more year subject to income limitations.
- The American Opportunity Tax Credit, formerly known the Hope education credit, has been extended for two additional years through December 31, 2012. The credit is available for individuals with modified adjusted gross income of \$90,000 or less and families with income of \$180,000 or less.
- The Tax Relief Act also extended several other items for two additional years. These items include:
 - Education Assistance Exclusion for employer paid education assistance up to \$5,250 annually.
 - Student Loan Interest Deduction enhancements are extended.
 - Increased maximum contribution to a Cloverdell Education Savings Account from \$500 to \$2,000 through December 31, 2012.
 - State and Local sales tax deduction
 - Higher education tuition deduction
 - Teacher’s classroom expense deduction
 - Charitable contribution of IRA proceeds
 - Charitable contribution of appreciated property for conservation purposes.
- AMT Patch – The 2010 Tax Relief Act provides a higher exemption amount to help prevent an additional 21 million Americans from paying Alternative Minimum Patch. This act increases the exemption amount for 2010 to \$47,450 for individuals and \$72,450 for married taxpayers filing jointly.
- Payroll Tax Cut – The Act reduces the employee share of Social Security from 6.2 percent to 4.2 percent for wages earned in calendar year 2011 up to the taxable wage base of \$106,800. This also reduces the amount self-employed taxpayers must pay to 10.4 percent up to the threshold.

Business Incentives

- 100 Percent Bonus Depreciation – The 2010 Tax Relief Act boosts the 50 percent bonus depreciation to 100 percent for qualified investments made after September 8, 2010 and before January 1, 2012. The 2010 Tax Relief Act also makes 50 percent bonus depreciation available for qualified property placed in service after December 31, 2011 and before January 1, 2013.
- The Act extends the refundable credits in lieu of bonus deprecation election for two more years through December 31, 2012.
- Code Section 179 Expensing rules have been increased for tax years beginning in 2012 to allow for \$125,000 expensing limit on a \$500,000 investment limit. The expensing rules had previously been expanded for tax years 2010 and 2011 to a \$500,000 expensing limitation on a \$2,000,000 investment limit.

- Small Business Stock exclusion has been extended for one more year for stock acquired before January 1, 2012. This allows for a 100 percent exclusion of proceeds from federal income tax.
- Work Opportunity Tax Credit – The Work Opportunity Tax Credit for has been extended for individuals who begin employment after August 31, 2011 and before January 1, 2012 with some modifications.
- Business Tax Extenders – Certain Credits and Deductions have been extended for tax years beginning after December 31, 2009 and before January 1, 2012. The items extended are as follows:
 - Individual employment credit and accelerated depreciation for business property on an Indian reservation.
 - New Markets Tax Credit
 - Railroad track maintenance credit
 - Mine rescue training credit
 - Differential wage credit
 - 15-year recovery period for qualified leasehold improvements, restaurant building and improvements, and retail improvements.
 - Seven year motor sports entertainment cost recovery
 - Film and television production costs
 - Brownfield remediation
 - Payments to controlled exempt organizations
 - Five year write-off of farm equipment
 - Other geographic specific deductions and credits.
- The 2010 Tax Relief Act temporarily extends most energy tax incentives for at least one year. For more information on these incentives please contact our office.

Estates:

- The 2010 Tax Relief Act revives the estate tax for decedents dying after December 31, 2009, but at a significantly higher level than had been scheduled after 2010. The maximum estate tax rate is 35 percent with an exclusion amount of \$5,000,000. This new estate tax law is temporarily and is scheduled to expire on December 31, 2012.
- The law allows for estate executors of taxpayers who died in 2010 to elect not to come under the revived estate tax. While this eliminates the estate tax on the estate, it disallows the fair market value step-up allowable for estates which elect to follow the new law and pay estate tax.

Gift Tax:

- For gifts made after 2010, the 2010 Tax Relief Act provides that the gift tax is unified with the estate tax. This allows a top gift tax rate of 35 percent and a maximum applicable exclusion amount of \$5,000,000.

- The 2010 Tax Relief Act also gives a Generation Skipping Tax rate of zero percent for 2010. For transfers made after 2010, the Generation Skipping Tax rate would be equal to the highest estate and gift tax rate in effect for the year.

For additional information on these tax extenders and additional tax guidance, please contact our office.