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Need help with all these changes? Call us and we'll be happy to discuss them with you.

Freeman & Williams, LLP

3470 G.S. Richards Blvd
Carson City, NV 89703

PHONE:
(775) 882-3201

FAX:
(775) 882-2593

E-MAIL:
fw@fwcpas.com

The End of 2010 Equals Yet More New Tax Legislation

For many tax professionals, 2010 will be remembered as the year of unending tax changes. These changes have not been small items of minor importance. In addition to the Healthcare Reform Act, Small Business Jobs Act, and Foreign Tax Act, just to name a few, on December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Act).

The Act was a result of the much anticipated and highly debated expiration of the Bush-era tax cuts. The Act extended the Bush-era tax cuts in their entirety and much, much more. What does this mean for you?

Individuals

- **Charitable Contributions of IRA Proceeds:** Taxpayers can exclude up to \$100,000 from gross income IRA distributions that are given directly to a charity. Because this law was passed so late in the year, the IRS is allowing January 2011 distributions to charity to count toward a taxpayer's 2010 minimum distribution requirement. Taxpayers who wish to take advantage of this must act quickly.
- **Tax Rates:** Tax rates remain the same for all income levels for the next two years, which are 10, 15, 25, 28, 33, and 35 percent instead of the 15, 28, 31, 36, and 39.6 rates that would have gone into effect without the Act.
- **Itemized Deductions and Personal Exemptions:** A two year extension of the full repeal of the limitation on itemized deductions and the personal exemption phaseout for high-income taxpayers.
- **FICA Withholding Relief:** A 2% holiday on the employee's portion of social security taxes for 2011. This replaces the Making Work Pay credit. This benefit applies to the first \$106,800 of wages, which translates into \$2,136 in tax savings.
- **Capital Gains and Qualified Dividends:** Capital gains and qualified dividends will remain at a maximum tax rate of 15% (0% if you are in the 10% or 15% tax brackets) instead of the 20% rate that had been scheduled to replace it. This break has been extended for 2011 and 2012.
- **Energy Credit:** The energy credit under Code Section 25C has been extended to 2011. The credit has been reduced from 30% of the cost of the improvement, with a maximum lifetime credit of \$1,500 to 10% of the cost with a lifetime maximum of \$500. If you have not replaced that old furnace, it might be a good time to do so.
- **Child Tax Credit:** The child tax credit is to remain at \$1,000 for 2011 and 2012. The credit was scheduled to revert back to \$500 absent this new legislation.



Individuals – continued

- **Higher Education:** The American Opportunity Tax Credit has been extended through 2012. This allows for a maximum credit of \$2,500 in qualified higher education expenses for qualified individuals. In addition, there are other education benefits in place, such as the higher education tuition deduction and student loan interest deduction.
- **Sales Tax Deduction:** The election to claim state and local sales tax in lieu of state income taxes is extended through 2012.
- **Teacher's Classroom Expenses:** The \$250 deduction for teacher's out-of-pocket classroom expenses has been extended.
- **Alternative Minimum Tax (AMT):** The increased exemption amounts for the AMT tax has been extended for 2010 and 2011. This is good news, as typically, Congress has kept us waiting until the last minute to pass this legislation. Now, we already know for 2011 that we can rely on this benefit.

Businesses

- **Bonus Depreciation:** Bonus depreciation has been increased to 100% of the cost of qualified personal property made after September 8, 2010 and before January 1, 2012. Bonus depreciation has the potential to be a very large, beneficial tax savings strategy, but keep in mind that it only applies to new (not used) property.
- **Section 179:** Code section 179 expense will remain the same for tax years 2010 and 2011, which is a \$500,000 deduction limit that phases out as the cost of fixed asset additions exceeds \$2,000,000. For tax year 2012 the deduction and phaseout limits fall to \$125,000 and \$500,000, respectively. Unlike bonus depreciation, Section 179 expensing applies to both new and used assets.
- **Research Credit:** The research credit has been extended to tax years 2010 and 2011.
- **Energy Incentives:** Energy incentives that have been extended include the Section 1603 cash grants in lieu of a tax credit program and incentives that encourage the development of alternative energy sources.
- **Qualified Small Business Stock:** The new law extends the 100% exclusion of gain realized from qualified small business stock held for more than 5 years. The stock must be acquired after September 27, 2010 and before January 1, 2012.
- **Work Opportunity Tax Credit:** The Work Opportunity Tax Credit was enacted to encourage the hiring of individuals from targeted groups. The credit has been extended for individuals who begin employment after August 31, 2011 and before January 1, 2012. The credit is equal to 40% of up to \$6,000 of the targeted employee's qualified first-year.

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Estates Taxes

- The new law revives the estate tax with a maximum estate tax rate of 35% and a \$5 million (\$10 million for married couples) exclusion for decedents passing in 2011 and 2012. For decedents who died in 2010, the law gives estates the option to elect to apply the estate tax at 35% with a \$5 million exclusion or to apply carryover basis.

The timing of this new law made it very difficult for taxpayers and tax professionals to prepare for 2010 year end planning. However, since a lot of the new provisions apply through 2011 and 2012, we have a lot more time to take advantage of the potential savings techniques. If you have any questions regarding the new law, do not hesitate to call our office.