



2010 Tax Relief Act Summary January 12, 2011

The 2010 Tax Relief Act extended many of the Bush-era tax cuts and created new provisions which impact both businesses and individuals. The new law is quite complex, so to assist our clients in understanding the scope of these changes we have prepared the following summary of some of the key provisions.

Businesses

100% Bonus Depreciation: increases bonus depreciation to 100% for qualified investments made after September 8, 2010 and before January 1, 2012. 50% bonus is available for qualified property placed into service after December 31, 2011 and before January 1, 2013. Certain transportation and long-lived property is eligible for 100% depreciation if placed in service by December 31, 2012.

Section 179 Expensing: establishes dollar and investment limits of \$125,000/\$500,000 for tax years beginning in 2012. The limits previously established by the 2010 Small Business Jobs Act of \$500,000/\$2,000,000 remain in place for tax years beginning in 2010 and 2011.

Payroll Tax Reduction: effective January 1, 2011 employees' Social Security payroll tax drops from 6.2% to 4.2% on wages up to \$106,800. Employers have until January 31, 2011 to implement the change in their payroll processing, and until March 31, 2011 to credit employees for any amount over-withheld.

Other business provisions: the bill extends many energy tax credits, which expired at the end of 2009, for one or two years. Numerous business tax extenders were renewed for an additional two years, including the 15-year recovery period for leasehold, restaurant and retail improvements. In addition, the research tax credit is renewed for 2010 and 2011. Provisions were also made for small business stock and the Work Opportunity Tax Credit.

Individuals

Individual Tax Rates: all individual tax rates established by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) are extended through 2012, so the rates remain at 10, 15, 25, 28, 33 and 35%.

Capital Gains/Dividends: qualified capital gains and dividends will continue to be taxed at a maximum rate of 15% through 2012. The rate remains 0% for taxpayers in the 10 and 15 percent income tax brackets.

Marriage Penalty Relief: the standard deduction and the 15% income tax bracket for a married couple filing jointly remains at twice the amount for a single individual through 2012.

Alternative Minimum Tax: provides an AMT “patch” for 2010 and 2011. Without this patch, an estimated 21 million households would be subject to the higher tax liabilities of the AMT.

Payroll Tax Reduction: as described above, the bill lowers an employee’s share of Social Security tax from 6.2% to 4.2% effective January 1, 2011, resulting in an immediate increase in take-home pay.

Itemized Deduction Limitation: the repeal of the itemized deduction limitation has been extended through December 31, 2012. Prior to 2010, individuals with adjusted gross incomes of \$169,550 or more (\$84,775 for married couples filing separately) were subject to limitations on the total amount of otherwise allowable deductions. These limitations will not apply in 2010-2012.

Personal Exemption Phaseout: the repeal of the personal exemption phaseout has been extended through December 31, 2012. Prior to 2010, the phaseout reduced the amount of exemptions claimed by higher-income taxpayers by 2% for every \$2,500 (\$1,250 for married filing separately) of income over the applicable threshold. There will be no phaseout of exemptions in 2010-2012.

Other Individual Credits and Deductions: the bill addresses numerous individual credits and deductions including the Child Tax Credit (which will remain at \$1,000 for two years), the Earned Income Tax Credit, Adoption Credit, Dependent Care Credit and the American Opportunity Tax Credit. Such deductions were extended, along with the state and local sales tax deduction and the teachers’ classroom expense deduction.

Estates

The 2010 Tax Relief Act reinstates the estate tax for 2011, but at a much lower rate and with a much higher exclusion amount than that which was previously scheduled to take effect after 2010. The act sets the maximum estate tax at 35% and the exclusion amount at \$5 million. In addition, the act provides for “portability” of the exclusion amount between spouses, reunifies the gift tax and the estate tax and extends the state death tax deduction through 2012. The estates of decedents dying after December 31, 2009 and before January 1, 2011 may elect no estate tax and the modified carryover basis rules or apply the new 35% rate and \$5 million exclusion with a stepped-up basis.

Please note: *this is not an exhaustive list of all the provisions of the 2010 Tax Relief Act. For more information about how this bill may affect you, please contact your HB&K advisor.*

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