



Relief! Much Anticipated Tax Bill Signed in Time for New Year.

By James E. Martinez, CPA

In keeping with tradition, Congress waited until the “11th hour” before finally passing this year’s much needed tax legislation. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed by the President on December 17, 2010. The Act is primarily a two-year extension of the “Bush Tax Cuts.” The major provisions of the bill are summarized below. If you would like additional explanation of any of the provisions, or if you would like to know how they might affect your tax situation, please feel free to give us a call.

Tax Rate Structure

The more taxpayer-friendly tax rate structure created by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGGTRA) have been retained for two more years. That means the graduated structure of rates at 10%, 15%, 25%, 26%, 33% and 35% will remain, at least for a couple more years. Without this Act, the brackets would have increased to the pre-EGGTRA bracket structure of 15%, 28%, 31%, 36% and 39.6%.

Various EGGTRA Sunset Provisions Extended

Favorable tax rules such as marriage penalty relief and the favorable education related credits have been extended for two years. The child tax credit will remain at \$1,000 per qualifying child for two more years.

Long-term Capital Gain and Qualified Dividend Rules

The favorable treatment of long-term capital gains and qualified dividends has been retained two additional years. For 2011 and 2012, long-term capital gains and qualified dividends will continue to be subject to the 0%/15% structure applicable in 2010.

AMT Relief

Without the new law, AMT exemption levels would have been reduced significantly, down to pre-EGGTRA levels. This would have ensnared a huge number of unsuspecting taxpayers in the AMT trap. Fortunately, the new law gave us another AMT reprieve that will benefit a large number of taxpayers.



Itemized Deduction and Personal Exemption

Under the new law there will be no reduction of itemized deductions and personal exemptions for high earners for 2011 and 2012. Under pre-Act law, there was a phase out of both itemized deductions and personal and dependency exemptions.

Payroll and Self Employment Tax

The Act created a special 2% reduction in payroll and self-employment taxes for 2011. This tax reduction is considered to be a reduction of the employee's portion of the tax and not that of the employer.

Estate and Gift Tax Relief

Prior to the Act, there was no estate tax for decedents dying in 2010. However, in 2011, the estate tax was scheduled to reappear with a low \$1 million exemption and a 55% top tax rate. The Act gave us another estate tax reprieve and also made the estate tax optional in 2010. The estates of decedents dying in 2010 can elect to have the zero estate tax (subject to the carryover basis rules). Otherwise, they will be subject to the revived estate tax with a \$5 million exemption and stepped up basis rules. The top rate will be 35%. Additionally, an interesting new provision allows the deceased spouse's unused exemption to shift to the surviving spouse. The gift tax exclusion is reunified with the estate tax at \$5 million. As with most of the Act, the new estate tax rules are temporary and very complicated. They expire at the end of 2012.

This article was intended as a general review of just some of the new Act's major provisions. Please feel free to contact us if you have any questions or concerns regarding how the Act will affect your personal tax situation.

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