



## **The Tax Relief/Job Creation Act of 2010 was signed by President Obama on Friday, December 17th.**

In a rare moment of speed and clarity, Congress took swift action on the new tax act. Once signed by the President, the act removed much of the uncertainty of the last few months and offered welcome tax relief to many taxpayers in 2010 and beyond.

These are the items contained in the new bill:

### **Individual income tax**

- **Rates.** There is a two-year extension of the current individual tax rate structure with a maximum rate of 35% for 2011 and 2012. The tax rates were scheduled to increase to a maximum of 39.6%.
- **Investment gains, dividends.** Long-term capital gains and qualified dividends will continue to be taxed at 15% for another two years.
- **Deductions.** Itemized deduction phase-outs will remain at 2010 levels.
- **Personal exemptions.** There will be no personal exemption phase-outs for another 2 years.
- **Standard deduction.** Marriage penalty relief will be extended for two more years.
- **Child tax credit.** The child tax credit will remain at \$1,000 for another two years per child instead of \$500 per child.
- **Student Loan interest.** Will continue to be deductible.
- **Earned income, Dependent care credits.** Favorable changes scheduled to expire after 2010 will be extended through December of 2012.
- **Education credit.** The American Opportunity Tax Credit, offering up to a 40% refundable credit for higher education expenses, will be extended through December of 2012.
- **AMT.** A patch will be provided to prevent additional tax on middle income taxpayers.

### **Business tax**

- **Asset purchases.** 100% bonus depreciation in the first year for qualified new assets purchased between September 8, 2010 and December 31, 2011. This bonus depreciation will be available for all businesses, without any investment cap.
- **Section 179 deduction.** Will be \$125,000 on purchases up to \$500,000 beginning in 2012.
- **Research Tax Credit.** The plan includes a temporary two year extension of the credit which expired at the end of 2009.
- **Energy incentives.** Numerous expiring tax credits have been extended through 2011.

## **Estate and gift**

- **Estate tax.** An increase in the estate tax unified credit to \$5,000,000 with an estate tax rate of 35% for 2011 and 2012. Executors of decedents who die in 2010 can elect to use the 2011 rules or 2010 rules (pay no estate tax and have a carryover basis). Estates of decedents dying in 2010 have an automatic extension of time to file their return until 9 months after date of enactment (12/17/2010.)
- **Gift tax.** The unified credit against gift tax has been reinstated for gifts made after 2010. The maximum lifetime gifts without paying gift tax is now \$5,000,000 for 2011 and 2012

## **Other**

- **Unemployment benefits.** Federal unemployment benefits have been extended through 2011.
- **Payroll taxes.** A one-year reduction in employee- paid social security withholding from 6.2% to 4.2%. Self-employment tax will be 10.4% plus Medicare of 2.9%.