

January 10, 2011

# 2010 Tax Relief Act - Individuals



## TAX RELIEF ACT OFFERS MANY INCOME TAX SAVING OPPORTUNITIES FOR INDIVIDUALS

The extension of the lower income and capital gains tax rates set to expire December 31, along with significant reductions to the estate tax, have probably received the most media coverage. But the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, passed by the Senate December 15 and the House December 16, extends and expands a wide variety of valuable tax breaks.

### **Payroll tax rates**

For 2011 only, the 2010 Tax Relief Act reduces the employee portion of the Social Security tax on earned income from 6.2% to 4.2%. The self-employed pay both the employee and employer portions of Social Security tax, and the Tax Relief Act also reduces their rate by two percentage points for 2011, from 12.4% to 10.4%. For 2011, the maximum taxable wage base for Social Security taxes is \$106,800 (the same as for 2010). So the maximum tax savings from this break is \$2,136.

### **Ordinary income tax rates**

Because of the 2001 tax act sunset, most ordinary income tax rates were scheduled to increase for 2011. There was much talk about extending the lower rates for only the lower and middle tax brackets for only one year, but the 2010 Tax Relief Act extends the lower rates for all brackets for two years. So income tax rate increases now are not scheduled to occur until 2013.

### **Long-term capital gains rates**

Under the 2001 Tax Act, the 15% long-term capital gains rate was scheduled to increase to 20% in 2011. The 2010 Tax Relief Act extends the 15% rate through 2012. If you have children or other loved ones in one of the bottom two ordinary income tax brackets, note that the 0% rate will generally apply to their long-term gains through 2012. (Beware of the "kiddie" tax, however.)

### **Qualified dividend tax rates**

The 2010 Tax Relief Act extends taxation of qualified dividends at the 15% long-term capital gains tax rate through 2012 (0% for those in the bottom two brackets). Without Congressional action, dividends would have gone back to being taxed at ordinary income rates in 2011, with a top rate as high as 39.6%.

### **Itemized deduction and personal exemption phaseouts**

The 2001 Tax Act reduced the adjusted gross income (AGI)-based reductions on itemized deductions and personal exemptions for 2006 through 2009 and eliminated them for 2010. The 2010 Tax Relief Act extends this elimination through 2012.

### **Deduction for state and local sales taxes**

For the last several years, taxpayers have been allowed to take an itemized deduction for state and local *sales* taxes in lieu of state and local *income* taxes. This break can be valuable to those residing in states with no or low income tax rates or who purchase major items, such as a car or boat. But this break expired after 2009. The Act extends the deduction for 2010 and 2011, but not any further years.

## **Charitable giving and your IRA**

If you are at least 70 ½, you can again make a direct contribution from your traditional IRA to a qualified charitable organization without owing any income tax on the distribution. If you're subject to required minimum distributions, the contribution can be used to satisfy that requirement. The maximum allowable distribution for charitable contribution purposes is \$100,000 per tax year and is available for 2010 and 2011. This is especially advantageous to those who do not itemize their deductions.

## **Alternative Minimum Tax (AMT)**

The AMT is a separate tax system that limits some deductions and credits, doesn't permit others and treats certain income items differently. If your AMT liability is greater than your regular tax liability, you must pay the AMT.

Unlike the regular tax system, the AMT system isn't regularly adjusted for inflation. Instead, Congress must legislate any adjustments. Typically, it has done so in the form of a "patch" — an increase in the AMT exemption. The 2010 Tax Relief Act establishes patches for 2010 and 2011.

## **An expansive act**

We've been focusing on provisions that will help higher-income taxpayers to reduce their individual income tax liability. But the 2010 Tax Relief Act provides many additional opportunities:

- If you're in the middle or lower tax brackets, you may benefit from extensions of tax breaks such as various education and child-related credits and deductions. If you're interested in reducing energy consumption, you may want to take advantage of extensions of various energy-related breaks.
- If you're currently unemployed, you may benefit from the Act's extension of unemployment benefits.
- If you're a business owner or executive, there are many business breaks that could reduce your business's taxes (and your own, if you're an owner of a flow-through entity). (See our business article on this website.)
- If estate taxes are a concern, you'll want to review your estate plan in light of the Tax Relief Act's temporary estate tax relief. (See our estate and gift article on this website.)

We have highlighted for you some of the major tax breaks under the Tax Relief Act. However, please contact us to discuss your specific tax situation as the tax impact will differ based on individual circumstances. If you'd like to learn more about any of these provisions and how they might affect your situation, please contact us. We'd be pleased to help you take full advantage of the opportunities the 2010 Tax Relief Act offers.

###

For questions, please contact a Kerkering Barberio professional tax advisor at 941-365-4617.