THE TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION AND

. JOB CREATION ACT OF 2010

It was almost mid December, 2010 when Congress finally passed The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (2010 Tax Relief Act). It basically said "never mind." Extending provisions for just two years up through 2012, the Act sets up a major issue for the 2012 presidential election and merely postpones final decision making. Here's what's been extended and what's new:

INDIVIDUAL CHANGES:

Tax Rates: The 2010 Tax Act extends all individual tax rates at 10, 15, 25, 28, 33 and 35 percent through December 31, 2012.

Capital Gains/Qualified Dividends: The Act also extends the maximum 15% rate (zero percent for those in the 10 and 15 percent tax bracket) for long term capital gains and qualified dividends through December 31, 2012. Dividends from regulated investment companies (RICs), real estate investment companies (REITs), and other qualified pass through entities continue to qualify.

Itemized Deduction (Pease) Limitations: The Act repeals this reduction in itemized deductions based on income through December 31, 2012.

Person Exemption Phaseout: Prior to 2010, taxpayers with incomes above a certain level were subject to a reduction in their personal exemptions. The Act extends the repeal of this deduction reduction through December 31, 2012.

Marriage Penalty Relief: Prior legislation reduced the marriage penalty by increasing the basic standard deduction for a married couple to twice that of a single filer. The Act extends this marriage penalty relief through December 31, 2012/

Child Tax Credit: The Act extends the $1,000 Child Care Credit through December 31, 2012. I was scheduled the fall to $500.

Earned Income Credit: The Act extends the enhanced Earned Income Credit through December 31, 2012.

Adoption Credit/Exclusion: Prior legislation increased the dollar limitation for the adoption credit and increased the exclusion for employer provided assistance to $10,000 increased by another $1,000 by the Patient Protection and Affordable Care Act for 2010 and 2011. The 2010 Act extends the enhancements to the credit and exclusion through December 31, 2012. However, the credit is not refundable for 2011 and 2012 and the additional $1,000 under the PPACA is not available after 2010.

Dependent Care Credit: The 2010 Act extends the enhanced dependent care credit through December 31, 2012.

Employer Provided Child Care: Employers who provide child care facilities have been able to claim a 25% tax credit for qualified expenses and a 10% tax credit for qualified resource and referral services. The Act extends these credits through December 31, 2012.

Mortgage Insurance Premiums: Under current law, certain qualified mortgage insurance premiums are potentially allowable deductions. The 2010 Act extends this deduction for one year.

American Opportunity Tax Credit: The 2010 Act extends this four year credit through December 31, 2010.

Educational Assistance Exclusion: The 2010 Act extends this exclusion of up to $5,250 in employer provided education assistance through December 31, 2012.

Student Loan Interest Deduction: The 2010 Act extends through December 31, 2012 the elimination of the 60 month rule and the expanded income phaseout amounts for this potential $2,500 deduction.

Coverdell Education Savings Accounts: Scheduled to fall back to $500, the maximum $2,000 annual contribution has been extended through December 31, 2012.

Annual Extenders: The following individual benefits and deductions have been extended for two years, 2010 and 2011. That means Congress will have to revisit them again next year:

- State and local sales tax deduction
- Higher education tuition deduction
- Teacher's $250 above the line classroom expense deduction
- Charitable contribution deduction of appreciated property for conservation purposes.
- Charitable contribution of IRA proceeds. Here the IRS has allowed direct contributions made in January 2011 to count for 2010.

Alternative Minimum Tax: The 2010 Act patches the AMT with higher exemption amounts for 201 and 2011. Without the changes, an estimated 21 million more taxpayers would be subject to the AMT. The new exemption amounts are:

	2010	2011
Single	$47,450	$48,450
Joint/Surviving Spouse	$72,450	$74,450
Married Filing Separately	$36,225	$37,225

Payroll Tax Cut: This one is NEW! The 2010 Act cuts the 2011 employee share of the Social Security tax from 6.2% to 4.2%. This 2% cut can potentially save you as much as $2,136 (2% of $106,800). Self employed individuals will calculate the above the line deduction for employment taxes without regard to the temporary rate reduction.

Transit Benefits: Employer provided transit benefits (transit passes and vanpool benefits) may be tax free to employees. For 2010, the ceiling is $230. The 2010act extends these benefits for one year, through 2011.

Energy Incentives: The 2010 Act extends these energy credits through 2011. But the total maximum $1,500 credit for 2009 and 2010 has been reduced to pre 2009 Recovery Act limits ($500) for 2011.

BUSINESS CHANGES

100% Bonus Depreciation: The 2010 Act increases bonus depreciation from 50% to 100% for qualified investments made after September 8, 2010 and before January 1, 2012. It also makes 50% bonus depreciation available for qualified property placed in service after December 31, 2011 and before January 1, 2013.

Code Section 179 Expensing: To encourage business spending, Congress increased the amount that can be expensed and the investment limit to $500,000 and $2 million, respectfully, for 2010 and 2011. For 2012, the numbers are $125,000 and $500,000, both indexed for inflation.

Research Tax Credit: This credit was renewed for two years, 2010 and 2011.

Work Opportunity Credit: Scheduled to expire after August 31, 2011, the 2010 Act extends this credit through the end of 2011. But, the Act does not extend this credit for unemployed veterans and disconnected youth beyond 2010.

Small Business Stock: The 2010 Act extends the 100% exclusion of gain from the sale of qualified small business stock by non-corporate taxpayers to stock acquired before January 1, 2012. The stock must be held for more than five years and the amount excluded is limited to the greater of $10 million or ten times your basis in the stock.

Business Energy Incentives: These incentives, such as the credits for biodiesel fuel, refined coal facilities etc. have been extended for two years.

FEDERAL ESTATE TAX

The 2010 Act revives the Estate Tax for 2011 with a $5 million exclusion and a top marginal bracket of 35 percent. Step up basis is returned. For those dying in 2010, estates have the option of using the 2010 rules with no tax and a limited step up, or the new 2011 rules with a full step up in basis and the $5 exclusion.

BIG CHANGE! The exclusion is now portable between spouses. So, if a husband dies and uses up $2 million of his $5 million exclusion, the surviving spouse has an exclusion of $5 million PLUS the unused $3 million from the husband's estate for a total $8 million exclusion. If the surviving spouse is predeceased by more than one spouse, the exclusion amount available is limited to the lesser of $5 million or the unused exclusion of the last deceased spouse.

Gift Taxes: For gifts made after 2010, the gift tax is reunified with the estate tax with a top gift tax rate of 35% and a maximum exclusion mount of $5 million.