

2010 Federal Tax Legislation

On December 17 the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (the 2010 Tax Relief Act) was signed into law. It includes a host of retroactively resuscitated and extended tax breaks for individuals and businesses. Here's a look at certain key provisions that may affect your tax situation:

Income Tax Rates Extended

For 2010 through 2012, the current income tax rates will be retained, with a top rate of 35% on ordinary income.

Capital Gains Tax Rates Extended

For 2010 through 2012, the favorable long-term capital gains tax rates will be retained, with a top rate of 15% on qualified dividends and long-term capital gains. *Note:* The long-term capital gains rate of 0% for taxpayers in the 10% and 15% tax brackets has also been extended.

Phase-outs Eliminated

For 2010 through 2012, the phase-outs of the personal exemption deduction and overall deduction for itemized deductions have been eliminated. This will allow for full deduction of certain itemized deductions (i.e. charitable contributions and mortgage interest) that are not subject to AMT.

AMT Tax Relief

For 2010 and 2011, a two-year AMT "patch" will keep the AMT exemption near current levels and allow personal credits to offset AMT.

Residential Energy Property Credit

For 2010, the tax credit of up to \$1,500 (limited to 30% of the purchase price) is available to individuals for energy-saving home improvements placed in service on a principal residence, such as residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners and water heaters. Each improvement is limited to specific credit amounts and qualifications. For 2011, the tax credit is reduced to \$500 (limited to 10% of the purchase price).

Business Bonus Depreciation

Businesses can write off 100% of their equipment and machinery purchases, effective for property placed in service after September 8, 2010 and through December 31, 2011. For property placed in service in 2012, the new law provides for 50% additional first-year depreciation.

Social Security Tax Rate Relief

For 2011 only, employees and self-employed workers will receive a reduction of two percentage points in Social Security payroll tax in 2011, bringing the rate down from 6.2% to 4.2% for employees, and from 12.4% to 10.4% for the self-employed.

Estate Tax Provisions

After a one-year hiatus, the estate tax will be reinstated for 2011 and 2012, with a top rate of 35%. The exemption amount will be \$5 million per individual in 2011, and will be indexed to inflation in following years. Estates of decedents in 2010 can choose to follow either 2010 or 2011 rules.

Please feel free to call us to discuss these tax legislations, qualifications, and restrictions. As always, we will consider all the income tax laws and regulations in effect to minimize your taxes and maximize your tax savings.

Sincerely,
Bryan J. Costin, CPA, CFP®

*Pursuant to Circular 230 promulgated by the Internal Revenue Service, if this letter contains advice concerning any Federal tax issue or submission, please be advised that it is not intended or written to be used, and that it cannot be used, for the purpose of avoiding Federal tax penalties unless otherwise expressly indicated.