

## The New Tax Act Packs a Punch

The impact of the new 2010 Tax Relief Act will be felt across the board. For starters, it extends various tax breaks for individuals, enhances incentives for businesses and provides temporary relief for estates of wealthy individuals. Here's a quick review of the key provisions.

**Income tax rates:** The new law preserves lower individual tax rates through 2012. Therefore, the top tax rate, which had been scheduled to rise to 39.6%, remains at 35%. The new law also protects joint filers from the so-called "marriage penalty."

**Capital gains and dividends:** Long-term capital gains and qualified dividends will continue to be taxed at a maximum tax rate of 15% through 2012 (0% for low-income individuals). The maximum tax rate for long-term capital gains was scheduled to increase to 20% (10% for low-income individuals), while qualified dividends would have been taxed at ordinary income rates.

**Payroll tax holiday:** For one year—2011—the 6.2% Social Security tax paid by an employee is cut to 4.2% on wages up to the annual "wage base" (\$106,800 for 2011). Self-employed individuals also benefit from a 2% reduction in self-employment tax.

**AMT patch:** The new law provides another "patch" to the alternative minimum tax (AMT) by increasing exemption amounts for 2010 and 2011. The AMT exemption amounts were scheduled to fall to the lower levels in effect in 2001.

**Itemized deductions and personal exemptions:** Before the rules were repealed for 2010, deductions for itemized deductions and personal exemptions were phased out for certain high-income taxpayers. The new law extends the repeals of the phaseout rules for itemized deductions and personal exemptions through 2012.

**Bonus depreciation:** The new law reinstates bonus depreciation for qualified property placed in service in 2010 and extends it through 2012. The usual 50% bonus depreciation is increased to 100% for qualified property placed in service from September 9, 2010, through December 31, 2011.

**Section 179 deduction:** The maximum Section 179 deduction for current write-offs is set at \$125,000 for tax years beginning in 2012, with a \$500,000 phaseout threshold. These amounts were scheduled to fall to the lower levels that were in effect in 2001.

**Qualified small-business stock:** Previously, the maximum 50% tax exclusion for qualified small-business stock (QSBS) was temporarily increased to 75%. The new tax law authorizes a 100% maximum exclusion for QSBS acquired before January 1, 2012.

American Opportunity Tax Credit: The enhanced American Opportunity Tax Credit (AOTC), which was scheduled to expire after 2010, is extended through 2012. But this tax credit for higher education expenses is still phased out for high-income taxpayers.

Residential energy credits: The residential energy credit, which was scheduled to expire after 2010, is extended through 2011. However, the credit is reduced to 10% (from 30%) with a \$500 maximum (down from \$1,500).

Estate-tax relief: The estate rules are completely overhauled, although the changes are only temporary. Significantly, the estate-tax exclusion amount (commonly called the "estate-tax exemption") is increased to \$5 million for 2011 and 2012.

Finally, be aware that this is only a general overview. For example, the new law also extends a tax break for charitable transfers made from IRAs by retirees, enhanced tax deductions for certain corporate donations and the tuition-and-fees deduction for college students. More details are available upon request.