

2010 Tax Relief Act: What Physicians Need To Know

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 contains several provisions that may affect you and your medical practice. Here are some highlights.

Business Incentives

If you've been considering investing in new equipment or other assets for your practice, the new law contains several incentives designed to encourage you to make your purchases during 2011 and 2012.

100% Write-off in 2011. Your practice may deduct 100% of the cost of qualified new property purchased and placed in service after September 8, 2010, and before January 1, 2012. (Used property does not qualify.) Most machinery and equipment, computers, office furniture, and the like are eligible for the deduction. As an added bonus, there is no limit on the amount of qualified property eligible for the 100% write-off.

50% Depreciation Bonus in 2012. Although the 100% write-off will no longer be available in 2012, your practice may elect to accelerate depreciation deductions by writing off 50% of the cost of qualified property placed in service during the year. The remainder of your cost would be eligible for regular depreciation deductions.

Section 179 Expensing in Both Years. Deducting asset costs under Section 179 of the tax code is another option for qualifying taxpayers. The expensing election has a \$500,000 limit in 2011. This \$500,000 limit is reduced dollar for dollar as total eligible asset purchases exceed \$2,000,000. Also, for 2011 only, as much as \$250,000 of qualified real property (including certain leasehold improvement property) may be treated as Section 179 property.

In 2012, the Section 179 expensing election will be limited to \$125,000 in eligible purchases, and the dollar-for-dollar phaseout will begin when purchases for the year exceed \$500,000. For tax years beyond 2012, the expensing limit drops to \$25,000, and the phaseout threshold decreases to \$200,000.

Personal Income Taxes

The 2010 Tax Relief Act delays a number of tax hikes that had been scheduled to take effect in 2011 and contains several other provisions that you'll want to keep in mind in your tax planning.

Tax Rates. The new law extends the lower individual income-tax rates that have been in effect for several years. As a result, the top rate in 2011 and 2012 will be 35% instead of rising to 39.6% as prior law provided. Also beneficial: Higher income taxpayers will not see their taxes increased by provisions that phase out their deductions for personal exemptions and reduce their itemized deductions until after 2012.

Capital Gains and Qualified Dividends. For several years, the maximum tax rate on net capital gains has been 15% (0% for taxpayers in the 10% and 15% regular income-tax brackets). Instead of reverting to rates ranging as high as 20% starting in 2011, the 2010 Tax Relief Act extends the 2010 capital gains rates for two additional years.

Qualified dividends, which were subject to the same maximum rates as net capital gains in 2010, were to be treated as ordinary income (subject to tax rates of up to 39.6%) in 2011. The new law extends the favorable tax rates on qualified dividends for another two years.

Alternative Minimum Tax (AMT) Exemptions. Under the new law, the AMT exemption amounts for 2011 will be: \$74,450, married filing jointly; \$48,450, unmarried individuals; and \$37,225, married filing separately. As under prior law, the AMT exemptions are subject to an income-based phaseout, so higher income taxpayers still need to plan for possible AMT exposure.

Gift and Estate Tax. Under the new law, the top gift- and estate-tax rate is 35% for 2011 and 2012. Also, the gift- and estate-tax exemption is increased to \$5 million from its 2009 level of \$3.5 million. What this means for you is that you can transfer up to \$5 million in property through lifetime gifts and transfers at death free of gift and estate tax. (The \$5 million figure may be inflation-adjusted for 2012). However, for your long-range estate planning, you should be aware that, absent further legislation, the \$5 million exemption will drop to \$1 million in 2013, and the top tax rate will increase to 55%.

Another provision of the 2010 Tax Relief Act gives married couples an additional estate planning option: The \$5 million estate-tax exemption amount is portable between spouses for 2011 and 2012. Subject to various restrictions, married couples will essentially be able to pass, estate-tax free, up to \$10 million of assets to their families with minimal planning. However, relying on this temporary provision to minimize estate-tax exposure may not be wise.

The new law also has reinstated the estate tax for 2010. If you've inherited assets from someone who died in 2010 or you are the executor/personal representative of a 2010 estate, several new tax complexities could present planning issues for you.

Generation-skipping Transfer Tax. Transfers of property to your grandchildren or others more than a generation younger than you could trigger the generation-skipping transfer (GST) tax. The generation-skipping transfer (GST) tax rate is equal to the highest federal gift- and estate-tax rate, 35% in 2011 and 2012. Where applicable, GST tax is paid in addition to estate and gift tax. Under the new law, the GST-tax exemption is \$5 million for 2011 and 2012 (may be inflation-adjusted). It's slated to drop to \$1 million in 2013. The GST-tax exemption is not portable.

Dana F. Cole & Company, LLP
www.danacole.com

These business-related and individual tax changes may present a variety of planning challenges over the next two years.