

Recent Tax Changes effecting the year 2011 and your 2010 Income Tax Returns

Natic Taylor & Company, your CPAs and Trusted Business AdvisorsSM

Special Note: The IRS recently announced that the late passing of this new legislation will require computer system changes and as a result, most taxpayers will not be able to file their tax returns until mid to late February, 2011.

The newly passed and signed 2010 Tax Act, includes several provisions that will affect your taxes, both in 2011 & 2012, and on your 2010 tax returns. Here is a summary of the legislation passed, formally named the

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

Major Provisions of the New Law & Other changes:

- Postpones the sunset of the 2001 and 2003 tax cuts scheduled for 2010 to 2012
- Lowers Social Security (Payroll) tax for employees on 2011 wages
- Reduces the estate tax from 55% to 35 and increases the deduction from \$1mm to \$5mm
- Increases Gift exclusion amount
- Extends unemployment benefits for another 13 months
- Includes an alternative minimum tax (AMT) patch
- Extends for two years the lower Capital gains & Dividends tax rate of 15%
- Extends for two years the repeal of the itemized deduction phase-out and the personal exemption phase-out.
- Mileage Rate for 2011 is 52 cents.

Provisions That May Affect You

- **Estate Tax** The Act temporarily reinstates the estate tax, with an estate tax rate of 35% and an estate tax exemption of \$5 million (adjusted for inflation after 2011).
- **Payroll Tax** For 2011, the Act reduces the rate for the Social Security portion of payroll taxes to 10.4% by reducing the employee rate from 6.2% to 4.2%. The employer's portion remains 6.2%.
- **Family** The Act extends several expired or expiring provisions affecting families, including the following:
 - ❖ The increased standard deduction for married taxpayers filing jointly, which is scheduled to expire after 2010, continues for two years.
 - ❖ The \$1,000 child tax credit amount continues for two years instead of reverting to \$500.
 - ❖ \$250 deduction for elementary and secondary school teachers' classroom expenses
 - ❖ a continuation of the deduction for qualified tuition and related expenses up to \$4,000
 - ❖ The increased starting and ending points for the earned income credit continues for two years.
 - ❖ The \$3,000 amount for the child and dependent care credit, which was scheduled to revert to \$2,400 after 2010, continues for two years.
 - ❖ The American Opportunity Tax Credit (tuition & fees for higher education – maximum credit of \$2,500) continues for two years.
 - ❖ The choice between taking sales tax OR state income tax as an itemized deduction.

- **Capital Gains & Dividends** – these will continue to be taxed at the more favorable 15% tax rate for 2010 and 2011.
- **Gift Exclusion** The Act also makes adjustments to the gift exclusion and generation-skipping transfer (GST) tax that will affect family giving:
 - ❖ The federal gift tax exemption is increased to \$5 million for 2011 and 2012, up from \$1 million in 2010.
 - ❖ The GST tax exemptions are set at \$5 million for 2011 and 2012. The exemption limit is scheduled to drop to \$1 million beginning in 2013.
- **Business** The Act continues certain tax advantages for business. Among these it:
 - ❖ extends the 100% bonus depreciation for business property acquired after September 8, 2010, before January 1, 2012, and placed in service before January 1, 2012 (or before January 1, 2013, in the case of certain property).
 - ❖ It also sets the expensing limitation under IRC §179 at \$125,000 and the phase-out threshold amount at \$500,000 for 2012. The Act then reduces these amounts to \$25,000 and \$200,000 for tax years beginning after 2012.
 - ❖ The temporary 100% exclusion of gain from the sale of certain small business stock under IRC §1202, enacted by the Small Business Jobs Act of 2010, is extended through 2011.
 - ❖ Vehicle Depreciation: ([Click Here](#))
- **AMT** The Act includes an AMT patch for 2010 and 2011.
 - ❖ For 2010, the AMT exemption amounts will be \$47,450 for unmarried individuals and \$72,450 for married individuals filing jointly.
 - ❖ For 2011, the amounts will be \$48,450 and \$74,450, respectively.
- **Mileage Rate** The mileage rate was and is as follows:
 - ❖ For 2009, the business mileage rate was 55 cents.
 - ❖ For 2010, the business mileage rate was 50 cents.
 - ❖ For 2011, the business mileage is 51 cents; 19 cents Medical/moving; 14 Charitable.
- **2011 Tax Table**

Tax Rate	Income Level				
	Single	Married Joint	Head of Household	Married Filing Separate	Estates & Nongrantor Trusts
10%	\$1 - 8,500	\$1 - 17,000	\$1 - 12,150	\$1 - 8,500	n/a
15%	\$8,501 - 34,500	17,001 - 69,000	12,151 - 46,250	8,501 - 34,500	0 - 2,300
25%	34,501 - 83,600	69,001 - 139,350	46,251 - 119,400	34,501 - 69,675	2,301 - 5,450
28%	83,601 - 174,400	139,351 - 212,300	119,401 - 193,350	69,676 - 106,150	5,451 - 8,300
33%	174,401 - 379,150	212,301 - 379,150	193,351 - 379,150	106,151 - 189,575	8,301 - 11,350
35%	over 379,150	over 379,150	over 379,150	over 189,575	over 11,350

Needless to say, the 2010 Tax Act is still very new. It is only just being analyzed by professional advisers. The law is potentially subject to modifications by technical correction acts. In addition, provisions of the law may be interpreted by the Treasury Department issuing regulations and by the IRS issuing forms and instructions.
