Judy Shonborn, CPA, CFP®

(414) 688-5199 www.shonborncpa.com
(414) 529-2443 (home & fax) 10232 W. Spring Green Road
email: judy@shonborncpa.com Greenfield, WI 53228-3238

Tax Update – 2010 Tax Relief Act enacted December 18, 2010

In my December 8, 2010 tax letter, I said that Congress was working on additional tax changes, including some items that would affect 2010. Finally on December 18th, a bill was signed and we now know the overall structure of tax law for 2011 and 2012 (although changes are sure to follow). The following is a summary of the "old" laws that have been extended and several new tax breaks, as well as eight popular items that were not extended. This summary focuses mainly on individual taxes. There were also many business tax changes that are not listed here. Tax rates through 2012 remain about the same as shown below (with only inflation increases in income levels):

Federal Tax Rate	10%*	15%*	25%**	28%**	33%**	35%**
2010 Taxable Income:						
Single	\$0-\$ 8,375	\$ 8,376-\$34,000	\$34,001-\$ 82,400	\$ 82,401-\$171,850	\$171,851-\$373,650	>\$373,650
Head of Household	\$0-\$11,950	\$11,951-\$45,550	\$45,551-\$117,650	\$117,651-\$190,550	\$190,551-\$373,650	>\$373,650
Married	\$0-\$16,750	\$16,751-\$68,000	\$68,001-\$137,300	\$137,301-\$209,250	\$209,251-\$373,650	>\$373,650
2011 Taxable Income:						
Single	\$0-\$ 8,500	\$ 8,501-\$34,500	\$34,501-\$ 83,600	\$ 83,601-\$174,400	\$174,401-\$379,150	>\$379,150
Head of Household	\$0-\$12,150	\$12,151-\$46,250	\$46,251-\$119,400	\$119,401-\$193,350	\$193,351-\$379,150	>\$379,150
Married	\$0-\$17,000	\$17,001-\$69,000	\$69,001-\$139,350	\$139,351-\$212,300	\$212,301-\$379,150	>\$379,150
2012 Taxable Income:						
Income levels not yet calculated – will increase for inflation.						

* Except 0% rate on qualified dividends and long-term capital gains
** Except 15% rate on qualified dividends and long-term capital gains

Other Items Extended Through 2012

- Personal Exemption – no phase-out at higher income levels
- Itemized Deduction – no phase-out at higher income levels
- Standard Deduction for married taxpayers - remains at a higher level (twice the single amount)
- Child Tax Credit – remains $1,000 per child under age 17 (revert to $500 in 2013)
- Student Loan Interest – certain restrictions delayed (60-month limit and lower income phase-outs)
- American Opportunity Tax Credit – see p.6 of my December 2010 tax letter for specifics
- Coverdell Education Savings Accounts – annual contribution limit remains $2,000 (reverts to $500 in 2013) and elementary and high school expenses continue to count as "qualified withdrawals" (i.e. earning portion is tax-free and penalty-free)
- Earned Income Tax Credit – higher credit and refundable portion continues
- Adoption Credit & Limit on Employer-Paid/Reimbursed Adoption Expenses –increased amount and allowing the credit to be refundable
- Dependent Care Credit – higher credit continues
- Estate Tax – reinstated for decedents dying after 12/31/09, but at a lower rate (maximum 35%) and at a higher exclusion amount ($5 million per person exclusion); basis "step-up" is back (i.e. person inheriting property receives a stepped up basis); for 2010 deaths, estates can choose instead to follow the prior 2010 law (no estate tax but limited basis step-up); because of retroactive affects of this law, estates of people who died in 2010 have additional time (generally 9 more months) for certain due dates
- Gift Tax – this tax only applies once lifetime gifts exceed $1 million (increased to $5 million for 2011 and 2012); the maximum rate is 35% for 2010 - 2013 *(Note: The $5 million exemption is per person, so spouses each have a $5 million exemption, and certain gifts do not count towards this lifetime limit and are not reported to the IRS, including paying someone's tuition and/or medical expenses directly to the school/medical provider, as well as any gift that does not exceed $13,000 to an individual in a given year.)*

Extended Only Through 2011

- AMT "Patch" – when calculating Alternative Minimum Tax, the amount of income that is excluded from this tax (the AMT exemption) has again been raised to a similar level as in prior years *(So what does this mean? If you have similar income and deductions in 2010 as in past years, and you paid AMT in the past, you should pay about the same level of AMT in 2010. Same for 2011. Without this patch, many more people would have paid AMT and those already paying AMT would have paid much more.)*
- Sales Tax – can choose to take sales tax as an itemized deduction instead of state income tax
- Tuition Deduction – see p.7 of my December 2010 tax letter for specifics
- Charitable Contributions form IRAs - can be make directly from IRAs (i.e. instead of withdrawing money from an IRA (reported as income) and giving cash to a charity (deducted as a charitable donation if you itemize deductions)
- Teacher's Classroom Expense Deduction – up to $250 deduction
- Mortgage Insurance Premiums (PMI) – certain premiums paid for qualified mortgage insurance continue to be included in itemized deductions
- Residential Energy Property Credit – this credit for energy efficiency improvements to a personal residence during 2009 – 2010 was 30% of the cost, up to a maximum $1,500; it has been extended to 2011, but the "lifetime" limit is reduced to $500 (so if $500 or more was claimed in 2009 – 2010, then no credit is available for 2011) and the 2011 credit is calculated at a lower level (10% of the cost, subject to a $50, $100 or $150 limit on individual items)
- Unemployment Benefits - reinstating benefits to unemployed workers for up to a maximum of 99 weeks per worker through 12/31/11 *(Note: In Wisconsin, workers were limited to a maximum 93 weeks because our state's unemployment rate (7.8%) is below 8.5%, but the 93 week maximum ended 11/20/10. Now employees who exhaust the normal 26 weeks of state benefits will receive up to an additional 67 weeks of federal benefits.)*

New

- Employee Social Security Tax Rate is cut **for 2011 only** – employees pay 4.2% for 2011, but employers continue to pay 6.2%; tax continues to be paid only on the first $106,800 of taxable wages; self-employed individuals also pay a 2% lower Social Security tax as part of the self-employment tax
- 100% Bonus Depreciation – for business certain property placed in service after 9/8/10 and on or before 12/31/11, businesses can claim increased 1st year depreciation (100% of the cost, versus 50% under prior law) *(Keep in mind that this is only for new property, not used, and this only comes into play if you purchased more than $500,000 of business equipment, vehicles, furniture, etc., since the separate "section 179" limit already allows most businesses to expense the full cost up to $500,000 each year for 2010 and 2011. Also note this is federal – Wisconsin state law still limits section 179 expensing to $25,000 per year and does not allow any bonus depreciation.)*
- Estate Tax "exclusion portability between spouses" for 2011 and 2012 - allows the estate of the second spouse to die to claim a $5 million estate exclusion for themselves plus any unused exclusion of the first spouse to die (up to an additional $5 million) *(Since this law is only for two years (2011 & 2012), right now it only applies if both spouses die within these two years, but we will see if this is included permanently at some future date.)*

Gone

- Making Work Pay Credit – 2010 is the last year ($400 single; $800 married)
- $250 Social Security Economic Recovery Payment – only in 2009
- Unemployment Compensation – first $2,400 tax free is only for 2009
- Additional Standard Deduction for Property Taxes – expired as of 12/31/09
- Additional Standard Deduction for Sales Tax on New Vehicles – expired as of 12/31/09
- Self-Employment Tax – for one year only (2010), health insurance premiums are subtracted from self-employment income when calculating the self-employment tax (Social Security and Medicare tax for self-employed individuals); this was not extended to future years
- First Time Home Buyer Credit – expired for home purchases after 4/30/10
- Build America Bonds – no new issuances of these bonds by state and local governments after 12/31/10 *(These bonds started in 2009 and were an alternative way for state and local governments to borrow instead of issuing municipal bonds.)*