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Maloney, Wright & Robbins

Certified Public Accountants

Dear Client,

The recently enacted "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" is a sweeping tax package that includes, among many other items, an extension of the Bush-era tax cuts for two years, estate tax relief, a two-year "patch" of the alternative minimum tax (AMT), a two-percentage-point cut in employee-paid payroll taxes and in self-employment tax for 2011, new incentives to invest in machinery and equipment, and a host of retroactively resuscitated and extended tax breaks for individuals and businesses. Here's a look at the key elements of the package:

- The current income tax rates will be retained for two years (2011 and 2012), with a top rate of 35% on ordinary income and 15% on qualified dividends and long-term capital gains.
- 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.
- A two-year AMT "patch" for 2010 and 2011 will keep the AMT exemption near current levels and allow personal credits to offset AMT. Without the patch, an estimated 21 million additional taxpayers would have owed AMT for 2010.
- Key tax credits for working families that were enacted or expanded in the American Recovery and Reinvestment Act of 2009 will be retained. Specifically, the new law extends the $1,000 child tax credit and maintains its expanded refundability for two years, extends rules expanding the earned income credit for larger families and married couples, and extends the higher education tax credit (the American Opportunity tax credit) and its partial refundability for two years.
- 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.
- Many of the "traditional" tax extenders are extended for two years, retroactively to 2010 and through the end of 2011. Among many others, the extended provisions include the election to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes; the $250 above-the-line deduction for certain expenses of elementary and secondary school teachers; and the research credit.
- 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 people who died in 2010 can choose to follow either 2010's or 2011's rules.
- Omitted from the new law: Repeal of a controversial expansion of Form 1099 reporting requirements.
- Also not included: Extension of the Build America Bonds program, which permits state and localities to issue federally-subsidized municipal bonds.

I hope this information is helpful. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call.

MALONEY, WRIGHT & ROBBINS

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