

TAX LETTER
Key Changes of the 2010 Tax Relief Act

Dear Clients and Friend,

On December 17, 2010, the Tax Relief Act (PL # 111-312) was signed by the President. The purpose of this letter is to present the key issues involved in this new law which we believe will be helpful to our readers. Certainly, we can not cover all the changes concerning the Act. For further discussion, please give us a call.

Individual Income Taxes

(A) For all income level, the “Bush Era” tax rates for the past years will be extended for 2 more years until 12/31/2012. Therefore, the individual income tax rates will be 10%, 15%, 25%, 28%, 33% and 35%.

(B) Until 12/31/2012, long term capital gain and qualified dividend will have the same maximum 15% tax rate. Individuals whose income tax brackets either 10% or 15%, the taxes for their long term capital gain and qualified dividend will be **zero**.

(C) The income level limitation on total allowable itemized deductions and the income level phase out of personal exemptions will be repealed for years 2010, 2011 and 2012.

(D) Child tax credit for 2010, 2011 and 2012 will remain at \$1,000. Credit will begin to be phased out for individuals whose Adjusted Gross Income (AGI) equal to or greater than \$110,000 (joint filers) and \$75,000 (others). The \$3,000 or \$6,000 (for 2 or more children) enhanced Dependent Childcare Credit will also be continued until 12/31/2012. The rate of credit will be calculated from minimum 20% to maximum 35% of qualified childcare expenses.

(E) Regarding Alternative Minimum Tax (AMT), for years 2010 and 2011, the Act increased the AMT exemptions for joint filers to \$72,450 and \$74,450 respectively; and \$47,450 and \$48,450 for single filers respectively.

(F) There are extensions to 12/31/2012 for many other deductions/or credits which were scheduled to end either on 12/31/2009 or 12/31/2010. For examples: (i) State and local sales tax, (ii) Higher education tuition deduction, (iii) Classroom expenses deduction for teachers, (iv) Direct charitable donation from IRA, (v) The enhanced HOPE credit now renamed as American Opportunity Tax Credit (AOTC), etc.

Payroll Tax Reduction

For one year (2011) only, the employee share of the FICA (Social Security) tax will be reduced from 6.2% to 4.2%, but the Medicare tax will not be changed for 2011. The maximum amount of earned income subject to FICA for 2011 will be \$106,800. This

means that the maximum FICA tax savings for individual will be \$2,136.

NOTE: Employer will continue to pay the 6.2% FICA tax up to \$106,800. Also Self employed individuals will have a saving of 2% only not 4%.

Bonus Depreciation and Sec. 179 Expensing

(A) The qualified, new business assets placed in services from 9/9/2010 to 12/31/2011 will be allowed a 100% Bonus Depreciation. For qualified assets placed in services from 1/1/2012 to 12/31/2012, the Bonus Depreciation will be 50%. Further, certain long-lived property and transportation property placed in services from 9/9/2010 to 12/31/2011 will also be eligible for the 100% Bonus Depreciation.

(B) The 9/27/2010 Small Business Jobs Act provided an increase of Section 179 expensing to \$500,000 with total investment limit increased to \$2,000,000 for 2010 and 2011. The new Tax Relief Act provided for the year 2012 a \$125,000 and \$500,000 expensing and investment limits respectively.

Estate and Gift Taxes

(A) The Estate and Gift taxes were **de-unified** by EGTRRA (Economic Growth & Tax Relief Reconciliation Act of 2001). Ten years later, they will be **re-unified** again on 1/1/2011 by the newly enacted Tax Relief Act of 2010.

(B) From 1/1/2011 to 12/31/2012, the life-time unified exemption amount will be \$5,000,000 for an individual. The maximum estate tax rate will be reduced to 35% for all taxable estates.

(C) For decedents dying in 2010, the executor or administrator can elect either (i) to remain in the pre Tax Relief Act situation of **no** estate tax and **no** step-up basis. However, this option allows a modified carry-over basis for properties in the Estate. (See our **August 2010 Tax Letter** for details regarding the modified carry-over basis), or (ii) to apply the new Tax Relief Act with 5 million exemption, 35% maximum tax rate and the step-up basis.

Unemployment Benefits Re-authorization

The new Tax Relief Act provided a re-authorization (not an extension of benefits) of the maximum 99 weeks of unemployment benefits. The total 99 weeks of benefits have **not** been extended. The purpose of this re-authorization is to extend the expired deadline from 12/1/2010 for 13 months to 12/31/2011. This way, unemployed individuals who have not exhausted their 99-week total benefits can continue to apply and received unemployment benefit checks for the remaining allowable number of weeks.

Sincerely,

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An Accountancy Corporation