HILLBERG NEWSLETTER

INCOME TAX, ACCOUNTING, CONSULTING AND BUSINESS ADVISORY SERVICES

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INCOME TAX

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

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, signed into law on December 17, 2010, will extend the "Bush tax cuts" set to expire at year-end. In addition to providing a 13-month extension of benefits for the long-term unemployed and extending expiring provisions, the Act includes several new tax provisions. Here's what you need to know:

Tax Rates

The Act extends existing federal income tax rates for two additional years. As in 2010, the federal tax bracket rates for 2011 and 2012 will be 10%, 15%, 25%, 28%, 33%, and 35%. (Without this legislation, federal income tax rates would have increased beginning in 2011--the current 10% federal income tax bracket would have disappeared, and the five remaining tax brackets would have been 15%, 28%, 31%, 36%, and 39.6%.)

Capital Gains Tax Rates

Existing tax rates for long-term capital gains and qualifying dividends are also extended through 2012. As a result, long-term capital gains and qualifying dividends will continue to be taxed at a maximum rate of 15%. If you're in the 10% or 15% marginal income tax brackets, a special 0% rate will generally continue to apply.

Alternative minimum tax (AMT)

The alternative minimum tax (AMT) is essentially a parallel federal income tax system, with its own rates and rules. To prevent a dramatic increase in the number of individuals subject to AMT, the Act retroactively increases AMT exemption amounts for 2010, and extends the increased exemption amounts to 2011. Nonrefundable personal income tax credits will also continue to be allowed to offset AMT liability in 2010 and 2011.

AMT exemption amounts	2010	2011
Married filing jointly	$72,450	$74,450
Single or head of household	$47,450	$48,450
Married filing separately	$36,225	$37,225

Estate Tax

The Act makes major, though temporary, changes to the federal estate tax. For 2011 and 2012, the estate tax exemption amount (the applicable exclusion amount, renamed the basic exclusion amount) will be $5 million per person (the $5 million will be indexed for inflation in 2012); the top transfer tax rate for these years will be 35%. The $5 million exemption amount and 35% top estate tax rate will apply retroactively to 2010 as well, but for individuals who died in 2010, an election can be made to choose the estate tax provisions effective prior to this legislation (i.e., no estate tax applies, but special modified carryover basis rules apply); an extended due date is provided for individuals who died on or after January 1, 2010, and before December 17, 2010. For 2011 and 2012, when one spouse dies, any unused portion of that spouse's estate tax exemption amount may be transferred to the surviving spouse.

One-year reduction in Social Security payroll tax

If you're an employee, 6.2% of your covered wages up to the taxable wage base ($106,800 in 2011) is generally withheld for your portion of the Social Security retirement component of FICA employment tax. If you're a self-employed individual, you pay 12.4% for the Social Security portion of your self-employment tax. The Act implements a one-year 2% reduction in this tax. That means for 2011, you'll pay the tax at a rate of 4.2% if you're an employee, and 10.4% if you're self-employed.

Depreciation and IRC Section 179 expensing

If you're a business owner or self-employed individual, you may know that an additional 50% depreciation deduction has been available for qualifying property placed in service during 2010. The Act increases the bonus depreciation percentage allowed to 100% for property acquired and placed in service after September 8, 2010, and before January 1, 2012. The Act also extends bonus depreciation at the 50% level through 2012 (the 50% bonus depreciation will apply for property placed in service after December 31, 2011, and before January 1, 2013).

For tax years 2010 and 2011, the Small Business Jobs Act increased the maximum amount that could be expensed under IRC Section 179 to $500,000 and increased the phase-out threshold amount to $2 million. For 2012, the dollar limit amount and phase-out threshold level were scheduled to drop to $25,000 and $200,000, respectively. This Act sets the IRC Section 179 expense limit for 2012 at its 2007 level--$125,000, with a phase-out threshold of $500,000--indexed for inflation.

There are additional tax changes and details that will follow this newsletter in the following months. So, if you have any questions or concerns about how this new tax relief act may affect you please contact us at 209-667-2406 or hillberg@hillbergcpa.com.