
New Tax Relief Bill Summarized by FPA, CCH

By Editor Test Tue, Dec 21, 2010

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The Financial Planning Association has issued a useful summary of the "Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010" by Congress, which President Obama signed earlier this month. CCH has also issued a [Special Tax Briefing](#) on the Act.

The legislation, which will cost the U.S. Treasury an estimated \$857 billion in uncollected taxes, will provide guidance for taxpayers and planners with respect to tax rates, the Alternative Minimum Tax, estate and gift taxes, and certain expired tax provisions.

An individual earning \$50,000 in 2011 will see a \$1,890 tax savings in combined income tax and payroll tax rate reductions over what was scheduled under the EGTRRA sunset, according to CCH. The payroll tax holiday alone is estimated to inject \$120 billion into the economy in 2011.

The Tax Relief bill will provide:

Two-year extension of all current tax rates through 2012

- Rates remain 10, 25, 28, 33, and 35 percent
- 2-year extension of reduced 0 or 15 percent rate for capital gains & dividends
- 2-year continued repeal of Personal Exemption Phase-out (PEP) & itemized deduction limitation (Pease)

Temporary modification of Estate, Gift and Generation-Skipping Transfer Tax for 2010, 2011, 2012

- Reunification of estate and gift taxes
- 35% top rate and \$5 million exemption for estate, gift and GST
- Alternatively, taxpayer may choose modified carryover basis for 2010
- Unused exemption may be transferred to spouse
- Exemption amount indexed for inflation in 2012

AMT Patch for 2010 and 2011

- Increases the exemption amounts for 2010 to \$47,450 (\$72,450 married filing jointly)

and for 2011 to \$48,450 (\$74,450 married filing jointly). It also allows the nonrefundable personal credits against the AMT.

Extension of “tax extenders” for 2010 and 2011

- Tax-free distributions of up to \$100,000 from individual retirement plans for charitable purposes
- Above-the-line deduction for qualified tuition and related expenses
- Expanded Coverdell Accounts and definition of education expenses
- American Opportunity Tax Credit for tuition expenses of up to \$2,500
- Deduction of state and local general sales taxes
- 30-percent credit for energy-efficiency improvements to the home (IRC section 25C)
- Exclusion of qualified small business capital gains (IRC§1202)

Temporary Employee Payroll Tax Cut

- Provides a payroll tax holiday during 2011 of two percentage points. Employees will pay only 4.2 percent on wages and self-employed individuals will pay only 10.4 percent on self-employment income up to \$106,800.

2010 tax relief act revenue cost of \$857 billion includes:

- Individual tax cuts: \$186 billion
- AMT Relief: \$136 billion
- Payroll tax deduction: \$111 billion
- Estate/gift tax relief: \$68 billion
- Capital gains/ dividend cuts: \$53 billion
- Bonus depreciation/179 expensing: \$21 billion
- Unemployment Insurance Extension, \$56 billion.
- Other: \$226 billion