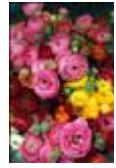

Lidia Carr Law Offices, LLC Newsletter - December 10, 2010



Tax Relief Act of 2010 Extends Bush-Era Tax Cuts and Carries Other Tax Breaks

Late on December 9, 2010, Senate Majority Leader introduced H.R. 4853, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Tax Relief Act). The Tax Relief Act contains a two-year extension of the Bush-era tax cuts and significant estate tax relief. It also contains other tax breaks for individuals.

Here is an overview of the Tax Relief Act as it applies to individuals, based on information released late on December 9, 2010.

Tax-Cut Rules Extended for Two Years

All of the following favorable tax rules (among others) will remain in place through 2012:

- (1) The income tax rates for individuals stay at 10%, 15%, 25%, 28%, 33% and 35% (instead of moving to 15%, 28%, 31%, 36% and 39.6%).
- (2) The size of the 15% tax bracket for joint filers & qualified surviving spouses remains at 200% (instead of dropping to 167%) of the 15% tax bracket for individual filers.
- (3) The standard deduction for married taxpayers filing jointly (and qualified surviving spouses) remains at 200% (rather than 167%) of the standard deduction for single taxpayers. (The standard deduction for married taxpayers filing separately is half the joint filer amount.)
- (4) Itemized deductions of higher-income taxpayers are not reduced (after 2010 they would have been reduced by 3% of AGI above an inflation-adjusted figure, but reduction could not exceed 80%).

- (5) A higher-income taxpayer's personal exemptions are not phased out when AGI exceeds an inflation-adjusted threshold (they would have been after 2010).

The current, favorable rules for the following tax provisions also will remain in place through 2012: Coverdell Education Saving Accounts, formerly called education IRAs; exclusion for employer provided educational assistance under Code Sec. 127; exemption from the payments-for-services rule for amounts received under certain Government health professions scholarship programs; above-the-line student loan interest deduction; credit for employer-provided child care facilities; earned income tax credit; credit for household and dependent care; and child tax credit.

Rules for Capital Gains and Qualified Dividends Extended for Two Years

Through December 31, 2012, long-term capital gain will continue to be taxed at a maximum rate of 15% (instead of 20% (18% for assets held more than five years)); and qualified dividends paid to individuals will be taxed at the same rates as long-term capital gains (instead of being taxed at the same rates that apply to ordinary income).

Alternative Minimum Tax (AMT) "Patched" for Two Years

The AMT exemption amounts for 2010 will be \$47,450 for individuals and \$72,450 for married taxpayers filing jointly; for 2011, they will be \$48,450 for individuals and \$74,450 for married taxpayers filing jointly. The exemption amount for married taxpayers filing separately is half the amount for joint filers. (Without the "patch," AMT exemption amounts would have plummeted.) Also for 2010 and 2011, personal credits will be allowed against the AMT.

Estate Tax Relief Through 2012

The estate tax returns after 2010 and before 2012, but with the following changes:

A \$5 million unified and indexed exemption amount (\$10 million for couples). The top tax rate will be 35% for estate, gift, and generation skipping transfer taxes. Reunification of estate and gift taxes, effective for gifts made after December 31, 2010. An election will allow the

choice of no estate tax and modified carryover basis for estates arising on or after January 1, 2010 and before January 1, 2011. There will be a \$5 million generation-skipping transfer tax exemption and zero percent rate for the 2010 year. Effective for estates of decedents dying after December 31, 2010, the executor of a deceased spouse's estate will be able to transfer any unused exemption to the surviving spouse.

IRS Circular 230 Notice

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