Tax News Flash

In This Accuity Update:

- **Tax Relief/Job Creation Act of 2010 – Real Temporary Relief?**

Tax Relief/Job Creation Act of 2010 – Real Temporary Relief?

Well, after two years of wondering, it looks like Congress and our President finally remembered that tax paying citizens do really want to know what their tax rates will be from year to year. We now know what the rates will be for the next 2 years. While it is not really enough to do true long term planning, it is at least something. If this Act doesn't help with the economic situation, expect more changes in the next two years or at least a major showdown in Congress with the President in 2012 when this Act expires.

The President signed on December 17, 2010 into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. This new law finally gives taxpayers some certainty in tax planning for 2011 and 2012. The main focus of this Act was to address individual tax rates, capital gains, dividends, and estate tax rates that otherwise would have automatically increased at the beginning of 2011.

In order to ensure that you receive the latest information, we are pleased to provide you with the following update.

We will also be giving a more in-depth update via a Webinar on January 7th, 2011 at 10:00 AM to discuss in more detail these tax law changes and what they mean to you.

To sign up for our Webinar please click here to email Ms. Lehua Thompson, or call her at 531-3489.

FOR INDIVIDUALS

Individual Tax Rates

Tax rates that are in effect in 2010 will be extended through December 31, 2012. Without this extension all taxpayers would have been subject to higher taxes. With the normal cost-of-living increases in the tax bracket amounts, the tax rates in 2011 will be:

Selected Tax Rates in 2011

Married Filing Jointly	
Not over $17,000	10%
$17,000 to $69,000	15%

$69,000 to $139,350	25%
$139,350 to $212,300	28%
$212,300 to $379,150	33%
Over $379,150	35%

Single

Not over $8,500	10%
$8,500 to $34,500	15%
$34,500 to $83,600	25%
$83,600 to $174,400	28%
$174,400 to $379,150	33%
Over $379,150	35%

ACCUITY SAYS – The President wants to re-engage Congress in 2012 during his second presidential bid to increase the top tax rate to 39.6% and increase taxes for anyone making over $250,000. Also remember that higher income taxpayers after 2012 will automatically pay higher tax in the form of a 0.9% additional Medicare tax on earned income above certain thresholds and a 3.8% Medicare tax on unearned income.

Pay Raise for Wage Earners and Self-Employed Persons

The act reduces the employee share of OASDI (Social Security) taxes from 6.2 percent to 4.2 percent for wages earned in calendar year 2011 up to the taxable wage base of $106,800. Self-employed individuals would pay 10.4 percent on self-employment income up to the threshold. This tax reduction is **only** for 2011.

ACCUITY SAYS – The idea behind the tax holiday is for taxpayers to spend and help the economy! Therefore, an individual earning at or above the OASDI cap of $106,800 will receive a $2,136 tax benefit in 2011. Employers will still be responsible for their full share of social security tax of 6.2% for their employees. So now we can all buy our 3-D HDTV in 2011!

Estate Tax

No one would ever have thought that Congress would let the estate tax lapse, but in 2010 there was in fact no estate tax. In 2011, however, the estate tax was set to go back to an exemption of $1 million and a maximum tax rate of 55%. One of the biggest surprises in this Act is the amount of the estate tax exemption which has now been increased to $5 million for 2011 and will be indexed for inflation in 2012. In addition, the maximum rate is now 35%. However, this extension is currently effective only through 2012.

Also starting in 2011, the gift tax is now reunified with the estate tax, with an exclusion amount of $5 million and a top gift tax rate of 35%.

Sometimes it's hard keeping up with this stuff!

For Business

100 Percent Bonus Depreciation

Property placed in service after September 8, 2010 and before January 1, 2012 can be effectively expensed in the year of purchase. Eligible property is original use property that has a recovery period of 20 years or less, which will include qualified leasehold improvement property.

ACCUITY SAYS – Unlike code section 179 expensing, this provision IS NOT limited to smaller businesses or capped at a certain dollar level. In addition, you have the potential to create net operating losses and carry back losses for a refund opportunity. For property placed in service after September 8, 2010 through December 31, 2011, it appears that taxpayers will have to choose either 100 percent bonus depreciation or regular depreciation. These are excellent incentives to expense large purchases. We expect, however, that Hawaii will not conform to these provisions as usual. Separate books for Federal and Hawaii depreciation are required.

Code Section 179 Expensing

For 2010 and 2011 the expensing provision limit is $500,000 with an overall investment cap of $2 million. For 2012, the expensing provision limit is reduced to $125,000 with an overall cap of $500,000 and going forward indexed for inflation.

ACCUITY SAYS – In 2010 and 2011, the definition for qualified property is expanded to include 15-year leasehold improvement, restaurant property, and retail improvement. In 2012, the definition goes back to the old personal property definition.

Grants for Alternative Energy Property

In a prior e-mail blast in July (see a copy on the Accuity LLP website), we described how the U.S. Treasury was providing cash payments in lieu of energy credits for specified energy property placed in service in 2009 or 2010, and later in certain limited situations, if construction began by the end of 2010. The Act extended this program until the end of 2011.

ACCUITY SAYS – If you were in a mad rush to "safe harbor" your project by December 31, 2010, you get a reprieve. The program, called ARRA section 1603, was simply extended without any ifs, ands, or buts.

Other Provisions Extended

The major reason for this act was to extend the Bush Era tax rates. However, many other provisions would have sunset that would have adversely affected taxpayers. Congress recognized once you give the people something good it is very difficult to take it away. This is something they will have to address in the future, but for now the following old familiar provisions are back and will be discussed in more detail in our webinar (not all extended tax provisions are listed):

Qualified Capital Gains and Dividends	Tax rate remains 15%
Itemized Deduction Limitation	Repealed through the end of 2012
Personal Exemption Phase-out	Repealed through the end of 2012
Marriage Penalty Relief	Provides some equity in tax rates for married couples
Child Tax Credit	$1,000 tax credit for taxpayers with AGI less than $110,000 married filing joint
Adoption Credit	Still $10,000 but no longer refundable

Dependent Care Credit	Maximum credit $2,100
Employer Provided Child Care	25% of qualified expenses. Subject to $150,000 annual cap on qualified costs
Educational Assistance Education	Employers can deduction up to $5,250 for employee qualified education expenses
Charitable Contribution of IRA Proceeds	Wasn't available in 2010, but available again for 2011 and 2012
Alternative Minimum Tax	Patch extended and exemption increased for 2010 and 2011
Research Tax Credits	Expired at the end of 2009, but reinstated for 2010 and 2011; President wants this credit to be eventually permanent
Work Opportunity Tax Credit	40% of new employee's first $6,000 of wages
Energy Credits	Up to $1,500 in credits for energy efficient improvements to home
Charitable Incentives	Enhanced deductions for corporations of food, books, and certain equipment

Sign up for the Webinar today, or if you have any questions please contact your Accuity tax professional. On behalf of the Accuity family, have a wonderful and safe holiday season!

If you have questions about any of these news items, your client service team at Accuity can bring you the resources that you may need.
Please do not hesitate to contact your client service team for more information or Wendell Lee at (wendell.lee@accuityllp.com)

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