

Summary of new tax legislation

TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010

The recently enacted *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* is a mouthful that has gotten a lot of press recently.

Here are some of the key elements of the Act:

An extension of the Bush-era tax cuts (through 2012)

- The maximum tax rate for dividends and long-term capital gains remains at 15%.
- The itemized deduction and personal exemption phase outs based on income limitations have been repealed through 2012. Ending restrictions on itemized deductions may be of special benefit to high-income earners.

Estate, Gift and Generation Skipping Transfer Tax modifications (through 2012)

- The Federal estate tax repeal has been extended through 2012. The maximum estate, gift and generation skipping transfer tax is 35%, down from 45% in 2009 and what would have been 55% in 2011.
- The Federal estate exemption (the amount you can transfer to others at death) remains \$5 million through 2012. In 2013, unless Congress again changes the law, the exemption amount will be reduced to \$1 million.
- The gift tax exemption, the amount you can gift without being taxed, increases to \$5 million for 2011 and 2012. It was \$1 million in 2010.

Alternative Minimum Tax (AMT) Patch (through 2011)

- For 2010, the exemption amounts increase to \$47,450 (\$72,450 married filing jointly).
- For 2011, the exemption amounts increase to \$48,450 (\$74,450 married filing jointly).

- The patch also allows nonrefundable personal credits against the AMT.

Education tax extensions (through 2011)

- Above-the-line deductions have been extended for qualified tuition and related expenses. Above-the-line refers to deductions that are subtracted from your income *before* the adjusted gross income is calculated. These type of deductions may provide a significant tax benefit.
- *Coverdell Accounts* and the definition of education expenses have been expanded.
- The *American Opportunity Tax Credit* for tuition expenses has been extended for up to \$2,500. The maximum income limits to qualify are \$80,000 for single filers and \$160,000 for those filing jointly.

Additional "tax extenders" (through 2011)

- Tax-free distributions of up to \$100,000 from individual retirement plans for charitable purposes
- Deduction of state and local general sales taxes
- An extension of the credit for energy-efficiency improvements to the home. The credit is now capped at 10% or \$500 of the installed cost.

Many of the changes expire either before or at the end of 2012, so timing is an important factor. There are many tax planning opportunities and tax administration issues that can impact your income and your estate. Over the year we will review your specific situation and coordinate with your accountant to take advantage of these tax updates where appropriate.

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