

# The Tax Relief Act

What You Need to Know

Presented by:

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# The agenda

- ◆ Individuals
- ◆ Investing
- ◆ Charitable giving
- ◆ Estate planning
- ◆ Businesses



A high-angle photograph of a woman with blonde hair, wearing a blue long-sleeved sweater, sitting at a light-colored wooden desk. She is leaning forward, focused on writing on a yellow notepad with a silver pen. To her right is a black laptop. The background is a warm, orange-toned wall. The overall scene suggests a professional or administrative setting.

## INDIVIDUALS

**Tax Relief Act  
extends a variety  
of tax cuts**

# Individual provisions extended

- ◆ Lower ordinary-income tax rates for all tax brackets extended through 2012
- ◆ Marriage penalty relief extended through 2012
- ◆ Elimination of itemized deduction and personal exemption phase-outs extended through 2012
- ◆ Deduction for state and local *sales* taxes in lieu of state and local *income* taxes extended through 2011



# AMT provisions extended

- ◆ Increased AMT exemptions extended through 2011
- ◆ Ability to offset AMT liability with certain nonrefundable personal credits extended through 2011



# Payroll tax cut for 2011

- ◆ Reduces employee share of OASDI from 6.2% to 4.2%
  - Tax applies to wages earned in 2011 up to \$106,800
  - Self-employed pay combined rate of 10.4% on self-employment income (down from 12.4%)

Between the Bush-era tax rates and the payroll tax cut, taxpayers could save up to \$2,136 in 2011.

# Children and education provisions extended

- ◆ \$1,000 child credit extended through 2012
- ◆ Higher adoption credit and income exclusion for employer-provided adoption assistance extended through 2012
- ◆ Higher dependent care credit extended through 2012
- ◆ American Opportunity education credit extended through 2012
- ◆ Above-the-line tuition and fees deduction extended through 2011
- ◆ Income exclusion for employer-provided education assistance extended through 2012
- ◆ Enhancements to student loan interest deduction extended through 2012
- ◆ \$2,000 ESA contribution limit and other enhancements extended through 2012



**INVESTING**

**Investors get a  
break on tax rates**

# Investing provisions extended

- ◆ 15% long-term capital gains rate extended through 2012
- ◆ 15% qualified dividend tax rate extended through 2012
- ◆ 0% rate for gain on qualified dividends that would be taxed at 10% or 15% based on the taxpayer's ordinary-income rate extended through 2012
- ◆ 100% gain exclusion on certain QSB stock gains extended to stock acquired through 2011

A close-up photograph of a person wearing a white long-sleeved shirt, sitting at a wooden desk. They are holding a dark pen and writing on a notepad. The notepad is open, and the person's hand is positioned over the page. The background is a plain, light-colored wall.

**CHARITABLE GIVING**

**Tax Relief Act  
offers donors  
a few presents**

# Charitable giving

- ◆ Ability to exclude from income direct contributions from your IRA to qualified charities extended through 2011
- ◆ Ability to take larger deduction for donations of long-term capital gains real property for conservation purposes extended through 2011



# Charitable giving

- ◆ Enhanced charitable deduction for contributions of food inventory extended through 2011
- ◆ Enhanced charitable deduction for C Corp donations of books to public schools extended through 2011
- ◆ Basis adjustment to S Corp stock for contributions of property extended through 2011
- ◆ Enhanced charitable deduction for corporate contributions of computer equipment for educational purposes extended through 2011



## **ESTATE PLANNING**

# **Estate tax breaks expanded**

# Estate tax reinstated

- ◆ Estate and generation-skipping transfer (GST) taxes reinstated:
  - \$5 million exemptions
  - Estate tax rate of 35%, with option for estates of taxpayers who die in 2010 to follow the pre-Tax Relief act regime:
    - Estate tax repeal, but limits on step-up in basis, potentially leaving heirs with significant capital gains tax liability
  - GST tax rate of 0%
- ◆ No changes to gift tax:
  - \$1 million exemption
  - 35% top tax rate

# Estate planning

## Changes for 2011–2012

- ◆ Estate, GST and gift tax exemption of \$5 million
- ◆ Top estate, GST and gift tax rate of 35%
- ◆ “Portability” of estate tax exemption between spouses



# Transfer tax exemptions and rates



	2009	2010	2011	2012	2013
<b>Gift tax exemption</b>	\$ 1 million	\$ 1 million	\$ 5 million	\$ 5 million <sup>2</sup>	\$ 1 million
<b>Estate tax exemption<sup>1</sup></b>	\$3.5 million	\$ 5 million <sup>3</sup>	\$ 5 million	\$ 5 million <sup>2</sup>	\$ 1 million
<b>GST tax exemption</b>	\$3.5 million	\$ 5 million	\$ 5 million	\$ 5 million <sup>2</sup>	\$ 1 million <sup>2</sup>
<b>Estate and gift tax rates and GST rate</b>	45%	35% <sup>3</sup> (0% GST tax)	35%	35%	55% <sup>4</sup>

<sup>1</sup> Less any gift tax exemption already used during life. For 2011 and 2012, these amounts are "portable" between spouses.

<sup>2</sup> Indexed for inflation.

<sup>3</sup> Estates can elect to follow the pre-Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 regime (estate tax repeal + limited step-up in basis).

<sup>4</sup> The benefits of the graduated gift and estate tax rates and exemptions are phased out for gifts/estates over \$10 million.

Source: U.S. Internal Revenue Code



## **BUSINESSES**

**Tax Act offers  
investment  
incentives**

# Bonus depreciation expanded

## 100% bonus depreciation:

- ◆ Purchased after Sept. 8, 2010, and before Jan. 1, 2012

## 50% bonus depreciation:

- ◆ Placed in service after Dec. 31, 2011 and before Jan. 1, 2013

## For certain long-lived property and transportation property:

- ◆ 100% expensing
- ◆ Placed in service before Jan. 1, 2013



# Section 179 expensing limit raised

For 2010 and 2011, SBJA set \$500,000 expensing limit; \$2 million phaseout threshold

Tax Relief act establishes new limits for 2012:

- ◆ \$125,000 expensing limit
- ◆ \$500,000 phaseout threshold
- ◆ Both amounts will be indexed for inflation



# More investment incentives

- ◆ Extension of accelerated depreciation for qualified leasehold-improvement, restaurant and retail-improvement property through 2011
- ◆ No extension of *Sec. 179 expensing* for qualified leasehold-improvement, restaurant and retail-improvement property through 2011



# Tax credits extended through 2011

- ◆ Research credit
- ◆ Work Opportunity credit





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