

TAX TALK
BY JEFFREY D. SKOLNICK, CPA, M.S. TAXATION

NEW RULES FOR 2011 AND 2012

On December 17, 2010 the “Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010” was signed into law. I will explain some of the highlights below.

Tax Changes Relating to Individuals

As most people were aware of personal income tax rates on ordinary income were scheduled to rise in 2011 to the rates in effect before the Bush tax provisions were implemented. These rates started at 15% and progressed to 39.6%. The new law keeps the current tax rates in place for 2011 and 2012. The current tax rates range from a low of 10% to a high of 35%.

An area that has garnered much attention is capital gains tax rates. Long term capital gains (investments sold after being held more than 1 year) and qualifying dividend income had been taxed at rates of 0% for taxpayers whose ordinary income tax brackets were 10% or 15% and 15% for taxpayers in higher tax brackets. Once again these rates were scheduled to increase in 2011, but the new act has extended the 0% and 15% rates for 2 years through 2012.

There are also a number of other provisions that affect individuals. The new act extended the increased standard deduction of married taxpayers filing jointly. It also eliminated the itemized deduction phase-out and personal exemption phase-out for high income taxpayers. The child tax credit was also extended. Each of these provisions was extended through 2012.

Estate Taxes

Another widely publicized area of taxation has been the estate tax. Estate tax is levied upon individuals with assets in excess of the federally allowed limit upon their death. In 2009 this limit was \$3,500,000. In 2010 there was no estate tax and in 2011 the limitation amount was scheduled to drop to \$1,000,000. The new law raises the limit to \$5,000,000. This new law also gives flexibility to the administrators of estates of people that passed away in 2010. These individuals are afforded the choice of using the rules in place before 2011 or the rules in place after 2010.

Business Incentives

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The new law has liberalized depreciation rules in place in order to give businesses the incentive to invest money into capital. There are increased section 179 rates (first year expensing) of \$500,000 for 2010 and 2011, 100% bonus depreciation on eligible property purchased between September 8, 2010 and December 31, 2011 and 50% of eligible property purchased in 2012.

There is also a 2% reduction in the employee portion of social security and self employment tax in 2011.

Conclusion

This article gives only highlights of the new law. There are many provisions that may impact your personal situation. As always It is imperative that you contact a tax professional that is current on the tax laws.