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MEMORANDUM

TO: Clients and Friends

FROM: McQuadeBrennan, LLP

DATE: January 11, 2011

RE: The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extends many of the Bush-era tax cuts and provides a number of benefits to businesses and individuals.

Tax Incentives for Businesses

The Tax Relief Act of 2010 extends and enhances many tax breaks for businesses. These include incentives for investment and research, benefits related to employees and a variety of extenders.

- *Bonus Depreciation* – Businesses may benefit from a 100% first-year depreciation allowance for qualified investments made after September 8, 2010 and before January 1, 2012. The 50% bonus depreciation is now available for qualified property put in place after December 31, 2011 and before January 1, 2013.
- *Section 179 Expensing* – The current dollar and investment limits for Section 179 expensing are \$500,000 and \$2 million respectively for tax years beginning in 2010 and 2011. For tax years beginning in 2012, the dollar limit is lowered to \$125,000 and \$500,000 for investments.
- *Other Business Tax Extenders* – The Tax Relief Act of 2010 extends a number of other existing incentives including tax incentives for investment in empowerment zones, investment in the District of Columbia, and treatment of dividends from Regulated Investment Companies.

Tax Incentives for Individuals

The Tax Relief Act of 2010 is important for individual taxpayers as tax rates have remained at current rates, the beneficial treatment of investments and the changes to the estate tax.

- *Tax Rates* - Individual income tax rates will continue at current levels for two years. The rates were to revert back to 2001 levels after December 31, 2010.

2010-2012	2013
10%	15%
15%	25%
25%	28%
28%	33%
33%	36%
35%	39.6%

- *Capital Gains and Dividends* – The tax rate applying to qualified capital gains and dividends will remain at the current 15% rate until 2012. The tax rate was expected to rise to 20% in 2011. A zero percent rate will apply to capital gains and dividends for taxpayers in the two lowest tax brackets.
- *Estate Tax* – The maximum estate tax rate is 35% with an exclusion of \$5 million. The estate tax, repealed in its entirety for 2010, was scheduled to return to a maximum rate of 55% with a \$1 million exclusion for 2011. The estate tax rate is scheduled to sunset on December 31, 2012.
- *Itemized Deductions* – The total elimination of the limitation on taxpayers' otherwise allowable deductions has been extended. After 2010, the limitation on itemized deductions would have returned for taxpayers with at least \$169,550 in income (\$84,775 for married filing separately).
- *Certain Credits* – The new legislation extends the adoption credit, dependent care credit, child tax credit, and the credit for educational expenses at their current levels.
- *Small Business Stocks* – A taxpayer may exclude 100% of gain from the sale of qualified small business stock held for at least five years. This exclusion applies to stock acquired before January 1, 2012 and is not available for corporate taxpayers.
- *Alternative Minimum Tax (AMT)* – The AMT "patch" is included in the new provisions, providing higher exemption amounts and other targeted relief for 2010 and 2011. The Act also increases the exemption amounts for 2010 to \$47,450 for individual taxpayers, \$72,450 for married taxpayers filing jointly, and \$36,225 for married couples filings separately.
- *Individual Tax Extenders* – The Tax Relief Act of 2010 extends a number of other important provisions including deduction of state and local sales taxes paid, charitable contribution of IRA proceeds, and charitable contributions of certain appreciated property without tax on the inherent gain.

Contact David Swartz today at dswartz@mcquadebrennan.com with your individual or business tax questions.

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