

2010 Tax Update



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Major Tax Bills of 2010



- Hiring Incentives to Restore Employment Act (HIRE Act)
- Health Care Act of 2010
- Small Business Jobs Act of 2010 (Jobs Act)
- Tax Relief Act of 2010





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Individual Tax Provisions



- **Extension of current tax rates through 2012**
 - Max capital gains rate at 15%
 - 0% capital gains rate
 - Dividends taxed as capital gains
- **Personal Exemption and Itemized Deduction Phase-Out Relief extended through 2012**
 - No phase out in 2010, 2011 and 2012



Individual Tax Provisions (continued)



- **Marriage Penalty Relief extended through 2012**
 - Enhanced standard deduction
 - Larger 10% & 15% brackets
- **Alternative Minimum Tax “Patch” extended for 2010 and 2011 tax years**



Individual Tax Provisions (continued)



- Self Employed Individuals May Deduct Health Insurance in Calculating Self-employment taxes for 2010 Only
- Relaxed Documentation Rules for Cell Phones
- Tax-free Medical Benefits to Children Under Age 27
 - Self employed get above-the-line deduction for health insurance paid for children under age 27
 - Don't forget to amend your cafeteria plan
- Adoption Credit Increased and Refundable for 2010 and 2011



Individual Tax Provisions (continued)



- **Extended individual tax provisions thru 2011:**
 - School Teachers' \$250 School Supply Deduction
 - Election to Deduct State and Local Sales Tax
 - \$4,000 Qualified Higher Education Deduction
 - Charitable Contributions of Conservation Easements
Expanded Deduction and Carry-over Limits
 - Deduction for Home Mortgage Insurance Premiums
 - Tax-Free Transfers from IRAs to Charities for Those age 70 1/2 and older
 - Credit for Energy-Efficient Improvements to Principal Residence



Individual Tax Provisions (continued)



- **Extended individual tax provisions thru 2012:**
 - Coverdell Education Savings Accounts
 - Student Loan Interest Deduction
 - Earned Income Tax Credit
 - \$1,000 Child Credit
 - Child and Dependent Care Credit
 - American Opportunity Tax Credit



Individual Tax Provisions in 2011



- Reimbursements of Over-the-Counter Drugs Taxable
- Penalty for Non-Qualifying HSA or MSA Distributions Increased to 20%



Individual Tax Provisions in 2013



- Additional .9% Medicare Surtax on Earned Income from Higher-Income Taxpayers
- 3.8% Medicare Surtax on Net Investment Income
- Deduction Threshold for Medical Expenses Raised from 7.5% to 10%
- Annual Contributions to Health FSAs Capped at \$2,500
- Penalty for Failing to Carry Health Insurance Beginning in 2014



10 Reasons We'll Always Need Tax Accountants



10. We spend more on taxes than on food, shelter and clothing combined.
9. Taxes eat up 38.2% of the average family's income.
8. The IRS employs twice as many people as the CIA and five times more than the FBI.
7. We spend \$200 billion and 5.4 billion hours of their time to comply with the federal tax laws each year.
6. 300,000 trees need to be cut down every year to produce enough paper for all IRS forms and instructions.
5. The IRS sends out 8 billion pages of forms and instructions each year. Laid end to end, they would stretch 28 times around the earth.
4. The Gettysburg address is 269 words, the Declaration of Independence is 1,337 words, the Holy Bible is 773,000 words. However, the tax law has grown from 11,400 words in 1913, to over 7 million words today.
3. There are at least 480 different tax forms., each with many pages of instructions.
2. The easiest IRS form, the 1040EZ, has 33 pages of instructions.
1. 60% of taxpayers must hire a professional to do their taxes.



Estate Tax Provisions



- Estate Tax Relief for 2010 Through 2012
- Raised the Estate Tax Exemption Amount to \$5 Million
- Tax Rate for Excess over \$5 Million is 35%
- Reinstated the Estate Tax Retroactive to January 1, 2010 (with special provisions)



Estate Tax Provisions (continued)



- For 2010 - Executor Election
 - Prior 2010 Estate Tax Rules
 1. No Estate Tax
 2. No Step Up in Property Basis for Heirs
 - Current Estate Tax Rules
 1. \$5 Million Exemption
 2. 35% Tax on Estate Over \$5 Million
 3. Step Up in Property Basis for Heirs





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COULD YOU ASK FOR?

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NO ESTATE
TAX IN 2010
YANKEES
COMING
HOME

Yankees
STEINBRENNER

CREATOR ©10

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Estate Tax Provisions (continued)



- Unused Estate Tax Exemption Amount Available to be Passed to Surviving Spouse
- For Gifts Made in 2011 and 2012 the Act Unifies the Estate and Gift Tax Exemption Amount at \$5 Million
- Generation Skipping Tax Reinstated as of January 1, 2010 with \$5 Million Exemption





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Business Tax Provisions



- Tax Incentives to Hire the Unemployed in 2010
- Small Employers Get Credit for Providing Employee Health Insurance
 - 25 or less FTEs
 - Average annual wages less the \$50k per FTE
 - Pay 50% of cost of employer-provided insurance
 - For 2010 Only – 50% of “single” coverage
 - Excludes certain owners and family members
 - Credit up to 35% of cost of insurance
 - 50% after 2013
 - Tax Exempt Organizations Get “Refundable” Credit
 - Form 990-T
 - Credit up to 25%; 35% after 2013
 - For 2010 only – can carry back 5 years and forward 20



Business Tax Provisions (continued)



- Increase § 179 Deduction for 2010 and 2011
 - Deduction increased to \$500k
 - Phase out starts at \$2 million in acquisitions
 - Can “elect” to treat \$250k of “Qualified Real Property” as §179 Property
 - Any unused portion can not be carried over after 2011
 - Qualified Real Property includes:
 - Qualified Leasehold Improvement Property
 - Excludes related party leases
 - Qualified Retail Improvement Property
 - Qualified Restaurant Property



Business Tax Provisions (continued)



- First-Year Bonus Depreciation Increased from 50% to 100%
 - 50% Bonus on new asset placed in service before September 8, 2010
 - 100% Bonus if between September 8, 2010 and December 31, 2011
 - Generally Qualified Property is New Property with a Depreciable Life for Tax Purposes of 20 Years or Less
 - Includes “Qualified Leasehold Improvements”
 - Special rule for Long Term Contracts under % of completion



Business Tax Provisions (continued)



- General Business Credits 5 year carry back for “Eligible Small Business”
- Up-Front Deduction for Start-up Business Expenses Raised to \$10,000 for 2010
- Expansion of Roth Account Options for Employer-Sponsored Retirement Plans
- Qualified Small Business Stock (QSBS) 100% Exclusion
 - Original issue stock purchased between September 28, 2010 and December 31, 2011



Business Tax Provisions (continued)



- **Effective in 2011**
 - 2% Social Security Tax Holiday for 2011 for employees and Self-employed Individuals
 - Requirement to File 1099s for Rental Payments of Certain Rental Property Owners
 - S-corporation 10-Year Built-in-Gain Period Temporarily Shortened to 5 Years
 - New Simple Cafeteria Plan for Small Employers



Business Tax Provisions (continued)



- **Effective in 2012**
 - Employers Required to Include Cost of Health Insurance on W-2s
 - Form 1099 Required for Payments of \$600 or More to Corporations
 - Form 1099 Required for Payments of \$600 or More for the Purchase of Property



Form **1040**

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E

Your first name and surname
If a joint return, spouse's first name and surname
Home address (number and street). If you have a P.O. box, see page 14.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.



Filing Status

Check only one box.

- 1 Confused
- 2 Disgruntled
- 3 Disgruntled and confused

Exemptions

If more than four dependents, see page 17 and

- 6 a Yourself. If someone can claim you as a dependent.
- b Spouse
- c Dependents:

(1) First name

Last name

(2) Dependent's social security number

Number of exemptions claimed

Chattanooga Times Free Press Bennett





Questions?



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