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President Obama signed the Tax Hike Prevention Act of 2010 into law yesterday giving us some certainty about our tax situation for the next 24 months. The new law contains a multitude of tax breaks – mostly extended and a few new – so here's a rundown of some of the items that may affect you (except where noted, all provisions are for 2011 and 2012):

**Extended income tax rates:**

The six federal income tax rates will remain at the same levels they are today: 10%, 15%, 25%, 28%, 33% and 35%. In addition, itemized deductions and personal exemptions will continue to be allowed in full for high-income taxpayers.

For your information, here are the projected tax rates for 2011 under the 2010 Tax Relief Bill:

***Single Individuals***

**If taxable income is: The tax will be:**

Not over \$8,500	10% of taxable income
Over \$8,500 but not over \$34,500	\$850.00 plus 15% of the excess over \$8,500
Over \$34,500 but not over \$83,600	\$4,750.00 plus 25% of the excess over \$34,500
Over \$83,600 but not over \$174,400	\$17,025.00 plus 28% of the excess over \$83,600
Over \$174,400 but not over \$379,150	\$42,449.00 plus 33% of the excess over \$174,400
Over \$379,150	\$110,016.50 plus 35% of the excess over \$379,150

***Married Couples Filing Jointly***

**If taxable income is: The tax will be:**

Not over \$17,000	10% of taxable income
Over \$17,000 but not over \$69,000	\$1,700.00 plus 15% of the excess over \$17,000
Over \$69,000 but not over \$139,350	\$9,500.00 plus 25% of the excess over \$69,000
Over \$139,350 but not over \$212,300	\$27,087.50 plus 28% of the excess over \$139,350
Over \$212,300 but not over \$379,150	\$47,513.50 plus 33% of the excess over \$212,300
Over \$379,150	\$102,574.00 plus 35% of the excess over \$379,150

**Social Security tax break:**

The Making Work Pay credit will expire at the end of 2010 and instead workers will get a 2% break on their payroll tax for one year. Instead of paying 6.2% on wages up to \$106,800, they will only have to pay 4.2% in 2011. Employers are supposed to put this change into effect immediately but it may take a few pay periods for payroll systems to be reprogrammed. As such, you may not see the effects of this tax reduction right away. If that happens to you, you should see an adjustment to account for any extra social security tax taken out by March 31<sup>st</sup>.

Please note that this change only impacts the employee's share of the social security tax. Thus, self-employed taxpayers will pay 10.4% social security tax on their SE earnings. In addition, there aren't any changes to the Medicare tax rate which remains at 1.45% on all earnings.

### **AMT Patch:**

More than 20 million tax filers will be protected from having to pay the Alternative Minimum Tax in 2010 and 2011. For 2010, the bill will raise the amount of income that is exempt from AMT to \$47,450 for individuals and to \$72,450 for couples filing jointly. In 2011, those exemption amounts will increase to \$48,450 and \$74,450 respectively. Please note that if I prepared a 2010 tax projection for you, I assumed that such a patch would be put into place so the projection should not have shown any AMT that would have been due had this patch not been applied.

### **Capital Gains/Qualified Dividends:**

Qualified capital gains and dividends will continue to be taxed at a maximum of 15% (0% for taxpayers in the 10 and 15% tax brackets).

### **Marriage Penalty Relief:**

The standard deduction for a married couple filing a joint return will remain at twice that of a single taxpayer. It was scheduled to be approximately \$2,000 less than double the standard deduction for a single taxpayer. The 15% tax bracket for married couples filing jointly will also remain at twice that of a single taxpayer.

### **Child Tax Credit:**

The \$1,000 child tax credit will remain through 2012. It was scheduled to return to \$500 per qualifying child. Keep in mind that this credit continues to be phased out for taxpayers with AGIs starting at \$110,000 for joint filers (\$75,000 for all other taxpayers). Qualifying children must be under age 17 at the end of the year and satisfy relationship, residency, support, citizenship and dependency tests.

### **Dependent Care Credit:**

Child care expenses of up to \$3,000 for 1 child and \$6,000 for 2 or more children will continue to be eligible for the child and dependent care credit. These amounts were scheduled to return to \$2,400 for 1 child and \$4,800 for 2 or more children. Keep in mind; these amounts are for expenses not reimbursed through a dependent care account.

### **American Opportunity Tax Credit:**

The Hope Education Credit, which was renamed as the American Opportunity Tax Credit for 2009 and 2010, has been extended through 2012. The income phase outs have also been extended. The credit begins to phase out at \$80,000 for single taxpayers and \$160,000 for married couples filing jointly and is completely phased out for single taxpayers with modified AGIs of \$90,000 and married couple with modified AGIS of \$180,000.

### **Student Loan Interest Deduction:**

The \$2,500 adjustment for student loan interest taken on page 1 of Form 1040 will continue subject to income phase outs.

### **Other Items Extended through 2011:**

- State and local sales tax deduction
- Higher education tuition deduction
- \$250 Teacher's classroom expense deduction
- Charitable contribution of IRA proceeds

### **Estate and Gift Taxes:**

While there was no estate tax due for those who died during 2010, the estate tax is back starting in 2011. The minimum estate tax rate is 35% with an exclusion amount of \$5 million. The stepped-up basis rules also return.

The annual gift exclusion remains at \$13,000 for 2011.

### **Unemployment Benefits:**

The unemployed will get a 13-month extension of the deadline to file for additional unemployment benefits -- which go as high as 99 weeks in states hit hardest by job loss. No further benefits will be available to people who have reached the limit in their state. The exclusion of the first \$2,400 of unemployment benefits from taxation was not extended.

### **Other Items to Note for 2010 returns:**

- The IRS is cracking down on charitable contributions so you will need a receipt or cancelled check for any contributions you want to deduct. De minimis contributions, such as money contributed to Salvation Army buckets or cash tossed in the basket at church, can no longer be deducted.
- Illinois has added a line for Use Tax to the 2010 Form IL-1040 and is requiring it to be filled in on all returns. This is the uncollected sales tax on items bought out of state (where the sales tax rate is less than 6.25%) or online. We are to pay the tax on specific items bought throughout the year so you will need to review your credit card or bank statements to determine how much you spent on applicable items. If you had no such purchases, there is a table we will use to calculate the use tax you will owe (it is approximately .006% of our AGI). Here is a link to additional information about this on the Illinois Department of Revenue's website:  
<http://www.tax.illinois.gov/Individuals/IllinoisUseTax.htm>

As always, please call or email with any questions about these changes or anything related to your finances. I will be sending out information regarding the 2010 filing season after the first of the year.

Have a happy and safe holiday season. I truly appreciate your business.

Best regards,  
Lisa