WILLMS, S.C.

LAW FIRM

MEMORANDUM

TO: Clients and Friends of Willms, S.C.

FROM: Maureen L. O'Leary

DATE: January 6, 2011

RE: Income Tax Provisions of the 2010 Tax Act

In addition to the important estate and gift tax provisions of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "2010 Tax Act"), the Act also includes numerous provisions affecting federal income taxation. The income tax provisions of the 2010 Tax Act will provide income tax relief for many taxpayers. However, this tax relief may be short lived because the 2010 Tax Act expires at the end of 2012 (and some provisions of the Act expire even earlier). Therefore, it is important to take advantage of the temporary income tax benefits of the 2010 Tax Act while you can.

Following is a summary of some of the income tax provisions of the 2010 Tax Act that could affect you over the next two years.

Individual Income Tax Rates

The 2010 Tax Act extended many Bush era tax cuts that were otherwise scheduled to expire at the end of 2010. For example, individual income tax rates were scheduled to increase after the end of 2010. However, the 2010 Tax Act extended existing income tax rates. As a result, individual income tax rates in 2011 and 2012 will remain between 10% and 35%. Tax brackets will also remain mostly the same, with just slight adjustments for inflation. Following is a chart summarizing 2010 and 2011 tax brackets.

	Single	Married Filling Jointly		Single	Married Filling Jointly
2010 Tax Rate	**2010**	**2010**	**2011 Tax Rates**	**2011 Taxable Income**	**2011 Taxable Income**
Std Deduction	$5,700	$11,400	**Std Deduction**	$5,800	$11,600
10%	$0– $8,375	$0 – $16,750	*10%*	$0 – $8,500	$0 – $17,000
15%	$8,375 – $34,000	$16,750 – $68,000	*15%*	$8,500 – $34,500	$17,000– $69,000
25%	$34,000 – $82,400	$68,000 – $137,300	*25%*	$34,500 - $83,600	$69,000 – $139,500
28%	$82,400 – $171,850	$137,300 – $209,250	*28%*	$83,600– $174,400	$139,500 – $212,300
33%	$171,850 – $373,650	$209,250 – $373,650	*33%*	$174,400 - $379,150	$212,300 - $379,150
35%	over $373,650	$373,650+	*35%*	over $379,150	$379,150+
Source: IRS.gov				© www.savingtoinvest.com	

Capital Gains and Qualified Dividends

For taxpayers in the 0% and 15% income tax brackets, the extension of the Bush tax cuts also extended the 0% tax rate for capital gains and qualified dividends. For taxpayers in the 25% and higher income tax brackets, the maximum income tax rate for capital gains and qualified dividends will remain at 15% for the next two years.

Without the extension of the Bush tax cuts, capital gains and qualified dividend rates would have increased significantly for 2011 and 2012. The 0% rate would have risen to 10%, the 15% rate would have risen to 20%, and dividends would have been taxed at ordinary income rates instead of at the 15% rate. Capital gains and qualified dividend rates may still increase in 2013, but in the meantime, we have the certainty of two years of locked-in rates. This provides an opportunity to sell appreciated assets and recognize gain in 2011 and 2012 subject to a lower tax rate than may exist in future years.

Payroll Tax Reduction

The 2010 Tax Act temporarily reduces the employee's portion of Social Security taxes by 2% (from 6.2% to 4.2%) for the year 2011 only. (The employer's portion of the Social Security tax remains at 6.2%.) Self-employed individuals will also receive the 2% rate deduction (from 15.3% to 13.3%) for 2011 only. This reduction will provide an immediate benefit to all employees subject to Social Security taxes.

The Social Security wage base remains the same at $106,800 (this is the maximum amount of wages per person subject to Social Security tax). A 2% reduction in the tax means that each employee could save as much as $2,136 over the course of 2011 as a result of this tax reduction.

The Medicare tax rate will remain unchanged at 1.45% for employees and employers.

Alternative Minimum Tax

The alternative minimum tax is an extra tax on top of the income tax, but it only affects some taxpayers because alternative minimum tax deductions prevent the alternative minimum tax from applying to many taxpayers.

The alternative minimum tax exemptions were previously scheduled to decrease. However, the 2010 Tax Act increased the alternative minimum tax exemptions instead. For 2010, alternative minimum tax exemptions have been increased to $47,740 (single) and $72,450 (married). In 2011, the exemptions will increase again to $48,450 (single) and $74,450 (married).

It has been estimated that the increase in these alternative minimum tax exemptions may spare an additional 21 million households from the alternative minimum tax.

Charitable Contributions from IRAs

Individuals age 70 ½ and older are usually required to take annual distributions from their traditional IRAs ("required minimum distributions" or "RMDs"). The amount of the RMD is generally subject to income tax.

However, the 2010 Tax Act extended a provision of the tax code that permits taxpayers age 70 ½ and older to make a tax-free distribution of their RMD up to $100,000 per year from their IRA to public charities (the gift may not be made to a donor advised fund or supporting organization). The distribution to charity counts as part of the taxpayer's required minimum distribution, but it is **not** subject to income tax. The 2010 Tax Act extended this provision of the tax code for the years 2010 and 2011 only (not 2012). This presents a tax planning opportunity for individuals who would like to reduce their tax liability by donating to charity.

Because the 2010 Tax Act was passed so late in the 2010 calendar year, the deadline for making a gift of your 2010 RMD to charity has been extended to January 31, 2011. This means you can give up to $100,000 before January 31, 2011 attributable to 2010, and an additional $100,000 can still be given in 2011, for a total of $200,000. A married couple could give twice as much (up to $400,000).

The gift to charity is a completely tax free transfer. The distribution is not included in your taxable income (so there is no income tax charitable contribution deduction for the gift). The result is that the funds pass to the charities 100% income tax free.

Please let us know if you would like our assistance with making a charitable gift of your RMD from your IRA. Please remember that a 2010 charitable distribution must be completed by January 31, 2011 and a 2011 charitable distribution must be made by December 31, 2011.

And More Tax Relief...

The 2010 Tax Act also provided numerous other tax benefits, including an extension of various income tax exemptions, credits, and deductions. Following is a brief summary of some of these provisions. Please let us know if you are interested in receiving additional information regarding any of the following.

- Extension of the Child Tax Credit of $1000 per child through 2012.

- Extension of the Dependent Care Credit through 2012. (Maximum $3000 credit for one qualifying individual, and maximum $6000 credit for more than one qualifying individual).

- Extension of the $2500 American Opportunity Tax Credit through 2012. (This credit replaced the Hope Educational Credit).

- Extension of the maximum $5250 deduction for employers who provide assistance with their employees' educational expenses through 2012.

- Extension of deductions for student loan interest and Coverdell Education Savings Accounts through 2012.

- Extension of marriage penalty relief through 2012.

- Extension of the $13,170 maximum Adoption Tax Credit through 2012.

- The state and local sales tax deduction is extended through 2011.

- The higher education tuition deduction is extended through 2011.

- The $250 Educator's Expense Deduction is extended through 2011.

- The Work Opportunity Tax Credit is extended through 2011.

- Energy incentive credits for businesses were extended through 2011.

- Depreciation incentives for businesses were extended through 2011.

Please contact us if you have any questions or would like to discuss how the income tax provisions of the 2010 Tax Act could affect you.

END OF MEMO