

# Tax Tips

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The recently enacted "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" is a sweeping tax package that includes the bullets below and a host of retroactively resuscitated and extended tax breaks for individuals and businesses.

Here's a look at the key elements of the package:

- The current, favorable income tax rates will be retained for two years (2011 and 2012), with a top tax of 35% on ordinary income and 15% on qualified dividends and long-term capital gains.
- Employees and self-employed workers get a reduction of two percentage points in Social Security tax in 2011, bringing the rate down from 6.2% to 4.2% for employees, and from 12.4% to 10.4% for the self-employed.
- Key tax credits for working families that were enacted or expanded in the American Recovery and Reinvestment Act of 2009 are retained. For example, the new law extends for two years (a) the \$1,000 child tax credit, and (b) the American Opportunity tax credit for higher education.
- Businesses can write off 100% of their new equipment and machinery purchases in the placed-in-service year, effective for property placed in service after September 8, 2010 and through December 31, 2011. For property placed in service in 2012, the new law provides for 50% additional first-year depreciation.
- Many of the popular tax breaks that went off the books at the end of 2009 have been retroactively reinstated for 2010 and extended through the end of 2011. Among many others, these provisions include the option to take an itemized deduction for state and local general sales taxes instead of the itemized deduction for state and local income taxes and the \$250 above-the-line deduction for certain expenses of school teachers. Provisions not reinstated were the new vehicle sales tax deduction, the non-itemizer real estate tax deduction and the partial exclusion of unemployment benefits. The more generous 2009 and 2010 credits for energy improvements to your home were not extended either.
- After an extremely uncertain status in 2010, the estate tax will be reinstated through 2012, with a top rate of 35% and a step-up in basis. The exemption amount will be \$5 million per individual in 2011 and will be indexed to inflation in following years. Estates of people who died in 2010 can choose to follow either 2010's or 2011's rules.

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