

The Bankler Report

December 17, 2010

INTRODUCTION

Last night, Congress passes the Tax Relief Act of 2010. Not only did this extend the “Bush-era Tax Cuts”, but also includes numerous new tax breaks.

Bush-era Tax Cuts are Extended for Two Years.

The Bush-era Tax Cuts, which were set to expire January 1, 2011, will now expire January 1, 2013. Not only do the income tax rates for individuals remain the same, but also the marriage penalty relief is also extended. The special rates for Capital Gains and Qualified Dividends are also extended for two years.

Estate Tax Relief.

The estate tax was fully repealed in 2010, but effective January 1, 2011, it was to be reinstated with a top rate of 55% and a \$1,000,000 exemption. The Act sets the exemption at \$5,000,000 per person (\$10,000,000 per couple) and provides a top rate of 35% for estate, gift, and generation skipping transfer taxes through 2012. While the changes are effective January 1, 2010, executors will be allowed to make an election to choose no estate tax and modified carryover basis for estates arising for the year 2010.

Incentives for Businesses to invest in Machinery and Equipment.

There are several incentives for businesses to invest in NEW business property. These would include: (1) A 100% bonus first year depreciation allowance for property acquired and placed into service after September 8, 2010 and before January 1, 2012. The property must be **NEW** and **can include qualified leasehold improvements**. There is no dollar limit on the property placed into service. (2) Businesses can expense new & used equipment up to \$500,000 in a year thru December 31, 2011. This expensing begins phasing out when total purchases exceed \$2,000,000. After December 31, 2011, this reverts to \$125,000 with an investment phase out at \$500,000. (3) A 50% bonus first-year depreciation allowance for NEW business property placed into service after December 31, 2011 and before January 1, 2013.

Temporary Employee Payroll Cut for 2011.

Under current law, employees pay 6.2% Social Security Taxes on all wages up to \$106,800. (Self-employed pay 12.4%.) The Act provides a payroll/self-employment tax holiday of 2 percentage points. As a result, **EMPLOYEES** will pay only 4.2% Social Security Tax for these wages in 2011. **EMPLOYERS** will still pay 6.2% on these wages. The self-employed will pay a combined 10.4%.