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President Signs the 2010 Tax Relief Act Giving Taxpayers a Measure of Tax Certainty

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On December 17, 2010, President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (HR 4853) (the "2010 Tax Relief Act").

The 2010 Tax Relief Act extends for two years the tax cuts enacted in 2001 and 2003, provides significant short-term estate tax relief, and contains numerous other tax incentives for businesses and individuals, with an overall stated purpose of accelerating economic growth and job creation.

The following is a brief overview of the material changes in federal tax law resulting from passage of the 2010 Tax Relief Act:

- The current marginal federal income tax rates are extended for a period of two years. Those rates for individuals are 10%, 15%, 25%, 28%, 33% and 35%.
- The exemption from estate and general skipping transfer taxes for 2011-2012 is increased to $5 million per spouse (indexed for inflation) with a reduction in the top rate from 55% to 35%.
- The most favorable long-term capital gains rate and qualified dividend rate will remain at 15% for 2011-2012.
- The alternative minimum tax exemption amounts (often referred to as the "AMT Patch") will remain in place for 2011-2012.
- An employee-side payroll tax reduction from 6.2% to 4.2% is put in place for 2011-2012. Likewise, self-employed individuals will see a

reduction from 12.4% to 10.4% on self-employment taxes for 2011-2012.

- Unemployment insurance benefits are extended for an additional 13 months.
- New incentives are available for businesses purchasing machinery and equipment, including, without limitation, a 100% deduction if property eligible for bonus depreciation is placed in service before January 1, 2012, a 50% deduction if property eligible for bonus depreciation is placed in service after December 31, 2011, and before January 1, 2013, and an increase in the maximum expensing amount for small businesses under Section 179 for tax years beginning after December 31, 2011, to $125,000 with an investment-based phase out of $500,000 (which would have dropped to $25,000/$200,000 in such tax years).
- An extension or retroactive reinstatement for one year, as applicable, of various tax credits and deductions, including the research credit, the new markets tax credit, the work opportunity credit, the 15-year deduction for qualifying leasehold improvements, the biodiesel credit, the alternative fuel tax credit, the expensing of environmental remediation costs, and the Section 199 deduction for domestic film production activities occurring in Puerto Rico.

The 2010 Tax Relief Act provides much-needed certainty for individual and business tax planning over the next two years. In theory, it should inject billions of dollars into the U.S. economy.

If you would like more detailed information concerning any of these changes in federal tax law, please do not hesitate to contact us.