2010 TAX RELIEF ACT SIGNED BY THE PRESIDENT

Late on December 17, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "2010 Tax Relief Act"), which lowers tax rates for Americans at every income level and also reduces the tax liabilities of small businesses and corporations.

The 2010 Tax Relief Act is a sweeping tax package that includes an extension of the Bush-era tax cuts for two years; a 2% cut in employee-paid payroll taxes and in self-employment tax for 2011; new incentives to invest in machinery and equipment; estate tax changes; a two-year alternative minimum tax (AMT) "patch" and a host of retroactively resuscitated and extended tax breaks for individuals and businesses.

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

Income Tax Rates

Current income tax rates will be retained for two years (2011 and 2012), with a top rate of 35% and a bottom rate of 10% on ordinary income. The proposal also continues the 15% rate cap on long-term capital gains profits and qualified dividends. This is significant particularly for dividend income, which was set to return to being taxed as regular income in 2011.

Payroll Taxes

Employees and self-employed workers will receive a Social Security payroll tax reduction of 2% in 2011, bringing the rate from 6.2% to 4.2% for employees, and from 12.4% to 10.4% for the self-employed. For individuals with wages of $60,000, this will amount to a $1,200 annual tax savings. Note that the employer's share of Social Security tax is not affected.

Business Tax Relief

On the business side, many tax breaks that expired at the end of 2009 have been retroactively reinstated and extended through 2011. Among these, businesses may write off 100% of their equipment and machinery purchases, 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.

Estate Tax

The estate tax will be reinstated for 2011 and 2012 with a top rate of 35%. The exemption amount will be $5 million per individual in 2011 and will be indexed for inflation in following years. This was a significant compromise for the White House and certain Democrats, which had proposed returning the estate tax rate to 45% with a personal exemption of $3.5 million.

AMT "patch"

A two-year AMT "patch" for 2010 and 2011 will keep the AMT exemption near current levels and allow personal credits to offset the AMT. Without the patch, an estimated 21 million additional taxpayers would have owed AMT for 2010.

Lower-Income Tax Credits

Key tax credits for working families that were enacted or expanded in 2009 will be retained. Specifically, the new law extends the $1,000 child tax credit, which would have fallen to $500, and maintains its expanded refundability for two years; extends rules expanding the earned income credit (EIC) for larger families and married couples for two more years; and extends the higher education tax credit of $2,500 and its partial refundability for two years.

Form 1099 Reporting

Of note, the new law does not repeal a controversial expansion of Form 1099 reporting requirements to certain payments of $600 or more.

We realize this information may be much to digest. **As a result, Rinke Noonan will host a lunchtime learning session in late January to discuss many of these issues and to answer questions you may have.** An e-mail update with more information will be sent soon.

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