February 7, 2011

Tax Law Changes and You

In December last year, Congress approved the extension of the Bush-era tax cuts through the Tax Relief Act 2010. This act includes a group of retroactive tax changes that affect the 2010 returns. As a result, the IRS had to update its system by making changes to forms and reprogramming its computers. Due to these changes, some taxpayers' returns will not be processed until mid- to late February.

Since Congress restored the opportunity for taxpayers to choose between deducting state income taxes or state sales tax, the IRS had to revise the Schedule A – the form you use to itemize your deductions. It will not be ready for use until February 14. At the same time, some of those who do not itemize their deductions are affected, too. Those who can claim the $250 deduction available to teachers and teachers' aides who spend money for classroom supplies or the deduction for up to $4,000 of qualified college cost can now make these claims as they were reinstated by the President when he signed the legislation last December 17.

In the meantime, you should gather all relevant documents to support your claims and use the forms once they are ready. Then you can submit your return as soon as the IRS gives the green light.

But for the majority of taxpayers who do not itemize your deductions, they are not affected by the delays. So if you only claim standard deductions, then you can file as soon as you have your W-2 wage reporting form and any other tax paperwork you need. If you filed by mid-January, you should have your refund long before the IRS opens the filing season for taxpayers affected by the delay.

Here are some other tax changes that you may not be aware of:

Under the Tax Relief Act 2010, the credit percentage of Earned Income Tax Credit has been raised from 40% to 45% of the first $12,570 of earned income for taxpayers with 3 or more qualifying children. In addition, the EITC phase-out range has also been adjusted upward by $1,880 for joint filers to eliminate any marriage penalty. This increase in percentage is retrospective from 2009 through 2012.

The standard deductions have also been increased. For singles and married couples filing separately, the deduction is $5,800 which is an increase of $100. For married couples filing jointly, the deduction now stands at $11,600, an increase of $200. Finally, for heads of households, the deduction is $8,500, an increase of $100.

The additional standard deduction for blind people and senior citizens is $1,150 for married individuals, up $50, and$1,450 for singles and heads of household, also up $50.