

## **Americans Will Ring in the New Year with Billions of Dollars of Tax Relief**

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 became law on December 17, 2010. The much talked about “tax-cut bill,” among other things, extends the Bush-era tax cuts at all income levels, and continues unemployment benefits to Americans.

### **Am I Affected?**

Virtually every American has the potential to be affected by this massive tax-cut bill—individual taxpayers, students, business owners—even the deceased.

### **What Do I Need to Know?**

If enacted into law, the measure would do the following:

1. Extend jobless aid for a 13-month period for the long-term unemployed.
2. Extend the 10-, 15-, 25-, 28-, 33- and 35-percent individual income tax rates created by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) for two years.
3. Repeal the overall limitation on the itemized deduction and the personal exemption phase out for two years.
4. Reduce the 6.2 percent Social Security payroll tax on all wage earners to 4.2 percent for one year, providing tax relief of about \$120 billion next year for 155 million workers. For example, a family earning \$50,000 would realize a savings of \$1,000. The maximum savings would be \$2,136 for workers earning \$106,800 or more in 2011. To ensure the reduction in payroll tax would not negatively impact the solvency of Social Security, the tax cut legislation would provide for a transfer of General Revenues to the Social Security Trust Fund.
5. For two years, for married couples filing a joint tax return, increase the basic standard deduction to twice the basic standard deduction for an unmarried individual filing a single return; and increase the size of the 15-percent regular income tax rate bracket to twice the 15-percent regular income tax rate bracket for an unmarried individual filing a single return.
6. For one year, allow tax-free distributions from IRAs of up to \$100,000 per person to certain public charities for individuals age 70 ½ and older.
7. Keep the top rate of 15 percent on capital gains and dividends for two years.
8. Adjust the alternative minimum tax (AMT). Present law provides for certain nonrefundable personal tax credits.<sup>1</sup> The provision would allow an individual to offset the entire regular tax liability and alternative minimum tax liability by the nonrefundable personal credits for 2010 and 2011 and raise the personal exemption limits.

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<sup>1</sup> Nonrefundable personal tax credits include the dependent care credit, the credit for the elderly and disabled, the child credit, the credit for interest on certain home mortgages, the Hope Scholarship and Lifetime Learning credits, the credit for savers, the credit for certain nonbusiness energy property, the credit for residential energy efficient property, the credit for certain plug-in electric vehicles, the credit for alternative motor vehicles, the credit for new qualified plug-in electric drive motor vehicles, and the D.C. first-time homebuyer credit

9. Set a federal estate tax exemption of \$5 million per person and a maximum rate of 35 percent—forestalling the \$1 million per person exemption and maximum rate of 55 percent otherwise scheduled to take effect January 1, 2011.
10. Continue the American Opportunity Tax Credit (AOTC). The American Recovery and Reinvestment Act of 2009 included a new, partially refundable tax credit of up to \$2,500 to help students and their families cover the cost of college tuition for 2009 and 2010. The tax cut legislation would fully extend the AOTC for two years.
11. Extend the EGTRRA provisions affecting Education Savings Accounts (ESAs) for two years, including, but not limited to, maintaining the contribution limit at \$2,000; allowing corporations and other entities to contribute to ESAs; allowing contributions until April 15 of the following year; allowing tax-free expenditures for elementary and secondary school expenses; and expanding the definition of qualified expenses to include certain computers and related items.
12. Expand the earned-income tax credit (EITC). The American Recovery and Reinvestment Act of 2009 increased the earned income tax credit (EITC) an average of \$600 for taxpayers with three or more qualifying children for 2009 and 2010. The tax-cut bill would continue this measure for two additional years.
13. Extend the \$1,000 child tax credit (CTC) for two years. The American Recovery and Reinvestment Act of 2009 allowed more families to qualify for the additional child tax credit for 2009 and 2010. The tax-cut bill would keep the minimum earned income threshold amount for eligibility for the CTC at \$3,000 and extend the \$1,000 credit for an additional two years. For example, a working family with three children making \$20,000 will continue to receive a tax cut of more than \$2,000 as a result of the EITC and Child Tax Credit expansions in this framework agreement. The same family would receive an additional \$400 tax cut from the new payroll tax cut.
14. Allow businesses to write off all their expenses in 2011. The tax cut legislation would also include a two-year extension of the research and development tax credit and other tax incentives to support business expansion.

### **Additional Details**

- The provisions of the bill are estimated to cost \$858 billion over 10 years.
- The Senate approved the bill on December 15, 2010, with a vote of 81 to 19; the House approved the bill on December 16, 2010 with a vote of 277 to 148; and President Obama signed the bill into law on December 17, 2010.
- You may access the text of the bill online at the following web site

<http://www.gpo.gov/fdsys/pkg/BILLS-111hr4853eas2/pdf/BILLS-111hr4853eas2.pdf>

### **What Action Should I Take?**

- Stay up to date on any further implementation guidance with respect to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.
- Talk to your financial advisor about how the tax-cut bill may affect you.

