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Tax Relief Act of 2010: Quick Guide Part 1

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law on December 17, 2010. Here's a quick guide to some of the changes.

Tax Rates

	Before Act	After Act
Federal income tax brackets	Five 2010 tax brackets: 15%, 28%, 31%, 36%, 39.6%	Six 2010 tax brackets extended to 2011 and 2012: 10%, 15%, 25%, 28%, 33%, 35%
Maximum tax rate on long-term capital gains	Starting in 2011: 20% (10% for individuals in the 15% tax bracket) ¹	2010 rates extended to 2011 and 2012: 15% (0% for individuals in the 10% or 15% tax brackets)
Tax on qualifying dividends	Taxed as ordinary income starting in 2011	2010 treatment extended to 2011 and 2012: 15% (0% for individuals in the 10% or 15% tax brackets)
Alternative minimum tax (AMT)	Exemption amounts 2010: <ul style="list-style-type: none"> • \$45,000 (married joint) • \$33,750 (single) • \$22,500 (married separate) 	Exemption amounts 2010: <ul style="list-style-type: none"> • \$72,450 (married joint) • \$47,450 (single) • \$36,225 (married separate)
		Exemption amounts 2011: <ul style="list-style-type: none"> • \$74,450 (married joint) • \$48,450 (single) • \$37,225 (married separate)
	Personal tax credits not allowed against AMT beginning in 2010	Personal tax credits allowed against AMT in 2010 and 2011

Estate Tax

	Before Act	After Act
Top estate tax rate	No estate tax for 2010 (modified carryover basis rules applied), estate tax would return in 2011 with top rate of 55%	Estate tax retroactively reinstated for 2010; top rate of 35% applies to 2010, 2011, and 2012 ²
Estate tax exemption equivalent amount (basic exclusion amount, formerly called applicable exclusion amount)	No estate tax for 2010 (modified carryover basis rules applied), estate tax would return in 2011 with \$1 million applicable exclusion amount	\$5 million basic exclusion amount applies to 2010, 2011, and 2012 ² ; (\$5 million amount will be indexed for inflation in 2012)
Portability of exemption amount	N/A	For 2011 and 2012, when one spouse dies, any unused portion of that spouse's estate tax exemption equivalent amount may be transferred to the surviving spouse

Gift and Generation-Skipping Transfer Tax

	Before Act	After Act
Gift tax	For 2010: \$1 million lifetime exemption equivalent, top rate of 35%	For 2011 and 2012, there will be a \$5 million lifetime exemption equivalent, estate tax rates (top rate of 35%) applies
	For 2011: \$1 million lifetime exemption, top rate of 55%	
Generation-skipping transfer tax (GSTT)	No GSTT for 2010, \$1 million exemption for 2011 with tax rate of 55%	GSTT exemption amount for 2010, 2011, and 2012 is \$5 million; 0% rate applies for 2010; tax rate of 35% applies for 2011 and 2012

Business/Self-Employed Individuals

	Before Act	After Act
"Bonus" depreciation	50% additional first-year depreciation allowed for 2010, no bonus depreciation beginning in 2011	100% bonus depreciation for property acquired and placed in service after 9/8/10 and before 1/1/12; 50% bonus depreciation allowed for property acquired and placed in service after 12/31/11 and before 1/1/13
IRC Section 179 expensing	For 2010 and 2011, \$500,000 expense limit, reduced by amount by which cost of qualifying property placed in service during the year exceeds \$2 million; beginning in 2012, limit would be reduced to \$25,000 with \$200,000 phaseout threshold	2010 and 2011 unchanged; for 2012, the limit will be set at \$125,000, reduced by amount by which cost of qualifying property placed in service during the year exceeds \$500,000 (\$125,000 and \$500,000 amounts indexed for inflation)
Tax credit for research and experimentation expenses	Expired at the end of 2009	Retroactively reinstated for 2010 and extended through 2011
New markets tax credit	Expired at the end of 2009	Retroactively reinstated for 2010 and extended through 2011
Indian employment tax credit	Expired at the end of 2009	Retroactively reinstated for 2010 and extended through 2011

¹Slightly lower rates would apply to qualifying property held for five or more years.

²For individuals who died in 2010, an election can be made to choose the estate tax provisions in effect prior to the Act.

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