



Congress Passes Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010

Congress has approved, and President Obama has signed into law the Unemployment Insurance Reauthorization and Job Creation Act, a tax relief act (H.R. 4853) (the Act) which extends favorable 2010 federal tax rates for two years through 2012 and provides other important tax changes. We are including a summary of the Act's provisions with this e-alert. The summary has been prepared by a news service (CCH). [CCH's summary](#) highlights certain aspects of the new law and provides special commentary regarding the most important provisions of the Act to our clients.

Below is an overview of several provisions in the new law that may be relevant to you or your business:

Individual Income Tax Rates

The new Act will preserve the current level of income tax rates that apply in 2010 for an additional two years through December 31, 2012. The current rates are 10%, 15%, 25%, 28%, 33%, and 35%. The rates were set to change to 15%, 28%, 31%, 36% and 39.6% after December 31, 2010, respectively. Without further Congressional action, the new rates will take effect beginning January 1, 2013.

Capital Gains/Dividends Tax Rates

The Act preserves current tax rates for qualified capital gains and dividends, which are taxed at a maximum rate of 15%. The rates are preserved for two additional years, through December 31, 2012. Barring further action, the capital gains rate will revert to 20% beginning January 1, 2013; qualified dividends will be taxable at ordinary income tax rates that could range as high as 39.6% beginning January 1, 2013.

Estate Tax

The Act revives the estate tax for decedents dying after December 31, 2009. However, the maximum estate tax rate is 35% with an exclusion amount of \$5 million per spouse. The new estate tax is temporary and is scheduled to sunset on December 31, 2012. Estates of decedents dying in 2010 can elect to either apply

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these new rules, which allow for a federal tax basis step-up, or pay no estate tax, with modified tax basis rules applying.

Payroll Tax Reduction

The Act reduces the employee portion of the OASDI portion of Social Security taxes from 6.2% to 4.2% for wages earned during 2011. The employer portion remains at 6.2%. The reduction applies only up to the taxable wage base of \$106,800. Self employment taxes for self-employed individuals would receive a similar reduction.

Alternative Minimum Tax Patch

The patch provides higher AMT exemption amounts for the years 2010 and 2011. The exemption is increased to \$47,450 for individual taxpayers, \$72,450 for married taxpayers filing jointly and surviving spouses, and \$36,225 for married couples filing separately.

100% Bonus Depreciation

The Act raises the previous 50% bonus depreciation to 100% for qualified investments after September 8, 2010 and before January 1, 2012.

Code Section 179 Expensing

The Act increases Code section 179 expensing dollar and investment limitations to \$500,000 and \$2 million, respectively, for tax years beginning in 2010 and 2011. The Act also provides a \$125,000 limit and a \$500,000 investment limit for tax years beginning in 2012 and sunsetting after December 31, 2012.

Research Tax Credit

The Act renews the research tax credit which was set to expire at the end of 2009 for two additional years through December 31, 2011.

Small Business Stock

The Act extends the 100% exclusion for qualified sales of small business stock for one additional year, now extending to stock acquired before January 1, 2012. In addition, the excluded gain is not a tax preference item for AMT purposes. To qualify, stock of a C corporation must be held for at least five years, the C corporation must have \$50 million or less in assets and must invest at least 80% of its assets in a trade or business.



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