

**December 17, 2010**  
**Tax Relief Act of 2010**

Dear Clients and Friends:

After much Congressional deliberation, The Tax Relief Act of 2010 (the "Act") been passed by the House just before midnight on December 16, 2010 and is expected to be signed into law by the President imminently. This significant piece of tax legislation temporarily extends the Bush-era tax cuts, provides for significant estate tax relief, and contains a myriad of other tax benefits for both individuals and businesses. Some of the key provisions include:

#### **Favorable Capital Gains and Dividend Tax Rates**

The maximum tax rate for long-term capital gains and qualified dividends will continue to be 15% for the next two years. Without Congressional action, the maximum tax rate for capital gains and qualified dividends would have increased to 20% and 39.6%, respectively.

#### **Beneficial Individual Income Tax Rates**

The income tax rates for individuals will remain at 10%, 15%, 25%, 28%, 33%, and 35% for the next two years (instead of reverting back to 15%, 28%, 31%, 36%, and 39.6%).

#### **Alternative Minimum Tax ("AMT") Patch**

The AMT exemption amounts will be \$47,450 for individuals, \$36,225 for married individuals filing separately, and \$72,450 for married taxpayers filing jointly and \$48,450 for individuals, \$37,225 for married individuals filing separately, and \$74,450 for married taxpayers filing jointly for 2010 and 2011, respectively. Without the "patch," AMT exemption amounts would have fallen to \$33,750 for individuals, \$22,500 for married individuals filing separately, and \$45,000 for married taxpayers filing jointly.

#### **Lucrative Incentives for Business Investment**

The Act creates a 100% bonus depreciation deduction for certain qualifying property acquired after September 8, 2010 and before January 1, 2012. It also extends the 50% bonus deduction for certain other qualifying property acquired after December 31, 2011 and before January 1, 2013. Finally, the Act increases the Section 179 expensing limitation from \$25,000 to \$125,000 for tax years beginning in 2012.

#### **Payroll Tax Reduction**

The Act provides for a temporary cut in payroll taxes of 2% for employees and self-employed individuals for 2011.

#### **Estate Tax Relief**

The estate tax will be reinstated with a maximum rate of 35% and an exception of \$5 million per spouse retroactive to January 1, 2010. Estates arising on or after January 1, 2010 and before January 1, 2011 may elect to apply the previous law (no estate tax and modified carryover basis) in place of the enacted changes. In addition, there is a \$5 million generation-skipping transfer tax exemption and a 0% tax rate for 2010.

#### **Itemized Deduction and Personal Exemption Limitation**

Under previous law, high-income taxpayers were subject to limitations on their itemized deductions and personal exemptions. These limitations were completely eliminated in 2010. The Act extends this repeal for two years. Therefore, the itemized deduction and personal exemptions will not be subject to the limitations for the next two year.

#### **Extenders**

The Act extends many expiring business and individual tax relief provisions through 2011 including R&D tax credits, 15-year straight line cost recovery for qualified leasehold improvements, work opportunity credits, itemized deductions for state and local general sales taxes, tax-free distributions of up to \$100,000 from IRAs for charitable purposes and the above-the-line deduction for qualified tuition and related expenses.

Please keep in mind that we have described only the highlights of the most important changes in the new law. If you would like more details about any aspect of the pending legislation, please contact your GH&J tax advisor for further details at (310) 873-1600.

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