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CLIENT NEWSLETTER

WINTER 2010-2011

Happy New Year!

Virtually all of the "Bush" tax cuts enacted in 2001 and 2003 were set to expire on 12/31/10. In addition, many other tax breaks enacted after 2003 were also set to expire at the end of 2009 or 2010. At the last possible moment before going into recess on December 22, Congress acted and passed the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* which was signed by President Obama. This law extends virtually all the Bush tax cuts, and many other tax breaks. A table of tax provisions set to expire at the end of 2009, 2010, & 2011, and what has happened to them is included at the end of this Newsletter. Also at the end is a brief table of annual inflation adjustments to various tax items.

The most publicized aspects of the 2010 Act are:

1. Continuation of **reduced tax rates** for 2011 and 2012. This means that the current tax brackets of 10,15,25,28,33,35 percent will continue, rather than reverting to 15 to 39.6% (the rates that were in effect in 2000).

2. The **Estate Tax** (which is a tax on the *value* of a deceased person's net assets at death) was gradually lowered between 2001 and 2009 and completely repealed in 2010. Under the 2010 Act, the Estate Tax is reinstated in 2011 at graduated rates up to 35%. The first $5 million of a person's estate is exempt from tax. With proper estate planning, this doubles to $10 million for a married couple. By contrast, in 2009 (the last year of the Estate Tax), the exemption was $3.5 million with rates up to 45%. The **Gift Tax** annual per-person exclusion remains unchanged at $13,000; however, the lifetime Gift Tax Exemption rises from $1,000,000 to $5,000,000 for gifts made in 2011 and 2012, and will be indexed for inflation starting in 2013.

3. To stimulate the economy, all employed and self-employed people will have their **Social Security taxes reduced** by 2 percentage points for 2011, from 6.2% to 4.2% on the first $106,800 earned. (Earnings above that amount are not subject to Social Security tax.) The maximum tax reduction per working person is 2% of $106,800 = $2,136.

4. **Unemployment Benefits** have been extended by 13 months to December 31, 2011 for the long-term unemployed.

Items Enacted in 2009 that are effective in 2010 and 2011:

Electronic Filing and Electronic Tax Paying. Beginning 1/1/2011, all individual, trust, and estate income tax returns prepared by a professional or commercial preparer will be *required to be filed electronically*. The IRS has issued some preliminary rules for situations where electronic filing is not possible.

The IRS has also expanded its Electronic Federal Tax Payment Service ("EFTPS"). Most taxpayers can now choose to pay all of their taxes electronically by signing up for EFTPS. (As in the past several years, you can still pay electronically by declaring so on your tax return.)

Tough Enforcement of Rules for Substantiation and Documentation. Please remember that the IRS *strictly enforces* the rule that deductions be evidenced by receipts, cancelled checks, credit card or bank statement entries, and log books. This is especially true for business travel and entertainment deductions, business use percentage of autos and other assets, and charitable contributions. The courts have been consistently upholding the IRS.

The rules on **Charitable Contributions** are especially tough and directed by Congress, not the IRS. All contributions of money must be evidenced by a bank record, such as a checking account, debit card, or credit card statement entry, or a written receipt from the charity. The bank record or receipt must show the name of the charity and the date and amount of the contribution. This applies to all contributions of money, from *one cent* up! The effect of this provision is to make contributions of paper money non-deductible for all practical purposes. Use checks, debit, and credit cards only. Contributions to any one organization that total $250 or more for the year (money and/or property) *must be evidenced by a receipt. Cancelled checks are not sufficient.*

If you donate a motor vehicle to a charity, the charity must give you a Form 1098-C which reports the deductible amount of the gift. The rules are complex, but you can be quite sure that the value you get by researching on the internet is much too high.

Changes are summarize on the following pages.

Our best wishes to all for a great New Year.

Watch for many more tax changes in 2011. Our News Flashes and Newsletters are posted on our website www.famtax.com.

Please feel free to call or write if you have any questions.

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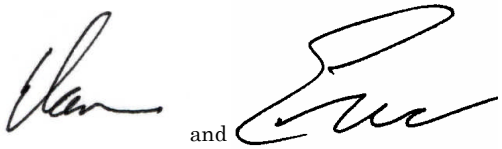

Expired or Expiring Tax Provisions for 2009 — 2011	Was to Expire After	Extended to
Individual Tax Rates		
Reduced rates for the top four individual income tax brackets. After 2010, the current 25%, 28%, 33%, and 35% rate brackets were scheduled to revert back to 28%, 31%, 36%, and 39.6%, respectively. The 10% bracket was set to expire.	12/31/10	12/31/12
Marriage penalty relief for the 15% tax bracket for married filing joint taxpayers (MFJ). After 2010, the taxable income at which the 15% tax bracket ends for MFJ was scheduled to revert from 200% to 167% of the amount applicable to single taxpayers.	12/31/10	12/31/12
Reduced long-term capital gain rates. Rates were to go from 0% or 15% to 10% or 20%.	12/31/10	12/31/12
Qualified dividends were no longer eligible for the Long-term capital gain rates after 2010. They were to be taxed as ordinary income.	12/31/10	12/31/12
Individual Deductions		
$250 deduction for certain expenses of elementary and secondary school teachers.	12/31/09	12/31/11
Repeal of the phase-out of itemized deductions for high income individuals. For 2010, itemized deductions are not limited. After 2010, the phase-out limitation was scheduled to revert back 2000 rules. Thus certain itemized deductions would be reduced by formula.	12/31/10	12/31/12
Repeal of the phase-out of personal & dependency exemptions for high income individuals.. In 2010 there is no phase-out. After 2010, up to 100% was to be phased-out.	12/31/10	12/31/12
Marriage penalty relief for the standard deduction for married filing joint taxpayers (MFJ). After 2010, the standard deduction for MFJ was scheduled to revert from 200% to 167% of the standard deduction for single taxpayers.	12/31/10	12/31/12
$500 ($1,000 if married filing jointly) additional standard deduction for state and local real property taxes (for those who do not itemize deductions..	12/31/09	Expired
Choice to deduct state and local general sales taxes if greater than state income tax.	12/31/09	12/31/11
Itemized deduction or additional standard deduction for state sales tax and excise tax on the purchase of qualified motor vehicles.	12/31/09	Expired
Itemized deduction of mortgage insurance premiums as qualified residence interest.	12/31/10	12/31/11
Alternative Minimum Tax (AMT)		
Increased AMT exemption. For 2010, the AMT exemption amount was to be $33,750 for Single or Head of Household, $45,000 for Married Filing Jointly, and $22,500 for Married Filing Separately. Increased to $47,450, $72,450, $36,225.	12/31/09	12/31/11
Tax-exempt interest on private activity bonds issued in 2009 and 2010 is not an item of tax preference for purposes of the AMT.	12/31/10	Not extended
Refundable long-term unused minimum tax credit	12/31/12	12/31/12
Exclusions from Income		
Up to $100,000 tax-free treatment of qualified charitable distributions from IRAs for individuals age 70½ or older.	12/31/09	12/31/11
$2,400 exclusion of unemployment compensation benefits from gross income.	12/31/09	Expired
$2,000,000 exclusion for qualified forgiveness of principal residence indebtedness.	12/31/10	12/31/12

Expired or Expiring Tax Provisions for 2009 — 2011	Was to Expire After	Extended to
Individual Tax Credits		
Ability to use certain nonrefundable personal credits against both regular tax and AMT.	12/31/09	12/31/11
$8,000 first-time homebuyer credit of up to and $6,500 long-time homeowner credit.	4/30/10	Expired
Increased maximum qualifying expenses for the dependent care credit of $3,000 ($6,000 for 2 or more children), maximum credit percentage of 35%, and beginning phase-out range of $15,000. After 2010, the maximum qualifying expenses was to fall back to $2,400 ($4,800 for two or more children), the maximum credit percentage was to fall to 30%, and the phase-out range to begin at $10,000.	12/31/10	12/31/12
Child tax credit. After 2010, the current $1,000 credit was scheduled to revert back to $500.	12/31/10	12/31/12
$3,000 threshold for determining the refundable portion of the child tax credit. After 2010, the threshold will rise to $10,000 (indexed for inflation).	12/31/10	Not extended
$1,500 maximum personal energy property tax credit.	12/31/10	12/31/11
45% earned income credit percentage for taxpayers with 3 or more qualifying children and increased phase-out threshold for Joint filers. After 2010, the credit percentage for taxpayers with 3 or more qualifying children was to be the same as for those with 2 or more qualifying children and the phase-out threshold for Joint filers was to be $3,000 greater than for other taxpayers.	12/31/10	12/31/12
Making work pay credit - lesser of 6.2% of earned income or $400 ($800 for MFJ returns). For 2011 this credit is replaced by a 2% reduction in Social Security tax.	12/31/10	Not extended
Adoption credit and phase-out range. After 2011, the maximum credit was to be $6,000 *for special needs adoptions only*, and the phase-out range between $75,000 and $115,000, And the credit could no long offset the AMT.	12/31/11	12/31/11
Education Deductions & Credits		
Deduction for up to $4,000 of qualified tuition and related expenses.	12/31/09	12/31/11
Student loan interest deduction.	12/31/09	12/31/12
American opportunity credit. After 2010, the American Opportunity credit was to expire a change back to the Hope Scholarship credit, as in effect before 2009.	12/31/10	12/31/12
Computer technology and equipment treated as qualified higher education expense for Section 529 accounts (qualified tuition programs) and Coverdell Education Savings Accounts.	12/31/10	Not Extended
$2,000 Coverdell Education Savings Accounts contribution limit and other changes. After 2010, the maximum contribution limit was to revert to $500. Also, K-12 education costs were no longer qualified expenses and the contribution deadline was December 31 of current tax year (Not April 15).	12/31/10	12/31/12
Depreciation, Amortization & Other Business Deductions		
5-year recovery period for farming business machinery and equipment.	12/31/09	Expired
15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.	12/31/09	12/31/11
Suspension of 100% of net income limit on percentage depletion for oil and gas from marginal wells.	12/31/09	Expired
5-year amortization of music and music copyrights.	12/31/10	Not extended
50% bonus depreciation - additional first-year depreciation for qualified property.	12/31/10	12/31/12

Expired or Expiring Tax Provisions for 2009 — 2011	Was to Expire After	Extended to
Increased Section 179 expense deduction & phase-out threshold limits. After 2011, the maximum Section 179 expense reverts back to $25,000 and the phase-out begins when acquisitions exceed $200,000.	12/31/11	Not extended
Revocation of Section 179 expense election without IRS consent.	12/31/11	12/31/12
Qualified property for Section 179 expense includes computer software.	12/31/11	12/31/12
Qualified property for Section 179 expense includes qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.	12/31/11	Not extended

2010-2011 Inflation and Other Adjustments:

	2010	2011
Auto mileage rate for business *(increase)*	50.0 cents per mile	51.0 cents per mile
Auto mileage rate for medical & moving expenses *(increase)*	16.5 cents per mile	19.0 cents per mile
Auto mileage rate for charity	14 cents per mile	Same
Maximum IRA & Roth IRA contribution	$5,000 plus extra $1,000 if over age 50	Same
Maximum SEP contribution	Lesser of $49,000 or 25% of compensation	Same
Maximum 401(k),403(b),457 Plan contribution limit	$16,500 plus extra $5,500 if over age 50	Same
Maximum wages taxable for Social Security	$106,800	Same
Annual Gift Tax Exclusion (per person receiving gifts)	$13,000 ($26,000 if married)	Same
Personal & Dependent Exemption *(increase)*	$3,650	$3,700
Standard Deduction *(increase)*	Married: $11,400; Single: $5,700; Head of Household: $8,400	Married: $11,600; Single: $5,800; Head of Household: $8,500
Additional Standard Deduction for Age 65 or Blind *(increase)*	Married: $1,100 per spouse Unmarried: $1,400	Married: $1,150 per spouse Unmarried: $1,450
Alternative Minimum Tax Exemption *(increase)*	Married: $69,950; Single or Head of Household: $46,200; Married filing Separately: $34,975	Married: $72,450; Single or Head of Household: $47,450; Married filing Separately: $36,225