

How the New Tax Laws Affect You

By **Kerry Molloy Bertoldi, CPA**

As Americans, we are living in turbulent financial times. Projecting our tax liabilities has proven near impossible without the assistance of an educated professional. During these changing times, you may lack confidence in your financial decisions. Now, more than ever, for your financial health, we advise you to consult with professionals.

Many of us grew up with a basic understanding of the Tax Code. Conversations around the dinner table provided some knowledge of the revenue system of our great nation. Since that time, regardless of how recent it may have been, significant changes have occurred. Please know that it is no longer safe to assume that your knowledge of the tax laws is accurate. There have been, and will continue to be some drastic changes in our nation's revenue system.

We are pleased to share with you information regarding some of the changes, and a brief overview of how they apply to individuals. However, there is no substitute for knowledge and experience. We have an educated understanding of the changes in 2010 Tax Act, and are pleased to offer a free consultation if you would like our assistance.

Little can be done to make taxes an exciting subject. Perhaps next month, *Eventful Magazine* will ask me to write about summer vacations. In the meantime, the task at hand is to report on the changes in the tax laws and the ways the Tax Act of 2010 will affect taxpayers.

The newly passed and signed 2010 Tax Act, formally named the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, includes several provisions affecting taxpayers.

One major provision of the 2010 Tax Act is that the new law extends the tax cuts of 2001 and 2003. For most Americans this means that we won't be subject to an increase in our income tax rates. When so many are struggling, it is a relief to know that income taxes won't necessarily be a greater burden this year.

The 2010 Tax Act temporarily reinstates the estate tax, with an estate tax rate of

35% and an estate tax exemption of \$5 million. These amounts will be adjusted for inflation after 2011. The new law also extends unemployment benefits, and it includes an alternative minimum tax patch.

With regard to tax planning, one of the most significant provisions of the new law is that the lower capital gains tax rate introduced by the Jobs and Growth Tax Relief Reconciliation Act of 2003 is continued through 2012. As we brought 2010 to a close and move into 2011, many portfolios are being analyzed to take advantage of the lower capital gains tax rates, while at the same time realizing the greatest gains possible.

Another provision that must be considered for effective tax planning is the two year extension of the repeal of the itemized deduction phase-out and the personal exemption phase-out. The increased standard deduction for married taxpayers filing jointly, which was scheduled to expire after 2010, continues for two years. Families will also be affected by the \$1,000 child tax credit amount which continues for two years instead of reverting to \$500. The increased starting and ending points for the earned income credit continues for two years. The \$3,000 amount for the child and dependent care credit, which was scheduled to revert to \$2,400 after 2010, continues for two years. The American Opportunity Tax Credit continues for two years.

With regard to payroll taxes, we have a very interesting change. For 2011, the Act reduces the rate for the Social Security portion of payroll taxes to

10.4% by reducing the employee rate from 6.2% to 4.2%. The employer's portion remains 6.2%.

The Act also makes adjustments to the gift exclusion and generation-skipping transfer (GST) tax that will affect family giving. The federal gift tax exemption is increased to \$5 million for 2011 and 2012, up from \$1 million in 2010. The GST tax exemptions are set at \$5 million for 2011 and 2012. The exemption limit is scheduled to drop to \$1 million beginning in 2013.

If you are overwhelmed, you are not alone. Professional assistance is available. Contact our firm to schedule your free consultation. Also, look for our ad on page 9 for a full list of services.

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