

## **Tax Provisions Affecting Individuals for 2010**

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2010 has been a busy year for tax legislation. Following are a few of the key provisions that may impact your individual return:

### Standard Mileage Rates for 2010

The standard mileage rates were as follows: business travel was 50 cents per mile, medical transportation was 16.5 cents per mile, and charitable mileage was 14 cents per mile.

### Tax Credit to First-time Homebuyers

First-time homebuyers may claim a credit up to \$8,000 on personal residences purchased after December 31, 2008 and before May 1, 2010. To qualify as a first-time homebuyer, you must not have owned a home in the three years prior to the purchase.

### Tax Credit for Long-time Residents

Long-time residents may claim a credit up to \$6,500 on personal residences purchased after November 6, 2009 and before May 1, 2010. To qualify as a long-time resident, you must have maintained the same principal residence for any five-consecutive-year period during the eight-year period ending on the date of purchase of the new residence.

### Making Work Pay Tax Credit

The making work pay credit is a temporary credit available for eligible taxpayers in 2010. The credit is refundable and equals the lesser of: (1) 6.2% of the taxpayer's earned income, or (2) \$400 (\$800 for married filing joint).

### American Opportunity Tax Credit f/k/a The Hope Credit

The American Opportunity Tax Credit allows for a credit of \$2,500 per year (100% of the first \$2,000 and 25% of the next \$2,000) based on the amount of qualified tuition and related expenses paid for an eligible student at an eligible educational institution. This credit allows 40% of the credit to be refundable.

### Nonbusiness Energy Property Credit

For 2010, a nonrefundable tax credit can be claimed on (1) 30% of the expenditures for qualified energy efficient improvements installed during the year, and (2) 30% of residential energy property expenditures paid or incurred by the taxpayer during the year. The aggregate credit shall not exceed \$1,500 for tax years beginning in 2010.

### Hybrid Motor Vehicle Credit

For tax years through 2010, you may be eligible for a tax credit if you purchase a new qualified hybrid motor vehicle. The credit is dependent upon many factors and you should see your auto dealership for the amount of eligible credit. If you are buying a hybrid vehicle based upon the credit, we highly recommend that you consult with us to ensure that you will be able to utilize the credit.

### Tuition Deduction

The tax deduction for qualified higher education expenses is extended through 2011. The deduction allows taxpayers to deduct up to \$4,000 (depending on their income) of higher education expenses in lieu of claiming the American Opportunity or Lifetime Learning tax credits.

### Alternative Minimum Tax

The legislation creates an AMT patch for 2010 and 2011. For 2010 the exemption amounts were increased to \$47,450 for single individuals, \$72,450 for married couples and surviving spouses.

### State and Local General Sales Taxes

The tax break allowing individual taxpayers to elect to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction permitted for state and local income taxes is set to expire after the 2011 tax year.

### Teacher Expense Deduction

Teachers are allowed a deduction up to \$250 for classroom expenses. This provision is set to expire after the 2011 tax year.

### Self-Employed Individuals

For 2010 only, self-employed individuals will be allowed an income tax deduction for the cost of health insurance in calculating net earnings from self-employment for the purposes of self-employment taxes.

### IRA Distributions to Charity

Extended through 2011 the provision which allows individuals who are at least 70½ by the end of the year to exclude from gross income qualified charitable distributions up to \$100,000 from a traditional or Roth IRA that would otherwise be included in income. Married individuals filing a joint return are allowed to exclude a maximum of \$200,000 for these distributions (\$100,000 per individual IRA owner).

In addition, a special rule permits a taxpayer to make an election to treat a qualified charitable distribution made in January of 2011 as having been made on December 31, 2010. If this election is properly executed, then the distribution made in January 2011 counts toward the \$100,000 exclusion limitation and the required minimum distribution for the 2010 calendar year.

### Estate Tax

Under the new law, the federal estate tax will again apply to the estates of decedents dying after December 31, 2009 and before January 1, 2013. The new law sets a maximum estate tax rate of 35 percent with a \$5 million exclusion (\$10 million for married couples). Additionally, executors of estates of individuals who died in 2010 can elect out of the estate tax (and apply modified carryover basis rules) or can elect to have the estate tax apply.

### Gift Tax Rates

For gifts made in 2010, the gift tax is computed using a rate schedule having a top tax rate of 35 percent and an applicable exclusion amount of \$1 million. For gifts made after 2010, the gift tax is reunified with the estate tax with a top gift tax rate of 35 percent and an applicable exclusion amount of \$5 million.

### Generation Skipping Transfer (GST) Tax

For 2010, the new law provides a GST tax exemption of \$5 million, with a zero percent tax rate. For transfers made after 2010, the GST rate would be equal to the highest estate tax rate in effect for the year (35 percent for 2011 and 2012).

If you have any questions on how any of this may affect you, please give me a call.

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