

New Tax Bill: Fast Acting but Temporary Relief from Tax Heartburn

By: Jessica R. Lubar

The “compromise” tax bill that was passed by Congress late last year has a little bit of something for everyone. The catch is that the benefits are temporary and all of them will expire by the end of 2012.

The bill, whose official title is the “Tax Relief, Unemployment Insurance Authorization, and Job Creation Act of 2010” (the “Tax Relief Act”), was primarily enacted to prevent the automatic repeal of the “Bush Tax Cuts.” Without congressional action, among other things, the income tax rates would have returned to the rates in effect in 2001, which would have effectively increased tax rates. Although Congress had 10 years to come up with a plan, they waited until the bitter end and the ultimate design of the Tax Relief Act was influenced by the November elections.

To obtain the votes necessary to pass the bill, included in the legislation are a number of taxpayer-friendly provisions in addition to the extension of the “Bush Tax Cuts.” To avoid further damage to the budget deficit, however, the lower tax rates and most of the other benefits only apply for two (2) years. Further, some of the provisions that were enacted are only in effect through the end of 2011.

Because of the temporary nature of the provisions, it is important to determine which ones may be of benefit to you. Depending on the benefit and your circumstances, you may need to take certain actions to receive or take advantage of the benefits before they expire.

The benefits in the Tax Relief Act can be broken down into the following categories.

Benefits for Individuals

As a result of the Tax Relief Act, individuals will continue to be taxed at lower rates on their income and capital gains for the next two years. In addition to the lower tax rates, individuals benefit from the increased ability to deduct certain items. Among the deductions that are affected by the Tax Relief Act are those relating to education and adoption expenses.

Provisions to Encourage Charitable Contributions

The Tax Relief Act extended a number of incentives for making charitable contributions. Some of the provisions were retroactively extended to January 1, 2010, including enhanced charitable deductions for contributions of conservation easements, and benefits for making contributions to charities from IRA distributions. Also, businesses with inventories of computers, food or books may benefit from contributing them to charity.

Estate Tax Relief Through 2012

Under the Tax Relief Act, the impact of the estate tax on individuals is greatly reduced. Without the Tax Relief Act, only \$1,000,000 would have been exempt from the estate tax and

the maximum estate tax rate would have been 55%. As a result of the Tax Relief Act, the estates of individuals that die in 2011 and 2012 can exclude \$5,000,000 of assets from the estate tax and the maximum rate is limited to 35%. Further, individuals can choose to instead use their \$5,000,000 exclusion toward making lifetime gifts during the next two years.

Benefits for Businesses

The Tax Relief Act included a number of provisions to benefit businesses. Many of the extended or new provisions are meant to encourage investment. In particular, depreciation deductions for certain capital investments may be accelerated and credits are available for certain research expenditures. It is important to note that many of the benefits for businesses expire at the end of 2011.

Benefits for the Energy Industry

The Tax Relief Act contains certain provisions that provide benefits to the energy industry and consumers of energy products, primarily to encourage the use or production of renewable energy resources.

Conclusion

The Tax Relief Act has been touted as another economic stimulus bill because it both increases the amount of cash that taxpayers are able to keep and encourages spending in certain areas. It is only a short period of time, however, until Congress has to decide whether to act to extend the benefits or let them expire. Therefore, to take advantage of the benefits, taxpayers only have a limited time to understand and evaluate the impact of the provisions on their situation.

If you would like additional information regarding the provisions in the Tax Relief Act or have any questions, please contact one of the members of the Firm's Tax Group at (410) 727-6600 or by e-mail at:

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