

**Tax Relief, Unemployment Insurance Reauthorization
and Job Creation Act of 2010**

On December 17, 2010, President Obama signed into law the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* (“the 2010 Tax Relief Act”).

For taxpayers, this legislation may have significant impacts. The new law:

- extends the reduction in income tax rates originally enacted in 2001 and 2003 for an additional two years;
- provides a reduction in the Social Security contributions by employees; and
- makes significant changes in the federal estate tax.

The following summarizes the 2010 Tax Relief Act and its impact on taxpayers:

Individual Income Tax Rates. All individual income tax rates will be extended at the current rates through December 31, 2012.

Capital Gains/Dividends. Qualified dividends and long term capital gains will be taxed at a maximum rate of 15% for taxpayers in the 25% and higher tax brackets through December 31, 2012.

Payroll Tax Cut. The employee-share of the OASDI portion of Social Security taxes has been reduced from 6.2% to 4.2% for wages earned during 2011. This means that your paycheck in 2011 will be 2% higher until you reach the taxable OASDI wage base of \$106,800.

Federal Estate Tax. Through December 31, 2010, the maximum estate tax rate will be 35%, with an applicable exclusion amount that has increased to \$5 million, from \$3.5 million in 2009. The 2010 Tax Relief Act also eliminates the modified carryover basis rules which took effect in 2010. The stepped-up basis rules that had applied until 2010 are effective again.

New York State Estate Tax. The New York State Estate Tax exclusion amount will remain at \$1 million. Since the New York Estate Tax will be more likely to apply to most estates, it is important to take advantage of all available estate planning techniques to minimize the tax.

Gift Tax. The top federal gift tax rate will be 35%, and the applicable lifetime exclusion amount of \$1 million in 2010 increases to \$5 million for gifts made on or after January 1, 2011. The annual exclusion amount of \$13,000 per donee is still applicable before the lifetime exclusion is applied. There is no New York State gift tax.

Generation Skipping Transfer Tax. Through December 31, 2012, the GST tax rate will be equal to the highest gift and estate tax rate (35%).

Alternative Minimum Tax. The 2010 Tax Relief Act increases the exemption amounts for 2010 as follows:

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|-------------------------------------|-------------|
| Individual Taxpayers | \$47,450.00 |
| Married Taxpayers filing jointly | \$72,450.00 |
| Married Taxpayers filing separately | \$36,225.00 |

Charitable Incentives. The new tax law extends the tax free qualified distributions made directly from IRAs for charitable purposes through 2011 for investors age 70½ or older.

We encourage you to review your current estate plan to ensure that your desires are still being met while taking into consideration the estate tax rates now in effect.

Should you have any questions regarding the changes in income tax or estate tax rates contained in the 2010 Tax Relief Act, or would like me to review your current estate plan with you, please contact [Samantha Whitney](#) of Hinman Straub's [Estates and Financial Planning Practice](#) via [e-mail](#) or at (518) 436-0751.