

# Planning Report

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## 2011 Federal Income Taxes, Exclusions and Deductions

Happy 2011! With the new year, there are many tax and related items to be aware of. First, the 2010 federal income tax rates will remain in effect until 2012; thus, there will not be any increase for individuals concerning their federal income tax rates. This became law with the signing of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, on December 17, 2010. Not only do income tax rates stay the same, but the 15% maximum tax rate on long-term capital gains and qualified dividends does not change. Additionally, there will continue to be no marriage penalty for couples earning less than \$100,000. With all of the discussion on the extension of the Bush era tax cuts until 2012, the question still remains about what will be different for taxpayers in 2011 from 2010?

Please be aware of the following;

- The \$400 (\$800 for married joint filers) Making Work Pay Credit expires;
- Social Security payroll tax rate decreases by 2%;
- Self-Employment tax rate decreases by 2%;
- Estate tax rate returns to 35% and a lifetime exclusion of \$5 million now applies;
- Unified Credit to give away \$5,000,000.00 during your lifetime without having to pay gift taxes;
- Personal exemption amounts for 2011 increases to \$3,700, up from \$3,650 in 2010;
- Unmarried or married taxpayers filing separately receive a \$5,800 standard deduction;
- Married taxpayers filing jointly receive a \$11,600 standard deduction;
- Taxpayers filing as head of household receive a \$8,500 deduction; and
- Blind taxpayers and senior citizens receive a \$1,150 deduction if married and filing jointly and a \$1,450 deduction if single.

In addition to the changes above, certain tax benefits and credits will be retained for the 2011 tax year:

### 2010-2011 AMT Relief for Middle-Class Taxpayers

The Alternative Minimum Tax (AMT) exemption has been extended for two (2) more years. In 2011, the amounts will rise slightly from 2010 levels to \$48,450 for single taxpayers and \$74,450 for married couples filing jointly.

### Higher Education Tax Credits

Breaks for college costs continue through 2012 by maintaining the American Opportunity Tax Credit. Individuals with modified adjusted gross income of \$80,000 or less (\$160,000 or less for joint filers) receive a credit of up to \$2,500.

Coverdell Education Savings account benefits were slated to change in 2011, but have been extended through 2012 maintaining the same contribution and distribution amounts.

### Child Tax Credit

The child tax credit remains at \$1,000. Additionally, the child and dependent care credit remains at \$3,000 for two (2) more years.

### State Income & Sales Tax

The ability to choose between deducting state income taxes or state sales taxes has been extended through 2012.

### No 1099 Reporting Break for Small Business

Efforts to eliminate the requirement that small businesses issue 1099 forms to all vendors paid \$600/year or more (beginning in 2012) were not successful.

As the newly elected 112th Congress re-convenes this month, additional changes may be made during 2011 that could impact 2012 reporting requirements, and especially provisions contained within the 2010 health care legislation.

*For more information or for assistance with estate planning, please contact an attorney at Austgen Kuiper & Associates, P.C.*