

2010 – 2017 Year End Tax Planning Information

Learn how federal tax law changes could impact your filings in upcoming tax years.

Many of the tax breaks in recent tax-relief bills were designed to be phased in over a number of years, or are indexed to inflation. To help you determine how these tax laws affect your long-term plans, the following explains some of the changes scheduled to come into effect through 2017.

Starting in 2010

Estate Tax Repealed

The federal estate tax is scheduled to be eliminated for estates of individuals who die in 2010. We expect Congress to act in 2009 to keep the tax alive.

Roth IRA Conversions

Starting in 2010, individuals with more than \$100,000 of modified Adjusted Gross Income are free to switch a traditional IRA to a Roth IRA. For conversions in 2010, taxpayers can spread the tax due over two years. Half the tax will be due in 2011, and the remaining half will be payable in 2012. Removing the limit on conversions effectively eliminates the income limit on contributions to Roth IRAs. A taxpayer with income too high to use a Roth will be able to contribute to a traditional IRA (which does not have income limits for contributions) and immediately convert to a Roth.

Domestic Production Activities Deduction

In 2010, this deduction increases to 9 percent of qualifying business net income. This deduction applies to businesses engaged in construction, engineering or architectural services, film production, or the lease, rental or sale of equipment you manufactured. However, the rate remains 6 percent for oil and gas companies.

State and Local Sales Tax Deduction

The opportunity for itemizers to choose to deduct their state sales tax payments instead of deducting their state and local income taxes ends after 2009, unless Congress acts to extend it.

Educators' Deduction

This deduction for up to \$250 of classroom supplies purchased by educators lapses after 2009, unless Congress acts to extend it.

Nontaxable Combat Pay Allowed for Earned Income Tax Credit (EITC)

The election to include nontaxable combat pay in the calculation of earned income for the Earned Income Tax Credit is not available after 2009, unless Congress acts to extend it.

Tuition and Fees Deduction

The deduction for up to \$4,000 of college tuition and fees expires after 2009, unless Congress acts to extend it.

Direct Donations of IRAs to Charity

Beginning in 2010, the opportunity for IRA owners age 70½ to directly donate part of their IRA balance to charity will disappear, unless Congress acts to extend it.

Additional Standard Deduction for Property Taxes

Starting in 2010, non-itemizers will no longer be allowed to increase their standard deduction by up to \$1,000 of property taxes paid, unless Congress acts to extend this break.

Limits on Deducting Farm Losses

Beginning in 2010, the amount of farm losses you can enter to offset nonfarm income is capped at the greater of \$300,000 or your net farm income over the past five years. But this limit will apply only if you get federal farm payments or Commodity Credit Corporation (CCC) loans. You can take suspended losses in later years. The caps will also apply to partners and S firm owners.

Exemptions for the Alternative Minimum Tax

For 2010, the exemption levels drop to \$45,000 for married filing jointly, \$33,750 for singles and heads of household, and \$22,500 for married couples filing separately. Congress is likely to act in 2009 to prevent this from happening. Otherwise, more than 20 million filers will be added to the AMT rolls.

Partial Exclusion for Unemployment benefits

For 2010, the first \$2,400 of unemployment benefits you receive is no longer tax-free.

Sales Tax Deduction for New Vehicles

Beginning in 2010, buyers of new vehicles no longer get a tax benefit for sales tax paid on new vehicles, unless they itemize and elect to deduct sales taxes instead of state income taxes.

Credit for Energy-Saving Home Improvements

The 30 percent tax credit of the cost of energy-saving home improvements reverts to 10 percent after 2010, and is capped at \$500.

Starting in 2011

Higher Tax Rates

Beginning in 2011, tax rates in effect prior to 2001 spring back into effect. The top income tax rate returns to 39.6 percent, and the special low 10 percent bracket is eliminated. Whether this will actually happen will be at the heart of a spirited battle in Congress.

Estate Tax Revived

For individuals that die after 2010, the federal estate tax returns with a \$1,000,000 exemption and a 50 percent maximum rate. This assumes that Congress allows the estate tax to disappear in 2010, which is unlikely.

Increase in Capital Gains and Dividend Tax Rates

The tax rate reductions for long-term capital gains and dividends is scheduled to expire this year.

In 2011, the maximum long-term capital gains tax rate goes back up to 20 percent from 15 percent. A lower 10 percent tax rate is used by individuals who are in the 15 percent tax bracket. Their long-term capital gains had been tax-free since 2008.

In 2011, dividend income (other than capital gain distributions from mutual funds) is taxed as ordinary income at your highest marginal tax rate.

Child Tax Credit

The credit of \$1,000 per eligible child reverts to \$500 after 2010. After 2010, none of the child tax credit will be refundable to taxpayers unless their earned income is more than \$12,550. This is one of the many Bush tax cuts currently scheduled to expire after 2010.

Payroll Tax Credit

Starting in 2011, the partial credit for payroll taxes paid is no longer available.

Decreased Section 179 Expense Deduction

Taxpayers who purchase qualifying business property may elect to deduct the cost of the property (new or used) in the year that it is placed in service. This is referred to as a Section 179 deduction. In 2010, the maximum amount of property that may be taken as a Section 179 deduction is \$125,000, as indexed for inflation. In 2011 and future years, the maximum deduction drops to \$25,000.

College Savings Plans

Beginning in 2011, 529 Plans can no longer be tapped tax-free to pay for a computer or Internet access.

Tax Credit for College Tuition

The Hope credit is again limited to the first two years of college and is capped at \$1,800. None of the credit is refundable if it is more than your regular income tax liability.

Earned Income Tax Credit (EITC)

Temporary increases in the Earned Income Tax Credit for filers with three or more children and the higher income levels for the phaseout of the credit are repealed.

Starting in 2013

Tax Relief for Taxpayers Who Lose Their Homes Due to Foreclosure Expires

Beginning in 2013, debt forgiven in connection with the foreclosure of a principal residence will once again be considered taxable income (unless you are in bankruptcy or insolvent).

Mortgage Insurance Premiums

The special itemized deduction for mortgage insurance premiums paid on mortgages taken out after 2006 expires after 2012.

Starting in 2017

Credit for Residential Energy-Efficient Property

The credit for 30 percent of the cost of installing solar water heating equipment, photovoltaic or fuel cell equipment, geothermal heat pumps or wind turbines in your primary residence or a second home does not apply after 2016.