

**Impact of Key Tax Law Changes  
As of October 22, 2010**

#	What is it?	Who is impacted?	When is it effective?	What does the taxpayer need to do?	Impact to the taxpayer at tax time
<b>Tax laws effective for 2010 and / or future years.</b>					
1	<b>Adoption credit</b> <ul style="list-style-type: none"> <li>The adoption credit increased to \$13,170 (previously set at \$12,170 for 2010) AND</li> <li>Credit is fully refundable</li> <li>Carryforward from prior years is fully refundable</li> </ul>	<ul style="list-style-type: none"> <li>Families who adopt children</li> </ul>	2010 and 2011	<ul style="list-style-type: none"> <li>Finalize the adoption before the end of 2011</li> <li>Be aware that the credit will be substantially reduced for taxpayers who adopt in 2012 and later</li> </ul>	<ul style="list-style-type: none"> <li>The \$13,170 credit will be refundable for taxpayer who adopts in 2010 and 2011</li> <li>For adoptions in 2012 and beyond the maximum credit will generally be \$5,000 and nonrefundable</li> </ul>
2	<b>Roth IRA conversions</b> <ul style="list-style-type: none"> <li>For years starting in 2010, the \$100,000 modified AGI limit for conversions to Roth IRAs is eliminated</li> <li>2010 conversions taxed one half in 2011 and one half in 2012 <u>unless</u> elect to pay tax on conversion in 2010</li> <li>For years starting in 2010, married filing separate taxpayers are now eligible to do a conversion</li> </ul>	<ul style="list-style-type: none"> <li>Higher income individuals and /or married filing separate taxpayers who in the past were not able to convert traditional IRA funds to a Roth account are now eligible</li> </ul>	2010 and forward	<ul style="list-style-type: none"> <li>Convert IRA to Roth IRA if makes financial sense to do so</li> <li>Consider filing an extension for 2010 allowing time to determine whether or not to defer taxation to 2011 and 2012 (default) OR pay taxes in 2010</li> </ul>	<ul style="list-style-type: none"> <li>This may increase taxes now, but the expectation is in the long run overall tax will be reduced</li> </ul>
3	<b>Estate tax</b> <ul style="list-style-type: none"> <li>For 2010 only, the estate tax is repealed</li> <li>Beneficiaries receive carryover basis BUT</li> <li>Executor may allocate \$1.3m general basis step-up among assets AND</li> <li>Executor may allocate an additional \$3m spousal basis step-up if there is a surviving spouse</li> </ul>	<ul style="list-style-type: none"> <li>Estates with assets in excess of the general basis step-up and spousal step-up</li> <li>Beneficiaries of individuals with a date of death in 2010</li> </ul>	2010	<ul style="list-style-type: none"> <li>Executor must use their discretion to allocate the \$1.3 million general basis step-up and the \$3 million spousal step-up among estate assets</li> </ul> <p><b>Note:</b> this tax law may change in 2010</p>	<ul style="list-style-type: none"> <li>Eliminates estate tax, although beneficiaries may be subject to more taxes on capital gain if assets whose basis is not stepped up are sold</li> <li>For years starting in 2011, estate tax reverts to pre-2001 tax law, generally tax will be imposed if estate assets exceed \$1 million</li> </ul>
4	<b>Homebuyer Credit</b> <ul style="list-style-type: none"> <li>Up to \$8,000 refundable credit (up to \$6,500 credit for existing homeowners)</li> <li>2008 credit recapture must start in 2010</li> </ul>	<ul style="list-style-type: none"> <li>Qualifying individuals who purchase a principal residence</li> <li>Taxpayers who claimed 2008 credit based on 2008 purchase</li> </ul>	Generally expired 4/30/10	<ul style="list-style-type: none"> <li>Claim credit for home purchase</li> <li>Begin repayment of 2008 credit, if applicable</li> </ul>	<ul style="list-style-type: none"> <li>Credit generally expires 4/30/10 with closing by 10/1/10 for those using written binding contract extension</li> <li>Tax liability may be increased by applicable portion of 2008 credit recapture</li> </ul>
5	<b>Making Work Pay Credit (MWPC)</b> <ul style="list-style-type: none"> <li>Refundable credit of up to \$400 (\$800 MFJ) per qualified taxpayer</li> </ul>	<ul style="list-style-type: none"> <li>Individuals other than dependents and nonresident aliens who work</li> </ul>	Expires 12/31/10	<ul style="list-style-type: none"> <li>In 2010, claim credit and complete Schedule M AND</li> <li>Economic Recovery Payments missed in 2009 will be paid in 2010, and must offset MWPC</li> <li>In 2011, be aware current law expired 12/31/10 AND</li> <li>Evaluate W-4 withholding and / or quarterly estimates as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>In 2011, since MWPC expired, take home pay for most working taxpayers will be less</li> <li>In 2010, MWPC reduced by any Economic Recovery Payment received in 2010</li> </ul>
6	<b>Energy Credit</b> <ul style="list-style-type: none"> <li>A nonrefundable credit for 30% of costs (max credit of \$1,500 collectively for 2009 and 2010) for qualifying residential improvements for heating and cooling efficiency (e.g., windows, doors, HVAC)</li> </ul>	<ul style="list-style-type: none"> <li>Taxpayers who invest in qualifying improvements to their home</li> </ul>	Expires 12/31/10	<ul style="list-style-type: none"> <li>Invest in energy efficient improvements (purchase and install) by 12/31/10</li> <li>Claim allowable credit</li> </ul>	<ul style="list-style-type: none"> <li>30% of cost of qualifying purchases up to \$1,500 for 2009 and 2010 combined</li> </ul>
7	<b>American Opportunity Credit (AOC)</b> <ul style="list-style-type: none"> <li>Credit of up to \$2,500 for first four years of college</li> <li>Partially refundable, up to \$1,000</li> </ul>	<ul style="list-style-type: none"> <li>College students or their parents if claim the student as a dependent</li> </ul>	Expires 12/31/10	<ul style="list-style-type: none"> <li>Be aware credit expires 12/31/10</li> <li>Claim the Hope or lifetime learning credit as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>In 2011, there will be fewer tax benefits available for education expenses</li> <li>The credit is allowed for AMT</li> </ul>

#	What is it?	Who is impacted?	When is it effective?	What does the taxpayer need to do?	Impact to the taxpayer at tax time
<b>Current tax laws <u>changing</u> in 2011</b>					
8	<b>Earned Income Tax Credit</b> <ul style="list-style-type: none"> <li>For years starting in 2011, largest benefit available is for families with two children AND</li> <li>Marriage penalty relief is eliminated, making MFJ phaseout same as unmarried filers AND</li> <li>Calculation of credit reverts to pre-2001 tax law</li> </ul>	<ul style="list-style-type: none"> <li>Joint filers and / or families with three or more children</li> </ul>	2011 (current law expires 12/31/10)	<ul style="list-style-type: none"> <li>Be aware current law expires 12/31/10</li> <li>Evaluate W-4 withholding and / or quarterly estimates as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>In 2011, many qualified taxpayers will receive less of a credit</li> </ul>
9	<b>Child tax credit (CTC)</b> <ul style="list-style-type: none"> <li>For years starting in 2011, credit is reduced from \$1,000 to \$500 per eligible child AND</li> <li>Refundability is limited to families with earned income and three or more children</li> </ul>	<ul style="list-style-type: none"> <li>Families with children under age 17</li> </ul>	2011 (current law expires 12/31/10)	<ul style="list-style-type: none"> <li>Be aware current law expires 12/31/10</li> <li>Evaluate W-4 withholding and / or quarterly estimates as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>In 2011, amount of credit is reduced by \$500</li> <li>In 2011, refundability changes may result in:               <ol style="list-style-type: none"> <li>\$0 credit for low income families with one or two children AND</li> <li>Limited refundability for families with three or more children</li> </ol> </li> </ul>
10	<b>Tax brackets</b> <ul style="list-style-type: none"> <li>For years starting in 2011, tax rates are increased from 10%, 15%, 25%, 28%, 33%, 35% to 15%, 28%, 31%, 36%, 39.6%</li> </ul>	<ul style="list-style-type: none"> <li>All taxpayers</li> </ul>	2011 (current law expires 12/31/10)	<ul style="list-style-type: none"> <li>Be aware current law expires 12/31/10</li> <li>Evaluate timing of income changes to be taxed in 2010 versus 2011</li> </ul>	<ul style="list-style-type: none"> <li>Many taxpayers will have a higher tax liability in 2011 than in 2010</li> </ul>
11	<b>Capital gains</b> <ul style="list-style-type: none"> <li>For years starting in 2011, long-term capital gain rates are generally increased from 0% and 15% to 10% and 20% AND</li> <li>Qualified dividend rates are changed from 0% and 15% to the taxpayer's ordinary income rate in 2011</li> </ul>	<ul style="list-style-type: none"> <li>Anyone who sells capital gain property held more than one year after 12/31/10</li> <li>Investors who receive dividends after 12/31/10</li> </ul>	2011 (current law expires 12/31/10)	<ul style="list-style-type: none"> <li>Be aware current law expires 12/31/10</li> <li>Consider taking capital gains in 2010 and deferring capital losses to 2011</li> </ul>	<ul style="list-style-type: none"> <li>In 2011, tax rates for these items are increasing, potentially resulting in higher tax liability</li> </ul>
12	<b>Marriage penalty</b> <ul style="list-style-type: none"> <li>For years starting in 2011, MFJ standard deduction and lower tax brackets are decreased from 200% to 167% of the Single amounts</li> </ul>	<ul style="list-style-type: none"> <li>Generally all married taxpayers who have a tax liability</li> </ul>	2011 (current law expires 12/31/10)	<ul style="list-style-type: none"> <li>Be aware current law expires 12/31/10</li> <li>Evaluate W-4 withholding and / or quarterly estimates as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Many married taxpayers will have a higher tax liability in 2011 than in 2010, regardless of tax situation</li> </ul>
<b>Tax laws which <u>expired</u> in 2009</b>					
13	<b>Unemployment compensation</b> <ul style="list-style-type: none"> <li>First \$2,400 of unemployment compensation not subject to income tax</li> </ul>	<ul style="list-style-type: none"> <li>Jobless taxpayers receiving unemployment compensation</li> </ul>	Expired 12/31/09	<ul style="list-style-type: none"> <li>Be aware current law expired 12/31/09</li> <li>Consider having taxes withheld from unemployment check(s)</li> </ul>	<ul style="list-style-type: none"> <li>No longer able to exclude first \$2,400 of unemployment benefits after 12/31/09</li> </ul>
14	<b>Vehicle sales and excise tax deduction</b> <ul style="list-style-type: none"> <li>Deduction for sales and excise tax paid on a new vehicle purchase; limited to sales and excise that would have been paid on a \$49,500 vehicle</li> </ul>	<ul style="list-style-type: none"> <li>Individuals who purchase a new vehicle</li> </ul>	Expired 12/31/09	<ul style="list-style-type: none"> <li>Be aware current law expired 12/31/09</li> </ul>	<ul style="list-style-type: none"> <li>No longer able to claim deduction after 12/31/09</li> </ul>
15	<b>AMT patch</b> <ul style="list-style-type: none"> <li>Increased AMT exemptions. Nonrefundable personal credits allowed for AMT</li> </ul>	<ul style="list-style-type: none"> <li>Individuals with deductions and exclusions that are disallowed for AMT purposes</li> </ul>	Expires 12/31/09	<ul style="list-style-type: none"> <li>Be aware no AMT patch for 2010</li> <li>Determine if AMT applies and take necessary steps to mitigate or plan for taxes</li> </ul>	<ul style="list-style-type: none"> <li>Cost to taxpayer depends on amount of tax preferences and adjustments</li> </ul>



**NOTE:** For more information, go to [www.thetaxinstitute.com](http://www.thetaxinstitute.com).