

#	What is it?	Who is impacted?	When is it effective?	What does the taxpayer need to do?	Impact to the taxpayer at tax time
Key Tax laws effective for 2010 and / or future years.					
1	Adoption credit <ul style="list-style-type: none"> The adoption credit increased to \$13,170 for 2010 and to \$13,360 for 2011 AND Credit is fully refundable Carryforward from prior years is fully refundable 	<ul style="list-style-type: none"> Families who adopt children 	2010 and 2011	<ul style="list-style-type: none"> Finalize the adoption before the end of 2012 Be aware that the credit will be nonrefundable for taxpayers who adopt in 2012 	<ul style="list-style-type: none"> The credit will be refundable for taxpayers who adopt in 2010 and 2011 For adoptions in 2012 the credit will generally be nonrefundable but remain at the increased amount of \$13,360 plus the inflation index
2	Roth IRA conversions <ul style="list-style-type: none"> For years starting in 2010, the \$100,000 modified AGI limit for conversions to Roth IRAs is eliminated 2010 conversions taxed one half in 2011 and one half in 2012 <u>unless</u> elect to pay tax on conversion in 2010 For years starting in 2010, married filing separate taxpayers are now eligible to do a conversion 	<ul style="list-style-type: none"> 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 	2010 and forward	<ul style="list-style-type: none"> Convert IRA to Roth IRA if appropriate for the taxpayer Consider filing an extension for 2010 allowing time to determine whether or not to defer taxation to 2011 and 2012 (default) OR pay tax in 2010 	<ul style="list-style-type: none"> This may increase taxes now, but the expectation is in the long run overall tax will be reduced
3	Homebuyer Credit <ul style="list-style-type: none"> Up to \$8,000 refundable credit (up to \$6,500 credit for existing homeowners) 2008 credit recapture must start in 2010 	<ul style="list-style-type: none"> Qualifying individuals who purchase a principal residence Taxpayers who claimed 2008 credit based on 2008 purchase 	Generally expired 4/30/10	<ul style="list-style-type: none"> Claim credit for home purchase Begin repayment of 2008 credit, if applicable 	<ul style="list-style-type: none"> Credit generally expires 4/30/10 with closing by 10/1/10 for those using written binding contract extension Tax liability may increase by applicable portion of 2008 credit recapture
4	Making Work Pay Credit (MWPC) <ul style="list-style-type: none"> Refundable credit of up to \$400 (\$800 MFJ) per qualified taxpayer 	<ul style="list-style-type: none"> Individuals other than dependents and nonresident aliens who work 	Expires 12/31/10	<ul style="list-style-type: none"> In 2010, claim credit and complete Schedule M AND Economic Recovery Payments that were not received in 2009 but received in 2010, must be offset against MWPC In 2011, be aware current law expired 12/31/10 AND Evaluate W-4 withholding and / or quarterly estimates as appropriate 	<ul style="list-style-type: none"> In 2011, since MWPC expired, take home pay will be less due to income tax withholding for most working taxpayers In 2010, MWPC reduced by any Economic Recovery Payment received in 2010
5	Nonbusiness Energy Credit <ul style="list-style-type: none"> A nonrefundable credit for 30% of costs for qualifying residential improvements for heating and cooling efficiency (e.g., windows, doors, HVAC) For 2009 and 2010, the max credit is \$1,500 collectively for 2009 and 2010 For 2011, the credit has been extended but the maximum credit reverts to a \$500 lifetime credit (\$200 for windows) 	<ul style="list-style-type: none"> Taxpayers who invest in qualifying improvements to their home 	Expires 12/31/11	<ul style="list-style-type: none"> Purchase and install energy efficient improvements by 12/31/11 Claim allowable credit 	<ul style="list-style-type: none"> For 2009 and 2010, 30% of cost of qualifying purchases up to \$1,500 for 2009 and 2010 combined For 2011, 30% of cost of qualifying purchases up to \$500 lifetime credit
6	American Opportunity Credit (AOC) <ul style="list-style-type: none"> Credit of up to \$2,500 for first four years of college Partially refundable, up to \$1,000 	<ul style="list-style-type: none"> College students or their parents if claiming the student as a dependent 	Expires 12/31/12	<ul style="list-style-type: none"> Be aware credit expires 12/31/12 Claim the Hope or lifetime learning credit as appropriate 	<ul style="list-style-type: none"> After 2012, there may be fewer tax benefits available for education expenses The credit is allowed for AMT

**Impact of Key Tax Law Changes
As of December 17, 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
Key provisions that expired at the end of 2009 which have been extended through 2011					
7	Educator Expense Deduction • A \$250 deduction for expenses paid or incurred for books, supplies, computer equipment, other equipment, and supplementary materials purchased and used by the educator in the classroom	• Elementary and secondary (K – 12) educators who purchase supplies for their classrooms	2010 and 2011	• Keep receipts for supplies purchased for the classroom and • Seek reimbursement from employer first • Provide receipts to tax professional	• A \$250 adjustment to income for 2010 and 2011 for qualifying taxpayers • Taxpayer does not need to itemize to claim the deduction
8	State and Local Sales Tax • Taxpayers who itemize deductions may deduct state and local sales taxes paid in lieu of state and local income taxes paid	• Taxpayers who made substantial purchases in 2010	2010 and 2011	• Bring in receipts for their state and local sales tax paid on large purchases such as cars	• Could result in a lower tax liability for taxpayers who itemize and have a larger sales tax than income tax deduction
9	Tuition and Fees Deduction • Taxpayers enrolled or attending an eligible postsecondary educational institution may claim up to \$4,000 deduction for tuition and fees paid in 2010	• Individuals who pay qualified expenses while enrolled or attending an eligible y educational institution in 2010	2010 and 2011	• Be aware that the deduction has been extended through 2012 • File Form 8917, Tuition and Fees Deduction	• Up to a \$4,000 adjustment to income for 2010 for qualifying taxpayers • Taxpayer does not need to itemize to claim this deduction
10	AMT Patch • Increases the AMT exemption amounts for two years • For 2010, exemption amounts will be \$47,450 (\$72,450 MFJ)	• Individuals with AMT preference items and adjustments that will increase AMT income	2010 and 2011	• Consider income and/or expense that have AMT impact and consider avoiding or deferring them if possible	• Higher exemption may reduce AMT exposure, but taxpayer may still be subject to AMT
Estate Tax – For 2010 only, executors may choose between the 2010 rules and the 2011 rules					
11	2010 Rules • The estate tax is repealed • Beneficiaries receive carryover basis BUT • Executor may allocate \$1.3M general basis step-up among assets AND • Executor may allocate an additional \$3M spousal basis step-up if there is a surviving spouse	• Estates with assets in excess of the general basis step-up and spousal step-up • Beneficiaries of individuals with a date of death in 2010	2010	• No election is necessary if using 2010 rules • Executor must use their discretion to allocate the \$1.3M general basis step-up and the \$3M spousal step-up among estate assets	• Eliminates estate tax, although beneficiaries may be subject to more taxes on capital gain if assets whose basis is not stepped up are sold
12	2011 and 2012 Rules • Basis of assets are stepped up to fair market value as of date of death • The estate gets an exemption amount of \$5m • The top estate tax rate will be 35%	• Beneficiaries of individuals with a date of death in 2010, 2011 or 2012	2011 and 2012 (by election for 2010)	• For 2010, elect to use the 2011 rules instead of the 2010 rules • For 2010, beneficiaries should check with the executor to determine if election was made	• For 2010, executors may have to file an additional form to make the election
Payroll Tax Holiday – Not an income tax event					
13	• For 2011, employees and self-employed individuals will pay 2 percentage points less in social security tax • Employees will pay 4.2% (instead of 6.2%) in social security taxes on wages earned up to \$106,800 • Self-employed individuals will pay self-employment tax at a rate of 13.3% (instead of 15.3%)	• All taxpayers who earn income subject to social security tax	2011	• Nothing – the payroll tax holiday decreases the amount of social security tax paid which increases the amount of take home pay	• There is no impact as this does not affect the income tax return • Taxpayers have options of how to use social security tax savings including paying on debt, increasing retirement savings, funding a college savings account, etc.



NOTE: For more information, go to www.thetaxinstitute.com.