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Bipartisan compromise prevents 2011 tax hike

After months of political inaction, countless hours of debate, threats, cajoling and a special post-election Congressional session, the Senate and the House of Representatives have approved, and the president has signed, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

The new act provides an \$801 billion package of tax cuts and \$57 billion for extended unemployment insurance.

To garner the votes necessary to secure passage, this late-year legislative creation became the epitome of a “Christmas tree bill.” December negotiations between the President and Congressional leaders resulted in the addition of several provisions that were added to secure the votes necessary for passage.

One of the major benefits of the act is that it gives taxpayers and their advisers a degree of certainty, at least for the next two years. While the vast majority of the tax changes are discussed here, not everything is covered. Many of the new rules are complex, and this description is necessarily brief. Consult your tax adviser before acting on any of these provisions.

The various provisions of the act can be divided into four major themes:

1. Extension of tax provisions set to expire Dec. 31, 2010 (or in some cases, provisions that expired Dec. 31, 2009)
2. Reinstatement of the estate tax
3. Individual and business tax incentives
4. Extension of unemployment benefits for an additional 13 months for the long-term unemployed

This issue of *Federal Tax Watch* covers the first three items.

EXTENSION OF EXPIRING PROVISIONS

Tax rate brackets

Since 2001, individual income tax rate brackets have been set at 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent. Effective Jan. 1, 2011, these brackets were scheduled to change to 15, 28,

31, 36 and 39.6 percent. The new law keeps the existing brackets in place through Dec. 31, 2012.

The tax rate schedules for 2011, adjusted for inflation, will be as follows:

2011		SCHEDULE X: Single Individuals		
Taxable Income				
Over	But not over	Pay + Percent on excess		Of amount over
\$ 0	\$ 8,500	\$ 0	10%	\$ 0
8,500	34,500	850.00	15	8,500
34,500	83,600	4,750.00	25	34,500
83,600	174,400	17,025.00	28	83,600
174,400	379,150	42,449.00	33	174,400
379,150	110,016.50	35	379,150

2011		SCHEDULE Y: Married Filing Jointly and Surviving Spouses		
Taxable Income				
Over	But not over	Pay + Percent on excess		Of amount over
\$ 0	\$17,000	\$ 0	10%	\$ 0
17,000	69,000	1,700.00	15	17,000
69,000	139,350	9,500.00	25	69,000
139,350	212,300	27,087.50	28	139,350
212,300	379,150	47,513.50	33	212,300
379,150	102,574.00	35	379,150