
Details of New Tax Bill Beginning to Emerge



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On December 9, 2010, the Senate Finance Committee released a summary of the proposed Tax Bill referred to as the Reid Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "Proposal"). Some of the provisions included in the summary are the following:

Extension of Current Tax Rates. The Proposal would continue the current 25%, 28%, 33% and 35% tax rates through 2012. Under current law, the highest marginal rate would have increased to 39.6% as of January 1, 2011.

Extend Capital Gains and Dividend Rates. The Proposal would extend the maximum 15% capital gains and dividend rates for an additional two years, through 2012.

Extend AMT Patch. The Proposal would increase the amount of the exemption from the Alternative Minimum Tax from \$33,750 (individuals) and \$45,000 (married filing jointly) to \$47,550 (individuals) and \$72,450 (married filing jointly) for 2010 and increase the exemption amount to \$48,450 (individuals) and \$74,450 (married filing jointly) for 2011.

Estate and Gift Tax Reform. The Proposal sets the estate and gift tax exemption at \$5 million per person (\$10 million per couple) at a top tax rate of 35% for two years, through 2012. The Proposal would reunify estate and gift taxes for gifts made after December 31, 2010. Although the Proposal is effective January 1, 2010, estates could elect existing law (no estate tax and limited step-up in basis) before January 1, 2011.

Extension of Bonus Depreciation. For assets placed in service after December 8, 2010 through December 31, 2011, the Proposal permits 100% bonus depreciation. For assets placed in service after December 31, 2011 through December 31, 2012, the Proposal would provide for 50% bonus depreciation.

Extension of Increase in Section 179 Expensing. Under current law, a taxpayer may deduct certain property placed in service up to \$500,000, which is subject to a phase-out if the property purchased by the taxpayer exceeds \$2 million. The Proposal would extend these provisions through December 31, 2011.

Extension of Treasury Grants under Section 1603. The Proposal would extend for one year the start of construction deadline for the cash grants in lieu of tax credit program established in Section 1603 of the American Recovery and Reinvestment Act.

R&D Credit. The Proposal would reinstate the research credit for two years (2010 and 2011).

15-Year Recovery Period for Leasehold Improvements and Restaurants. The Proposal would extend for two years (2010 and 2011) the special 15-year cost-recovery program for leasehold improvements, restaurant buildings and improvements and retail improvements.

Extension of Expensing for Environmental Remediation Costs. The Proposal would extend for two years (2010 and 2011) the provision that allows expensing associated with cleaning up hazardous sites.

Exclusion of Small Business Capital Gains. The Small Business Jobs Act of 2010 permitted a 100% capital gain exclusion for qualified small business stock. A qualified small business is a C corporation whose gross assets do not exceed \$50 million. The amount of the gain subject to exclusion is the greater of 10 times the taxpayer's basis or \$10 million. The Proposal would extend the 100% exclusion for stock that is acquired before January 1, 2012 and is held for at least 5 years.

Reduction in Employee-Paid Social Security. The Proposal would reduce the 6.2% social security taxes imposed on employees to 4.2% during 2011. The employer portion of social security taxes would be unaffected.