

ALERTS AND UPDATES

What's New for Tax Year 2010 (When Filing in 2011)

March 2, 2011

The following are select tax topics affecting individuals and businesses for tax year 2010. Some of the provisions, implemented in 2009, continue as noted below.

Individuals

- **Mandatory e-filing:** Tax return preparers who file 100 or more federal individual returns are required to e-file those returns.
- **Itemized deductions:** The limitation on itemized deductions has been repealed and deductions can be fully utilized without adjusted gross income (AGI) limitations.
- **Personal exemptions:** AGI phase-out rules no longer apply for personal exemptions.
- **Alternative minimum tax (AMT):** Exemption increased to \$47,450 for single taxpayers, \$72,450 for joint filers and \$36,225 if married and filing separately.
- **Reduced tax rates continue:** 2010 tax rates for individuals are 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent.
- **Capital gains and qualified dividends:** Capital gains and qualified dividends continue to be taxed at a maximum of 15 percent for both the regular tax and AMT purposes.
- **Child tax credit:** \$1,000 child tax credit amount will continue, instead of reverting to \$500.
- **Increased earned income tax credit (EITC) continues:** Phase-out of the credit starts at \$75,000 for single taxpayers, \$110,000 for joint filers and \$55,000 if married and filing separately.
- **Refundable child credit continues:** Credit equal to the greater of 15 percent of earned income in excess of \$3,000. For taxpayers with three or more qualifying children, the credit equals the excess of Social Security taxes for the tax year over the earned income credit for the tax year.
- **Mortgage insurance premiums:** Premiums paid in connection with acquisition indebtedness relating to a taxpayer's qualified residence are deducted as qualified residence interest.

- **Standard mileage rates:** \$0.50 cents per mile for business use of car, \$0.165 cents per mile for medical and moving purposes, and \$0.14 cents per mile for charitable purposes.
- **Roth IRA conversions:** Regardless of income, individuals may convert funds from retirement accounts, such as 401(k) or IRA accounts, to Roth IRAs. Tax on 2010 conversions can be all paid in 2010 or spread equally over 2011 and 2012.
- **American opportunity tax education credit continues:** Up to \$2,500 credit per student for qualified higher-education expenses, such as tuition and cost of books. Phase-out begins at AGI of \$80,000 for single filers and \$160,000 for joint filers.
- **Deduction for higher-education expenses continues:** Up to \$4,000 of higher education expenses is extended for 2010 and 2011. Phase-out begins at AGI of \$80,000 for single filers and \$160,000 for joint filers.
- **Tax-free IRA distributions to charities continues:** Taxpayers who are age 70 1/2 or older can make tax-free distributions to a charity from an IRA of up to \$100,000.
- **Retirement savings plans continue:** IRA deductions may be available for those covered by other plans subject to certain dollar limits and phased out for single taxpayers with AGI between \$56,000 to \$66,000 and for joint filers with AGI between \$89,000 and \$109,000.
- **Roth IRA income limit continues:** Roth contributions may be allowed for those with AGI less than \$120,000 for single taxpayers and \$176,000 for joint filers.
- **Retirement account minimum distributions:** Minimum distributions from retirement accounts are required for 2010.
- **Tax benefits for adoption:** Maximum refundable adoption credit increased to \$13,170 from \$12,150 for out-of-pocket expenses for the legal adoption of a child.
- **Self-employed health insurance deduction:** Self-employed health insurance deduction includes insurance premiums paid to cover a child who was under 27 years of age at the end of 2010, regardless of whether the child qualifies as a dependent. The health insurance premium is also deductible for self-employment tax purposes.
- **First time homebuyer credit:** Available in 2010 for those taxpayers who signed a sales contract prior to May 1 and closed prior to October 1. Repayments commence in 2010 for taxpayers who claimed the credit in 2008 for home purchases.
- **Sales tax deduction continues:** Deduction for state and local sales taxes in lieu of income taxes is extended for 2010 and 2011.

Certain deductions and exclusions from income were not extended in 2010, such as the

- standard deduction for real property taxes for non-itemizing taxpayers;
- exclusion from income of up to \$2,400 of unemployment benefits;
- deduction for taxes paid on new car purchases for non-itemizing taxpayers; and
- higher deductions for net casualty losses.

Businesses

- **Domestic production activities deduction:** Deduction percentage increases to 9 percent of qualified production activities income.
- **Gain from certain small-business stock:** 100-percent exclusion of gain from the sale of small-business stock acquired after September 27, 2010, and before January 1, 2011, that was held for more than five years by a non-corporate taxpayer.
- **Increased first-year expensing:** Expense amount increased from \$250,000 to \$500,000 with a phase-out amount of \$2 million for the purchase of certain qualified property.
- **Bonus depreciation:** 50-percent bonus depreciation is extended to include property placed in service in 2010. For qualifying business property acquired after September 8, 2010, and placed in service before January 1, 2012, the amount is increased to 100 percent.
- **Cell phones:** Are no longer considered listed property subject to specially unfavorable depreciation rules.
- **Startup expenses:** Deduction for business startup expenses increased from \$5,000 to \$10,000, with a phase-out threshold beginning at \$60,000.
- **Research credit continues:** Credit is available for expenditures related to qualified research expenses.

For Further Information

For details in connection with many of the tax changes described above, please see the articles below or contact any of the practitioners in the [Tax Accounting Group](#).

- [The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010](#)
- [Effects of the Worker, Homeowner and Business Assistance Act of 2009](#)
- [Understanding and Navigating Business Tax Changes Resulting from Health Care Reform Legislation](#)

- [Understanding and Navigating Individual Tax Changes Resulting from Health Care Reform Legislation](#)

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