

Duvall & Associates, Inc.

Business Advisor Newsletter

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THE GREAT TAX COMPROMISE

We enter a new dawn of politics wherein Republicans again have a voice in government. And the initial product of our elected political reality is a tax bill forged from the flames of Republican hostage-taking of unemployment relief.

On December 17, 2010 President Obama signed into legislation a new tax bill which, at first glance, could be dismissed as a simple 2-year extension of current law.

Extended for 2 years are (among many other provisions):

Current tax rates & capital gains rates,
Itemized deduction of sales taxes and mortgage insurance,
Tax incentives for families and education,
Charitable deductions for IRA's - and businesses
contributing food & computers,
Energy tax saving provisions.

Enhanced tax benefits include 2-year reduction of the !#*#! alternative minimum tax - and enhanced depreciation write-offs for business assets purchased in 2010-2012.

NEW FOR 2011 - Employees will receive a 2% reduction in their share of FICA taxes paid up to the income threshold of \$106,800. Thus, employees will pay 4.2% & self-employment taxpayers 10.4% on earned income up to the threshold. The employer portion of FICA remains unchanged.

ESTATE TAXES - The unpredictability of estate tax law was placed into 2-year purgatory with a patch born of imaginative compromise.

For those dying in 2011 & 2012 - estates receive an exemption for \$5 million per person, including a new "portability" feature that enhances the ability of a couple to utilize their joint \$10 million exemption without resort to "bypass trusts". The bill also provides for a stepped up basis to fair market value and a maximum rate of 35%. The next 2 years will be fruitful for those bearing gifts to reduce future estates.

For individuals deceased in 2010 - estates may be subject to the same rules and rates as above but may alternatively elect an option of no estate taxes with modified carry-over basis.

In a separate ruling regarding automobiles, for 2011 the business standard mileage rate will be 51 cents/mile, for medical & moving expenses 19 cents/mile, and for charitable purposes 14 cents/mile.

The 12th hour passage of this bill understandably has taxpayers, tax programmers and the IRS in a sprint mode to react to changes.

In fact, the IRS has announced taxpayers who itemize will have to wait until mid-to-late February to even file their returns. However, do not be overly shocked & awed if this time-table gets stretched into March.

Those yearning for a stable, simplified tax system are destined for eternal frustration.

"Light a candle...It's the end of the world as we know it - and I feel fine." REM

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