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An Overview

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Extension of the Bush Era Tax Cuts

When the House of Representatives approved an \$858 billion tax deal just before midnight December 16th, they passed the most far-reaching tax bill in nearly a decade. This paper provides an overview of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (H.R. 4853).

Extension of the Bush Era Tax Cuts

When the House of Representatives approved an \$858 billion tax deal just before midnight December 16th, they passed the most far-reaching tax bill in nearly a decade.¹ The *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (H.R. 4853)* was signed into law by President Obama on December 17th, 2010.

Essentially, the act is a temporary, two-year reprieve from the sunset provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), commonly known as the "Bush tax cuts".

In a rare show of bipartisanship, the bill was negotiated by the White House and Senate Republicans, and will provide an extension of the Bush tax cuts through 2012, which were otherwise due to expire on December 31, 2010. Failure to pass the bill would have resulted in significantly higher taxes for millions of Americans. The new bill offers tax cuts designed to maintain the gradual recovery of the American economy.

Timeline of Major Actions: ²	
3/16/2010	Introduced in House
3/17/2010	Passed/agreed to in House
9/23/2010	Passed/agreed to in Senate
12/2/2010	House actions: Amendment
12/15/2010	Senate actions: Amendment
12/16/2010	House actions: Agreed to the Senate amendment
12/17/2010	Cleared for White House, Presented to President, Signed by President

While we will not be able to cover every detail of the act with this single communication, we will do our best to address the most significant areas.




Income Tax Extensions and Changes

The bill maintains tax cuts across all brackets and introduced an additional 2% reduction in the payroll tax rate for 2011 only.³ The payroll tax credit cut most workers' Social Security taxes by nearly a third, dropping from 6.2% to 4.2%.⁴ If you earn between \$35,000 and \$64,000, you will gain the most after-tax income from the new law by increasing your earnings by about 0.9% of your income.⁵ According to a White House press release, the payroll tax holiday will not affect the solvency or benefits of Social Security.⁶

The bill protects approximately 20 million mostly middle-class Americans from the Alternative Minimum Tax through 2011,⁷ and the so-called "marriage penalty" is suspended for another two years.⁸ An additional benefit of the bill is that many investors feel more comfortable proceeding with end-of-year portfolio changes now that capital gains and dividend tax rates are guaranteed to remain at 15%.⁹

If you have dependent children or grandchildren, you will be happy to know the Child Tax Credit remains in effect,¹⁰ and the American Opportunity Tax Credit tripled the relief available to college students.¹¹

Not sure how any of this applies to you? Consider three examples:

	<p>SINGLE, NO CHILDREN - Income \$50,000 from job</p> <p>She will keep paying federal income taxes at the current rates. She will gain a one-year tax cut from 6.2% to 4.2% on her payroll tax for Social Security, saving \$1,000. She will lose a tax credit from the stimulus plan worth \$400.</p> <ul style="list-style-type: none">•\$10,680-- 2011 tax under old law•\$9,075-- 2011 tax under new law
	<p>MARRIED, TWO CHILDREN IN COLLEGE - Income: \$150,000 combined from husband and wife's jobs</p> <p>They will continue paying federal income taxes at the current rates and keep a partial education tax credit for each of their children in college. They will gain a one-year cut in payroll tax for Social Security, saving \$3,000 between them. They will lose a tax credit from the stimulus plan, worth \$800 for them.</p> <ul style="list-style-type: none">•\$34,753-- 2011 tax under old law•\$23,170-- 2011 tax under new law
	<p>RETIRED COUPLE - Income: \$100,000 from dividends, Social Security, pension and taxable interest</p> <p>They will keep paying federal income taxes at the current rate.</p> <ul style="list-style-type: none">•\$13,672-- 2011 tax under old law•\$8,590-- 2011 tax under new law

Note: All scenarios assume typical medical, college and childcare expenses, IRA and 401k contributions, state and local tax payments, mortgage interest and charitable contributions where relevant. Source: Tax Policy Center¹²

What about Businesses?

With unemployment hovering just below 10%, job creation is a fundamental aspect to full economic recovery. Though the new bill threatens an increased deficit by some estimates, it promises to boost the economy and create more employment primarily through a series of business tax breaks designed to encourage investments in research and alternative energies, and, by extension, into human capital. In fact, businesses are permitted to write off 100% of capital investments made between Sept. 9, 2010 and Dec. 31, 2011.¹³ In the meantime, long-term unemployment benefits have been extended for 13 months.¹⁴

Estate Tax

This was a point of great contention between political parties debating the merits of the Tax Relief Bill. In the end, the plan includes an estate tax that allows the first \$10 million of a couple's estate to pass to their heirs without taxation. The balance will be subject to a 35% tax rate, rather than the 55% tax on an inheritance of \$1 million or more that would have taken effect in 2011. Under the tax package, the tax rate is reduced to 35% on amounts above a \$5 million individual exemption.¹⁵

Summary

As you know, the decision to extend the tax cuts was heavily debated. It is a relief to know that closure was reached before the end of the year and most Americans are happy to know that their taxes aren't going up.

To be fair, many critics predict challenges related to the varied expiration dates of certain elements of the package. Some credits expire in one year, and the entire package expires just in time to be a major focus in the 2012 election year.¹ Some also argue that in light of our bulging budget deficit, this is a bad time to be extending tax cuts.⁵ What affect these issues will have remains to be seen.

The new Tax Relief Act arrived at a critical juncture for a few reasons. First, it may predict a new era of bipartisanship among Congressional leaders which could bode well for compromise during the next two years of Obama's first term in office. Second, it arrived just in time to prevent painful tax increases for most Americans. Third, it boosts confidence that American tax policy is headed in the right direction, and will continue to bolster the U.S. economic recovery.

Why did we send you this communication?

One of the primary ways we help our clients is by working hard to provide tax-smart investment strategies to minimize the impact Uncle Sam can have. In addition, we consider it our responsibility to educate you about things that could affect your financial future. As your dedicated advisors, it is our goal to provide you with:

- 1) Sound money management
- 2) Meaningful education
- 3) Exceptional service

Please be assured of our ongoing commitment to support you in these and other ways. If there is ever anything additional we can do to assist you, please don't hesitate to call us. It is an honor and a privilege to serve you!

Kind Regards,



Michael W. Speer



Robert Blake

Would someone you know benefit from receiving this communication? If so, call our office at 303-694-1600 to provide us with their contact information and we will be happy to send them a copy.

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 - ⁸<http://www.marketwatch.com/story/what-the-new-tax-bill-means-for-you-2010-12-17?dist=beforebell>
 - ⁹<http://www.cnbc.com/id/40717544>
 - ¹⁰<http://www.whitehouse.gov/sites/default/files/101210-tax-relief-women-mothers-families.pdf>
 - ¹¹http://www.whitehouse.gov/sites/default/files/social_security_payroll_taxes.pdf
 - ¹² Tax Policy Center
 - ¹³<http://www.bloomberg.com/news/2010-12-17/house-votes-to-debate-obama-s-858-billion-tax-cut-deal-with-republicans.html>
 - ¹⁴http://www.msnbc.msn.com/id/40697296/ns/politics-capitol_hill/
 - ¹⁵<http://www.cnn.com/2010/POLITICS/12/17/tax.deal/index.html?hpt=T1>

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