

Nothing is Certain But Death and Taxes...and More Taxes!

Unless Congress acts by year-end, many of the 2001 and 2003 tax cuts will expire and rates will go back to pre-2001 levels. More recently enacted new or higher taxes also go into effect. These 2011 changes can be significant and include:

INDIVIDUALS

- Income Tax Rates – All tax brackets will increase from the lowest bracket (10% increases to 15%) to the highest (35% increases to 39.6%).
- Capital Gains Rates – The maximum tax rate for long-term capital gains rises from 15% to 20% (the 0% rate for those in the lower tax brackets increases to 10%).
- Dividend Rates – Dividends will no longer be taxed at capital gains rates and will once again be taxed at ordinary income rates as high as 39.6%.
- Child Tax Credit - This credit (currently \$1,000) will be reduced to \$500.
- “Marriage Penalty” – The standard deduction for married couples will no longer be double that of a single filer. Narrower tax brackets for married couples signal the return of the “marriage penalty.”
- Medicines - The use of health savings accounts, flexible spending accounts, and certain health reimbursement plans to purchase over-the-counter medicines (except insulin) will no longer be allowed.
- Alternative Minimum Tax (AMT) – Although Congress keeps passing a one-year patch to spare some taxpayers, the AMT was never indexed for inflation and more taxpayers are subject to AMT each year.

ESTATE TAXES

Although estate taxes were repealed for 2010, “the tax man still cometh” due to a change in “step up rules” for heirs. For assets inherited in 2010, there is no “step up” in basis. This means that the original cost basis of the property is used instead of “stepping up” to the market value at the date of death. When these assets are sold, the first \$1.3 million in gains is exempt (in addition to another \$3 million for surviving spouses) and the excess is treated as capital gains. These basis rules will revert back in 2011 when assets inherited after 2010 *will* “step up” in basis.

In 2011, the estate tax is scheduled to return at a rate of 55% with a \$1 million exclusion. Although there is talk of reinstating the estate tax for 2010 retroactively, many feel that it is unlikely to happen this late in the year.

Note: If you make estimated tax payments, the third 2010 estimate is due Sept. 15!

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