Tax Law Updates 2010

Introduction

Finally, new tax laws are available for the upcoming filing season! Many tax law provisions have been extended for 2010. It is imperative for those involved in tax preparation to consult the necessary IRS publications and web sites to remain abreast of the current provisions. The information provided here includes the latest information available from the Internal Revenue Service at the time of publication. The material contained should be used for educational purposes only and is not intended to provide legal advice.

Tax Return Due Date

Tax year 2010 returns are due on April 18, 2011. The due date is April 18th instead of April 15th, because of the Emancipation Day holiday in the District of Columbia. This is true for everyone filing an individual income tax return.

New Tax Rates

There has been no change in the tax rates for tax year 2010. There has however; been a change in the end points for each bracket.

New 2010 Tax Bracket End Points				
2010 Tax Rates	**Single**	**Joint/QW**	**Separate**	**Head of Household**
10%	$ 8,375	$16,750	$ 8,375	$ 11,950
15%	34,000	68,000	34,000	45,550
25%	82,400	137,300	68,650	117,650
28%	171,850	209,250	104,625	190,550
33%	373,650	373,650	186,825	373,650
35%	None	None	None	None

Divorced or Separated Parents

A custodial parent who has revoked his or her previous release of a claim to a child's exemption must include a copy of the revocation with his or her return.

Personal Exemption Amount Unchanged

The personal exemption amount has remained at $3,650 for 2010. For tax year 2010, taxpayers will no longer lose part of the deduction for personal exemptions, regardless of the amount of AGI.

2010 Filing Requirements for Most People

The following chart illustrates the revisions of the filing requirements for most people:

IF your filing status is...	AND at the end of 2010 you were...*	THEN file a return if your gross income was at least...**
single	under 65	$ 9,350
	65 or older	$10,750
married filing jointly***	under 65 (both spouses)	$18,700
	65 or older (one spouse)	$19,800
	65 or older (both spouses)	$20,900
married filing separately	any age	$ 3,650
head of household	under 65	$12,050
	65 or older	$13,450
qualifying widow(er) with dependent child	under 65	$15,050
	65 or older	$16,150

* If you were born on January 1, 1946, you are considered to be age 65 at the end of 2010.

** Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Do not include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time during 2010 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than $25,000 ($32,000 if married filing jointly). If (a) or (b) applies, see the instructions for Form 1040 or 1040A or Publication 915 to figure the taxable part of social security benefits you must include in gross income.

*** If you did not live with your spouse at the end of 2010 (or on the date your spouse died) and your gross income was at least $3,650, you must file a return regardless of your age.

Changes to Standard Deduction – Effective for Tax Year 2010

The standard deduction for some taxpayers who do not itemize their deductions on Schedule A of Form 1040 is higher in 2010 than it was in 2009. The amount depends on your filing status. In addition to the annual increase for some taxpayers due to inflation adjustments, your 2010 standard deduction is also increased by:

- Any state or local sales or excise taxes you paid in 2010 on the purchase of a new motor vehicle after February 16, 2009, and before January 1, 2010, and
- Any net disaster loss you had in 2010 because of a disaster that was declared a federal disaster after 2007 and that occurred before 2010

The standard deductions that apply in 2010 include:

- Single - $5,700
- Married filing separately - $5,700
- Head of household - $8,400
- Married taxpayers filing jointly / qualifying widow(er)s - $11,400

SCHEDULE L
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Standard Deduction for Certain Filers

► Attach to Form 1040A or 1040. ► See instructions on back.

OMB No. 1545-0074
2010
Attachment Sequence No. **57**

Name(s) shown on return | **Your social security number**

CAUTION *File this form **only** if you are increasing your standard deduction by certain net disaster losses or new motor vehicle taxes paid in 2010 for certain vehicles purchased in 2009.*
***Form 1040 Filers Only:** It may be better for you to itemize your deductions instead. See the Instructions for Schedule A (Form 1040).*

1	Enter the amount shown below for your filing status. • Single or married filing separately—$5,700 • Married filing jointly or Qualifying widow(er)—$11,400 • Head of household—$8,400	1			
2	Can you (or your spouse if filing jointly) be claimed as a dependent on someone else's return? ☐ **No.** Enter the amount from line 1 on line 4, skip line 3, and go to line 5. ☐ **Yes.** Go to line 3.				
3	Is your earned income more than $650 (see instructions)? ☐ **Yes.** Add $300 to your earned income. Enter the total ☐ **No.** Enter $950	3			
4	Enter the **smaller** of line 1 or line 3			4	
5	Multiply the number on Form 1040, line 39a, or Form 1040A, line 23a, by $1,100 ($1,400 if single or head of household). If blank, enter -0-			5	
6	Form 1040 filers only, enter from your 2010 Form 4684, line 17, any loss from a disaster declared a federal disaster after 2007 that occurred before 2010 (see instructions)			6	
7	Did you (or your spouse if filing jointly) pay any state or local sales or excise taxes in 2010 for the purchase of any new motor vehicle(s) **after** February 16, 2009, and **before** January 1, 2010 (see instructions)? ☐ **No.** Skip lines 7 through 16, enter -0- on line 17, and go to line 18. ☐ **Yes.** If Form 1040, line 38, or Form 1040A, line 22, is less than $135,000 ($260,000 if married filing jointly), enter the amount of these taxes paid. Otherwise, skip lines 7 through 16, enter -0- on line 17, and go to line 18	7			
8	Enter the purchase price (**before taxes**) of the new motor vehicle(s) (see instructions)	8			
9	Is the amount on line 8 more than $49,500? ☐ **No.** Enter the amount from line 7. ☐ **Yes.** Figure the **portion** of the tax from line 7 that is attributable to the first $49,500 of the purchase price of each new motor vehicle and enter it here (see instructions)	9			
10	Enter the amount from Form 1040, line 38, or Form 1040A, line 22	10			
11	Form 1040 filers only, enter the total of any— • Amounts from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15, and • Exclusion of income from Puerto Rico	11			
12	Add lines 10 and 11	12			
13	Enter $125,000 ($250,000 if married filing jointly)	13			
14	Is the amount on line 12 more than the amount on line 13? ☐ **No.** Skip lines 14 through 16, enter the amount from line 9 on line 17, and go to line 18. ☐ **Yes.** Subtract line 13 from line 12	14			
15	Divide the amount on line 14 by $10,000. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	15	.		
16	Multiply line 9 by line 15	16			
17	Subtract line 16 from line 9			17	
18	Add lines 4, 5, 6, and 17. Enter the total here and on Form 1040, line 40, or Form 1040A, line 24.			18	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 49875F **Schedule L (Form 1040A or 1040) 2010**

Increased Standard Deduction for Tax Year 2010

The standard deduction amounts for tax year 2010 are as follows:

Filing Status	2009 Standard Deduction	2010 Standard Deduction
Single	$5,700	$5,700
Married Filing Jointly	11,400	11,400
Head of Household	8,350	8,400
Married Filing Separately	5,700	5,700
Qualifying Widow(er)	11,400	11,400

Dependent Standard Deduction

The dependent standard deduction for tax year 2010 is $950 for dependents with unearned income only. For dependents who have both earned and unearned income, the standard deduction is the greater of $950 or the dependent's earned income plus $300, but not more than the standard deduction for their filing status.

Standard Deduction for Taxpayers Who Are 65 or Older and/or Blind

The increase in the standard deduction for Married Filing Joint and Married Filing Separate individuals is $1,100. Single and Head of Household individuals are allowed an additional standard deduction of $1,400. In the past, there was a simple chart which the taxpayer could use to determine his standard deduction. However with the current changes, the taxpayer who is 65 or older or blind will be required to complete a worksheet (following) to determine his standard deduction. This is due to the fact that there may be other factors to consider such as whether or not the taxpayer had a net disaster loss from a federally declared disaster; or whether or not he paid any new motor vehicle tax He will also need to check specific boxes on Form 1040 (or Form 1040A) to indicate he is including these factors when determining his standard deduction.

If the taxpayer is 65 or older or blind his standard deduction amounts for tax year 2010 are as follows:

Check the correct number of boxes below. Then go to the chart.

Taxpayer	65 or older	☐	Blind	☐
Spouse, if claiming spouse's exemption	65 or older	☐	Blind	☐
Total number of boxes checked	☐			

If filing status is:	And the number in the box above is:	Standard Deduction is:
Single	1 2	$7,100 $8,500
Married Filing Joint return or Qualifying Widow(er) With Dependent Child	1 2 3 4	$12,500 $13,600 $14,700 $15,800
Married Filing Separate	1 2	$6,800 $7,900
Head of Household	1 2	$9,800 $11,200

2010 Standard Deduction Worksheet

Caution. If your filing status is married filing separate and your spouse itemizes deductions on his or her return, or if you are a dual-status alien, do not complete this worksheet. You cannot take the standard deduction even if you were born before January 2, 1946, are blind, had a net disaster loss, or paid state or local sales or excise tax on the purchase of a new motor vehicle.

If you paid state or local sales or excise tax in 2010 on the purchase of a new motor vehicle after February 16, 2009, and before 2010, you cannot use this worksheet to figure your standard deduction. You must use Schedule L (Form 1040A or 1040) and attach it to your return.

If you are filing Form 1040EZ, do not use this worksheet. Instead, see line 5 of Form 1040EZ.

1. Enter the amount shown below for your filing status.
- Single or married filing separately — $5,700
- Married filing jointly or Qualifying widow(er) — $11,400
- Head of household — $8,400

. . . . **1.**_________

2. Can you (or your spouse if filing jointly) be claimed as a dependent on someone else's return?
☐ **No.** Skip line 3; enter the amount from line 1 on line 4, and go to line 5.
☐ **Yes.** Go to line 3.

3. Is your **earned income*** more than $650?
☐ **Yes.** Add $300 to your earned income. Enter the total
☐ **No.** Enter $950
. . . . **3.**_________

4. Enter the **smaller** of line 1 or line 3 . . . . **4.** ______

5. If born before January 2, 1946, or blind, multiply the number on Form 1040, line 39a (or Form 1040A, line 23a**) by $1,100 ($1,400 if single or head of household). Otherwise, enter -0- . . . . **5.** ______

6. Enter any net disaster loss from Form 4684, line 17** . . . . **6.** ______

7. Add lines 4, 5, and 6. **This is your standard deduction for 2010.** . . . . **7.** ______

**Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income. Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 18, minus the amount, if any, on line 27 (or the amount you reported on Form 1040A, line 7).*
***If the amount on line 6 of this worksheet is more than zero, you must complete Schedule L (Form 1040A or 1040) and attach it to your return. Also, if the amount on line 6 of this worksheet is more than zero, you cannot file Form 1040A, you must file Form 1040.*

Real Estate Tax Deduction

The real estate tax deduction for taxpayers who do not itemize has been repealed.

Additional Standard Deduction for Net Disaster Loss

If the taxpayer does not itemize deductions, he can claim an additional standard deduction for any net disaster losses from a federally declared disaster.

Sales Tax Deduction for Vehicle Purchases

The American Recovery and Reinvestment Act of 2009 (ARRA) provides a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles through 2010. The deduction is available regardless of whether a taxpayer itemizes deductions on Schedule A. Purchases before February 17, 2009 are not eligible. If the vehicle was purchased in 2010, you cannot increase your standard deduction by any taxes paid on the purchase. The deduction is limited to the tax on up to $49,500 of the purchase price of an eligible motor vehicle.

Changes to Itemized Deductions

Itemized Deduction Limits

For 2010, taxpayers will no longer lose part of the deduction for itemized deductions, regardless of the amount of AGI.

Standard Mileage Rates

The IRS normally updates the mileage rates once a year in the fall for the next calendar year. In the fall of 2009, the IRS announced the 2010 standard mileage rate would be reduced to 50 cents for business and 16.5 cents for medical and moving. The standard mileage rate for charitable miles is set by statute, not the IRS, and remains at 14 cents.

2010 Mileage Rates

Purpose	Rates
Business	50
Medical/Moving	16.5
Charitable	14.0

Personal Casualty and Theft Losses

A personal casualty and theft loss must exceed $100 to be allowed. The previous amount was $500. This is in addition to the 10%-of-AGI limit that generally applies to the net loss.

Increase in Deductible Limits for Long Term Care Premiums

For 2010, the amount of Long Term Care premiums that can be included as a medical expense on Schedule A (Form 1040 has increased and again is age dependent. See the chart below for the 2010 limitation on deductible annual long-term care insurance premiums. This amount is per person.

IF the person was, at the end of 2009, age …	THEN the most you can deduct for 2010 is:	PREVIOUS YEAR (2009) amounts were:
40 or less	$330	$320
41-50	$620	$600
51-60	$1,230	$1,190
61-70	$3,290	$3,180
71 and over	$4,110	$3,980

Earned Income Credit

The maximum amount of the credit has increased to $3,050 with one qualifying child, $5,036 for two qualifying children, $5,666 for more than two qualifying children, and $457 with no qualifying child. The maximum amount of income that the taxpayer can earn and still get the credit has increased for 2010. The credit may be taken with more than two qualifying children and a taxpayer earns less than $43,352 ($48,362 if married filing jointly), with two qualifying children and a taxpayer earns less than $40,363 ($45,373 if married filing jointly), with one qualifying child less than $35,535 (40,545 if married filing jointly) and with no qualifying child $13,460 ($18,470 if married filing jointly). A taxpayer may be able to take the credit if the AGI is less than the amount above that applies. The maximum amount of investment income a taxpayer can receive and still get the credit has increased to $3,100. If advanced payments are received from an employer, the total advanced payments can be as much as $1,830. Advance EIC has been repealed for years after 2010.

If the taxpayer's earned income reaches or exceeds the following amounts, he will not be eligible for the EIC:

If the taxpayer has…	He will be ineligible for EIC if his income is:
No children	$13,460 (MFJ – $18,470) **or more**
One child	$35,535 (MFJ – $40,545) **or more**
Two children	$40,363 (MFJ – $45,373) **or more**
Three or more qualifying children	$43,352 (MFJ – $48,362) **or more**

For tax year 2010 the following table indicates the earned income ranges where the taxpayer will be eligible for the maximum allowable EIC:

If the taxpayer has:	And his earned income/AGI is MFJ		S, HH, QW		His maximum allowed EIC is:
	Is at least	But less than	Is at least	But less than	
No children	$5,950	$12,500	$5,950	$7,500	$ 457
One child	$8,950	$21,500	$8,950	$16,450	$3,050
Two children	$12,550	$21,500	$12,550	$16,450	$5,036
3 or more children	$12,550	$21,500	$12,550	$16,450	$5,666

Earned Income for Additional Child Tax Credit

The earned income threshold generally needed to qualify for the additional child tax credit is $3,000 for tax year 2010.

Making Work Pay Tax Credit

For 2010, the American Recovery and Reinvestment Act (ARRA) will provide a refundable tax credit of:

1. The lesser of 6.2% of earned income, or
2. $400 for working individuals and $800 for married taxpayers filing joint returns.

The credit will typically be handled by employers through automated withholding changes. The amount of the credit must be reported on the employee's 2010 income tax return filed in 2011. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on their 2010 tax return. The credit is phased out for joint filers whose AGI is between $150,000 and $190,000 and other taxpayers whose AGI is between $75,000 and $95,000.

The making work pay tax credit may not be taken by nonresident aliens or anyone who can be claimed as a dependent on someone else's return. Even if a taxpayer's income tax withholding is reduced during 2010 because of the credit, the taxpayer must claim the credit on his return to benefit from it. Generally, the taxpayer will use Schedule M (Form 1040 or 1040A) to figure the making work pay credit. This credit is refundable. If the taxpayer is filing Form 1040EZ, the making work pay credit can be taken on that form and Schedule M (following) will not have to be filed.

SCHEDULE M (Form 1040A or 1040)
Department of the Treasury Internal Revenue Service (99)

Making Work Pay Credit

▶ Attach to Form 1040A or 1040. ▶ See separate instructions.

OMB No. 1545-0074
2010
Attachment Sequence No. 166

Name(s) shown on return | **Your social security number**

To take the making work pay credit, you must include your social security number (if filing a joint return, the number of either you or your spouse) on your tax return. A social security number does not include an identification number issued by the IRS. Only the Social Security Administration issues social security numbers.

You cannot take the making work pay credit if you can be claimed as someone else's dependent or if you are a nonresident alien.

Important: Check the "**No**" box on line 1a and see the instructions if:
(a) You have a net loss from a business,
(b) You received a taxable scholarship or fellowship grant not reported on a Form W-2,
(c) Your wages include pay for work performed while an inmate in a penal institution,
(d) You received a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan, or
(e) You are filing Form 2555 or 2555-EZ.

1a Do you (and your spouse if filing jointly) have 2010 wages of more than $6,451 ($12,903 if married filing jointly)?
☐ **Yes.** Skip lines 1a through 3. Enter $400 ($800 if married filing jointly) on line 4 and go to line 5.
☐ **No.** Enter your earned income (see instructions) **1a**

b Nontaxable combat pay included on line 1a (see instructions) **1b**

2 Multiply line 1a by 6.2% (.062) **2**

3 Enter $400 ($800 if married filing jointly) **3**

4 Enter the **smaller** of line 2 or line 3 (unless you checked "Yes" on line 1a) **4**

5 Enter the amount from Form 1040, line 38*, or Form 1040A, line 22 . . **5**

6 Enter $75,000 ($150,000 if married filing jointly) **6**

7 Is the amount on line 5 more than the amount on line 6?
☐ **No.** Skip line 8. Enter the amount from line 4 on line 9 below.
☐ **Yes.** Subtract line 6 from line 5 . . . . **7**

8 Multiply line 7 by 2% (.02) **8**

9 Subtract line 8 from line 4. If zero or less, enter -0- **9**

10 Did you (or your spouse, if filing jointly) receive an economic recovery payment in **2010**? You may have received this payment in 2010 if you did not receive an economic recovery payment in 2009 but you received social security benefits, supplemental security income, railroad retirement benefits, or veterans disability compensation or pension benefits in November 2008, December 2008, or January 2009 (see instructions).
☐ **No.** Enter -0- on line 10 and go to line 11.
☐ **Yes.** Enter the total of the payments you (and your spouse, if filing jointly) received in **2010.** Do not enter more than $250 ($500 if married filing jointly) **10**

11 **Making work pay credit.** Subtract line 10 from line 9. If zero or less, enter -0-. Enter the result here and on Form 1040, line 63; or Form 1040A, line 40 . . . . **11**

*If you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico, see instructions.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 52903Q **Schedule M (Form 1040A or 1040) 2010**

Investment Income of Children

Age was increased to include a child 18 at the end of the year and whose earned income is not more than half of the child's support and a student under 24 whose earned income is not more than half the child's support. The amount of the investment income these children can have without it being subject to tax at the parent's rate has been increased to $1,900 for 2010.

For 2010 the age test, the age of a child with a January 1st birthday is determined as of January 1, 2011.

Income Limits Unchanged for Student Loan Interest Deduction

For 2010, the amount of the Student Loan Interest deduction is gradually reduced if the taxpayer's filing status is married filing jointly or a qualifying widow(er) and modified AGI is between $120,000 and $150,000. The deduction is eliminated if AGI is $150,000 or more.. For all other filing statuses the deduction is phased out between $60,000 and $75,000. The deduction I eliminated if AGI is $75,000 or more. See Publication 970, *Tax Benefits for Education,* for further information.

Taxpayers may deduct up to $2,500 of interest paid on qualified education loans for college or vocational school expenses as an adjustment to income.

American Opportunity Tax Credit and Lifetime Learning Education Credits

For 2010 the amount of any American Opportunity Credit is gradually reduced if modified AGI is between $80,000 and $90,000 ($160,000 and $180,000 if filing a joint return) The credit cannot be claimed if AGI is above $90,000 or more ($180,000 or more if filing a joint return). The maximum amount of the credit than can be claimed per student is $2,500 per student and can be claimed for the first four years of post-secondary education. In addition, 40% of the Hope credit will generally be a refundable credit and "qualified tuition and related expenses" has been expanded to include expenditures for "course materials." "Course materials" will include books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

The Lifetime Learning Credit will be phased out if AGI is between $50,000 and $60,000 ($100,000 and $120,000 if filing a joint return). A lifetime learning credit cannot be claimed by the taxpayer if AGI is $60,000 or more ($120,000 or more if filing a joint return). The maximum credit is $2,000 per taxpayer (20% of qualified tuition up to $10,000).

Married Filing Separate individuals do not qualify for these credits.

Qualified Education Expenses under a Qualified Tuition Program (QTP)

Section 529 Education Plans are tax-advantaged savings plans that cover all qualified education expenses, including tuition, room & board, mandatory fees and books. During 2010, ARRA provides that qualified education expenses will include computer technology, equipment, or internet access and related services if it is to be used by the beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

First Time Homebuyer Credit

You generally cannot claim the credit for a home you bought after April 30, 2010. However, you may be able to claim the credit if you entered into a written binding contract before May 1, 2010, to buy the home before July 1, 2010, and actually bought the home before October 1, 2010. Also, certain members of the Armed Forces and certain other taxpayers have additional time to buy a home and take the credit.

Recapturing the First-Time Homebuyer Credit

If you claimed the first-time homebuyer credit for a home you bought in 2008, you generally must begin repaying it on your 2010 return. In addition, you generally must repay any credit you claimed for 2008 or 2009 if you sold your home in 2010 or the home stopped being your main home in 2010.

Repaying the First-time Homebuyer Credit for Houses Purchased in 2008

The taxpayer generally must repay the credit over a 15-year period in 15 equal installments. The repayment period begins in 2010 and the taxpayer must include the first installment as additional tax on his 2010 tax return.

If the taxpayer's home ceases to be his main home before the 15-year period is up, he must include all remaining annual installments as additional tax on the return for the tax year that happens. This includes situations where he sells the home, he converts it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation.

If the taxpayer and his spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

Example 1 - The taxpayer claimed a $7,500 credit on his 2008 tax return. He must include $500 ($7,500 ÷ 15) as additional tax on hisr 2010 tax return and on each tax return for the next 14 years.

Example 2 – The taxpayer claimed a $7,500 credit on his 2008 tax return. In 2010, he sold the home to his son. The taxpayer must include $7,500 as additional tax on his 2010 tax return.

Exceptions - The following are exceptions to the repayment rule.

- If the taxpayer sells the home to someone who is **not** related to him, the repayment in the year of sale is limited to the amount of gain on the sale. When figuring the gain, reduce the adjusted basis of the home by the amount of the credit the taxpayer did not repay.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and the taxpayer acquires a new main home within 2 years of the event, he continues to pay the installments over the remainder of the 15-year repayment period.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for making all subsequent installment payments.
- If the taxpayer dies, any remaining annual installments are not due. If the taxpayer filed a joint return and then he dies, the surviving spouse would be required to repay his or her half of the remaining repayment amount.

Maximum Deferrals and Contributions

The maximum regular deferral amount a taxpayer may elect to defer into his 401(k) plan is $16,500 for tax year 2010 ($22,000 for employees age 50 and older). The maximum deferral contribution for SIMPLE plans is $11,500 ($14,000 for employees age 50 and older.

The deduction for contributions to an IRA for individuals who are not covered by another retirement plan is $5,000; persons age 50 and over are allowed up to a $6,000 deduction. Married filing joint taxpayers are each allowed the $5,000 regular contribution deduction ($6,000 dollars each if they are both over 50).

Effect of Modified AGI[1] on Deduction if Covered by Retirement Plan at Work

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
single or **head of household**	$56,000 or less	a full deduction.
	more than $56,000 but less than $66,000	a partial deduction.
	$66,000 or more	no deduction.
married filing jointly or **qualifying widow(er)**	$89,000 or less	a full deduction.
	more than $89,000 but less than $109,000	a partial deduction.
	$109,000 or more	no deduction.
married filing separately[2]	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.

[1]Modified AGI (adjusted gross income). See *Modified adjusted gross income (AGI)*.
[2]If you did not live with your spouse at any time during the year, your filing status is considered Single for this purpose (therefore, your IRA deduction is determined under the "Single" column).

Effect of Modified AGI[1] on Deduction if NOT Covered by Retirement Plan at Work

If you are not covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
single, **head of household**, or **qualifying widow(er)**	any amount	a full deduction.
married filing jointly or **separately** with a spouse who *is not* covered by a plan at work	any amount	a full deduction.
married filing jointly with a spouse who *is* covered by a plan at work	$167,000 or less	a full deduction.
	more than $167,000 but less than $177,000	a partial deduction.
	$177,000 or more	no deduction.
married filing separately with a spouse who *is* covered by a plan at work[2]	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.

[1]Modified AGI (adjusted gross income). See *Modified adjusted gross income (AGI)*.
[2]You are entitled to the full deduction if you did not live with your spouse at any time during the year.

The IRA deduction has been expanded for single and head of household taxpayers who are covered by a retirement plan. Persons filing married filing jointly or qualifying widow(er) and covered by another retirement plan may be allowed the full IRA deduction if their *modified adjusted gross income* is less than $89,000. Taxpayers and their spouse may each be allowed up to a $6,000 deduction if they are age 50 or older by the end of 2010.

Taxpayers filing single or head of household and covered by a plan are allowed a full IRA deduction for contributions up to $5,000 ($6,000 if over 50) if their *modified adjusted gross income* does not exceed $66,000 for 2010. In 2010 the *modified adjusted income* phase-out limits for purposes of contributing to an IRA are $56,000 to $66,000 for single or head of household and $89,000 to $109,000 for married filing joint. The 2009 income phaseout limits for single and HOH filers were $55,000 to $65,000.

Earned income for the purposes of the IRA deduction includes any non taxable combat pay received by members of the U.S. armed forces.

Roth IRA Income Limits

Half of any income that results from a rollover or conversion to a Roth IRA from another retirement plan in 2010 is included in income in 2011, and the other half in 2012, unless you elect to include all of it in 2010. The same rule applies to a rollover after September 27, 2010, to a designated Roth account in the same plan.

You now can make a qualified rollover contribution to a Roth IRA regardless of the amount of your modified AGI.

Health Savings Account

For 2010, the minimum annual deduction of a high deductible health plan (HDHP) increases to $1,200 ($2,400 for family coverage) and the maximal annual deductible and other out-of-pocket expenses limit increases to $5,950 ($11,900 for family coverage). The maximum health savings account (HSA) contribution increases to $3,050 ($6,150 for family coverage). The maximum additional contribution for individuals 55 or older will be $1,000. No contributions can be made to an individual's HSA after he or she becomes enrolled in Medicare Part A or B.

Adoption Benefits Increased

For 2010 the maximum adoption credit has increased to $13,170. The maximum exclusion from income for benefits under an employee adoption assistance program has increased to $13,170. These amounts are phased out if modified AGI is between $182,520 and $222,520. The credit or exclusion cannot be claimed if the taxpayer's AGI is $222,520 or more. The big news for the adoption credit is that it is now a refundable credit.

Income Limits Increased for Reduction of Education Savings Bond Exclusion

For 2010 the amount of interest exclusion is phased out (gradually reduced) if a taxpayer's filing status is married filing jointly or qualifying widow(er) and modified AGI is between $105,100 and $135,100 and above. The exclusion cannot be taken if AGI is $135,100 or more. For all other filing statuses this interest exclusion is phased out between $70,100 and $85,100 and above. The exclusion cannot be taken if AGI is $85,100 or more. See Publication 970 for more information.

Archer Medical Savings Accounts (MSA) Limits Increased

For Archer MSAs during 2010, the minimal annual deduction for a high deductible health plan increases to $2,000 ($4,050 for family coverage). The maximum annual deductible of a high deductible health plan increases to $3,000 ($6,050 for family coverage). The maximum out of pocket expense limit increases to $4,050 ($7,400 for family coverage).

Alternative Minimum Tax (AMT) Exemption Amount Increased

The AMT exemption amount has increased to $47,450 ($72,450 if married filing jointly or a qualifying widow(er); $36,225 if married filing separately).

The following items were set to expire after 2009 as offsets to AMT:

- Elderly or disabled credit
- D.C. first-time homebuyer credit
- Mortgage interest credit (homeowners issued government mortgage credit certificates)
- Personal energy property credit.

These have all been extended by the Tax Relief Act of 2010 discussed later. As a result, all of the above can be used to offset both regular tax and AMT for 2010 and 2011.

Exclusion of Income for Volunteer Firefighters and Emergency Medical Responders

For years after 2007 and before 2011, gross income does not include rebates or reductions of property or income tax provided by a state or local government for providing services as a member of a qualified emergency response organization. Any such rebate or reduction reduces the amount of the income tax reduction for such taxes.

Social Security and Medicare Taxes

The maximum amount of wages subject to Social Security taxes for 2010 is $106,800. As a result, the maximum amount of social security tax that can be withheld for 2010 is $6,621.60. There is no limit to wages subject to Medicare Tax.

Wage Threshold for Household Employees

The Social Security and Medicare wage threshold for household employees for 2010 is $1,700. If the employee is paid less than $1,700, the employer does not have to report and pay taxes on the individual's wages.

Required Minimum Distributions

For 2010, taxpayers who are 70 ½, or older, are required to begin taking a required minimum distribution (RMD) from their IRA. In 2009 these individuals had a waiver that allowed them to forgo the RMD, this waiver has expired.

Retirement Savings Plan

The modified AGI Limit for the Retirement Savings Credit has increased. For married filing jointly it is now $55,000; for Head of Household $41,625; and for married filing separately, single, and qualifying widow(er) it is $27,750.

Qualified individuals are allowed a nonrefundable credit of up to $1,000 ($2,000 MFJ) for eligible contributions to an IRA or to an employer-sponsored retirement plan. The credit can offset both regular tax and AMT.

Retirement Saver's Credit Phase-out (2010)			
Credit Rate	**Adjusted Gross Income***		
	MFJ	**HOH**	**Single, MFJ, QW**
50%	$0 – 33,500	$0 – 25,125	$0 – 16,750
20%	33,501 – 36,000	26,126 – 27,000	16,751 – 18,000
10%	36,001 – 55,500	27,001 – 41,625	18,001 – 27,750
0%	55,501 and over	41,626 and over	27,751 and over
*AGI must be increased by any exclusion or deduction for foreign earned income, foreign housing cost, income for residents of America Samoa and income from Puerto Rico.			

Unemployment Benefits Completely Taxable

In 2009, $2,400 of an unemployment recipients benefits were not taxable, the suspension of the tax on $2,400 has been repealed.

Extension of Enhanced Small Business Expensing (Section 179)

In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Congress increased the amount that small businesses could write off for capital expenditures incurred in 2010 to $500,000 and increased the phase-out threshold for 2010 to $2,000,000 of Section 179 property. The Section 179 deduction will phase out by one dollar for each dollar of investment over $2,000,000.

Self-employed Health Insurance Deduction

Effective March 30, 2010, if you were self-employed and paid for health insurance, you may be able to include in your deduction on line 29 any premiums you paid to cover your child who was under age 27 at the end of 2010, even if the child was not your dependent. For 2010, the line 29 deduction is also allowed on Schedule SE.

Payroll Tax Deduction

For tax year 2011 the employee's portion of Social Security tax withheld from wages has been reduced from 6.2% to 4.2%. The employer portion will remain at 6.2%. Self-employed individuals will pay 10.4% in 2011 instead of 12.4%. This will have no effect on the 2010 filing season.

Seven Facts about the Nonbusiness Energy Property Credit

Taxpayers who take energy saving steps this year may get bigger tax savings next year. The Nonbusiness Energy Property Credit, a tax credit for making energy efficient improvements to homes has been increased as part of the American Recovery and Reinvestment Act of 2009.

Here are seven things the IRS wants you to know about the Nonbusiness Energy Property Credit:

1. The new law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to $1,500 claimed for 2009 and 2010 combined.
2. The credit applies to improvements such as adding insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems.
3. To qualify as "energy efficient" for purposes of this tax credit, products generally must meet higher standards than the standards for the credit that was available in 2007.
4. Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer such as with the packaging of the product or in a printable format on the manufacturers' Website.
5. Qualifying improvements must be placed into service after December 31, 2008, and before January 1, 2011.
6. The improvements must be made to the taxpayer's principal residence located in the United States.
7. To claim the credit, attach Form 5695, Residential Energy Credits to either the 2009 or 2010 tax return. Taxpayers must claim the credit on the tax return for the year that the improvements are made.

The credit applies to biomass-fuel stoves; qualifying skylights, windows and outside doors; and high-efficiency furnaces, water heaters and central air conditioners. The dollar limit on a particular type of improvement, such as the $200 cap on the credit for windows, has been repealed.

Finally, there's also no dollar limit on the credit for qualified residential alternative-energy equipment, such as solar water heaters, geothermal heat pumps and wind turbines. Your credit can be 30% of the total cost of such systems.

Expiring Tax Provisions as of 12/31/2010

The following tax benefits have expired and are not available for 2010.

- Increased standard deduction for real estate taxes or a net disaster loss from a disaster occurring after 2009.
- Itemized deduction or increased standard deduction for state or local sales or excise taxes on the purchase of a new motor vehicle (unless you bought the vehicle in 2009 after February 16 and paid the tax in 2010).
- The exclusion from income of up to $2,400 in unemployment compensation. All unemployment compensation you received in 2010 generally is taxable.
- Government retiree credit.

- Alternative motor vehicle credit for qualified hybrid motor vehicles bought after 2009, except cars and light trucks with a gross vehicle weight rating of 8,500 pounds or less.
- Extra $3,000 IRA deduction for employees of bankrupt companies.
- Certain tax benefits for Midwestern disaster areas, including increased Hope and lifetime learning credits and the additional exemption amount if you provided housing for a person displaced by the Midwestern storms, tornadoes, or flooding.
- Credit to holders of clean renewable energy bonds issued after 2009.
- Decreased estimated tax payments for certain small businesses.

2010 Tax Relief Act

For most taxpayers, the 2011 tax filing season starts on schedule. However, tax law changes enacted by Congress and signed by President Obama in December mean some people need to wait until mid to late February to file their tax returns in order to give the IRS time to reprogram its processing systems.

Some taxpayers – including those who itemize deductions on Form 1040 Schedule A – will need to wait to file. This includes taxpayers impacted by any of three tax provisions that expired at the end of 2009 and were renewed by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act Of 2010 enacted Dec. 17. Those who need to wait to file include:

- **Taxpayers Claiming Itemized Deductions on Schedule A.** Itemized deductions include the state and local general sales tax deduction which primarily benefits people living in areas without state and local income taxes and some retirees. This deduction expired at the end of 2009, but was extended for 2010 by the 2010 Tax Relief Act.

- **Taxpayers Claiming the Higher Education, Tuition and Fees Deduction.** This deduction for parents and students—covering up to $4,000 of tuition and fees paid to a post-secondary institution—is claimed on Form 8917 and was also extended for 2010. The IRS emphasizes that there will be no delays for parents and students who claim the education credits (the American Opportunity Tax Credit and the Lifetime Learning Credit).

- **Taxpayers Claiming the Educator Expense Deduction.** This deduction for kindergarten through grade 12 educators with out-of-pocket classroom expenses of up to $250 (claimed on Form 1040) was an additional 2010 extension in the 2010 Tax Relief Act.

In addition to extending the above tax deductions for 2010, the Tax Relief Act also extended them for 2011. Other provisions which would affect 2010 taxes include:

- **Qualified Charitable Contributions from An IRA Account.** The rule for allowing taxpayers over age 70½ to make tax-free transfers from an IRA directly to a charity, originally set to expire after 2009, has been extended through 2011. Amounts transferred are counted toward the individual's required minimum distribution. **Note:** The new law allows taxpayers to elect to treat any qualified charitable distribution made during January, 2011 as if it occurred on December 31, 2010.

- **Special (Bonus) Depreciation.** The 50% special depreciation allowance for new property additions was due to expire after 2010. Instead, the rate has been temporarily increased. The following allowance rates apply, depending on when the qualified property is acquired and placed in service;

  1) 2010:
     --1/1/10 – 9/8/10: 50%
     --9/9/10 –12/31/10: 100%

2) 2011: 100%
3) 2012: 50%

A number of other tax deductions and credits, set to expire after 2010, were extended for 2011 and 2012 such as the American Opportunity Tax Credit and the Additional Child Tax Credit (the $3,000 earned income refundability threshold was extended—see form 8812), which help families pay for college and other child-related expenses. The Act also provides a two-percent payroll tax reduction for 2011. Those changes have no effect on the 2011 filing season (2010 tax year).

The IRS will announce a specific date in the near future when it can start processing tax returns impacted by the recent tax law changes. In the interim, taxpayers affected by these tax law changes can start working on their tax returns, but they should not submit their returns until IRS systems are ready to process the new tax law changes. Additional information will be available at www.IRS.gov. For taxpayers who must wait before filing, the delay affects both paper filers and electronic filers.

Except for those facing a delay, the IRS will begin accepting e-file and Free File returns on Jan. 14.

Changes to Flexible Spending Arrangements

Effective Jan. 1, 2011, the cost of an over-the-counter medicine or drug cannot be reimbursed from Flexible Spending Arrangements or health reimbursement arrangements unless a prescription is obtained. The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles. The new standard applies only to purchases made on or after Jan. 1, 2011, so claims for medicines or drugs purchased without a prescription in 2010 can still be reimbursed in 2011, if allowed by the employer's plan. A similar rule goes into effect on Jan. 1, 2011 for Health Savings Accounts (HSAs), and Archer Medical Savings Accounts (Archer MSAs). **Employers and employees should take these changes into account as they make health benefit decisions for 2011.**

Conclusion

This publication was delayed this year due to the late release of tax laws. The information within, was the primary information available which had been released by the IRS. There may be clarifications or additional information available in mid-January.

