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With just weeks to go before the expiration of some significant tax cuts, President Obama's signature on The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act) on December 17, 2010 put to end nearly a decade of debate on the future of taxes in this country by simply postponing matters for another two years.

How does this impact you? The broadest sweeping change is a one-year payroll tax holiday for individuals, which we will address in more depth in a bit. There are also incentives impacting our business clients, as well as some significant changes on the estate and gift tax front. Perhaps the most noteworthy aspect though is not a change at all, but rather the two-year extension of the Bush-era tax rates that were set to expire at the end of this year. In this case, nothing is something.

The Act gives us the certainty we have been seeking to better help our clients plan for the future. We have scoured the changes for those most applicable to our clients and wanted to highlight them here for you. If you have any questions on any of the provisions, we are here to help. Please reach out to any member of your client service team and we will walk you through how these changes impact you specifically.

We would like to take this opportunity as one year winds down and another begins to thank you for the opportunity to work beside you for another year. Wishing you and yours a happy holiday season. Here's to 2011!

We produced this guide for our clients, as well as other like-minded individuals, concerned with their personal financial affairs. The material in this guide is not intended to be specific legal, tax, accounting or financial advice. Each individual's situation is unique and thus the considerations described within this guide will differ for every individual. This is not intended as substitution for specific advice and where specific advice is appropriate or necessary, we strongly recommend consulting a professional advisor.

Please note, under current IRS regulations, we must inform you that any tax advice in this communication is not intended or written by AKT to be used, and cannot be used, by a client or any other person or entity for the purpose of (1) avoiding penalties that may be imposed on any taxpayer or (2) promoting, marketing or recommending to another party any matters addressed herein.



INDIVIDUAL INCENTIVES AND EXTENSIONS

The individual tax rates, including the special 15% maximum rate on qualified dividends and long term capital gains, will hold steady for two more years. Along with the stable rates, the Act extended the repeal of the personal exemptions phaseout and the itemized deduction limitation, which, before their repeal in 2001, limited certain individual's ability to deduct their itemized deductions and personal exemptions.

PROVISION	2010	2011	2012	2013
Ordinary income rates	10.0%	No Change		15.0%
	15.0%			15.0%
	25.0%			28.0%
	28.0%			31.0%
	33.0%			36.0%
	35.0%		39.6%	
Long-term capital gains	15.0%			20.0%
Qualified dividends	15.0%			39.6%
AMT exemption - single	47,450	48,450	33,750	
AMT exemption - married	72,450	74,450	45,000	

Prior to the Act, approximately 25 million taxpayers were expected to become subject to the alternative minimum tax (AMT) during 2010. The Act applies a patch to prevent this by raising the exemption levels for 2010 and 2011. This is particularly important for those of us claiming significant state taxes as itemized deductions, which is the vast majority of our individual clients. It is of note that this patch only carries us to the end of next year.

The Act also extends the marriage penalty relief through 2012. Prior to 2001, certain married couples jointly paid more than they would have paid as single filers. The Act fixes this for another couple years.

Extensions through 2012 were also to be had for the child tax credit, adoption credit and education incentives. An extension through 2011 was also granted for those taxpayers deducting state sales taxes in lieu of income taxes on their personal returns.

PAYROLL TAX HOLIDAY

Included in the Act is a temporary 2% reduction in Social Security payroll tax for W-2 wage earners as well as self-employed individuals. The holiday applies to all individuals subject to Social Security tax regardless of income level. The reduction is on the employee share of taxes. No change was enacted for the employer share.

PROVISION	2010	2011	2012	2013
Payroll tax holiday	\$400/\$800 Making Work Pay tax credit	2% reduction in SS taxes - maximum benefit \$2,136 per individual	None	

CHANGES FOR BUSINESSES

Another act, another set of bonus depreciation rules. The Act extends the immediate expensing known as bonus depreciation to cover assets placed in service before January 1, 2013 (or January 1, 2014 for certain long term production property). The Act provides for 100% bonus depreciation for qualifying property placed in service between September 9, 2010 and December 31, 2011 and then reverts to 50% until the end of 2012. Confusing yes and it could be challenging to track, but meaningful to many of our clients.

PLACED IN SERVICE	BONUS DEPRECIATION
1/1/2010 - 9/8/2010	50%
9/9/2010 - 12/31/2011	100%
1/1/2012 - 12/31/2012	50%
2013 and beyond	None

For our clients with AMT credit carryforwards, there may be an opportunity available to elect out of bonus depreciation in exchange for converting pre-2006 AMT credits into a refundable credit. We will work with you to evaluate if this new provision is the right answer for your business.

The Act also extends higher Section 179 expensing into 2012, although the limits are lower than those enacted earlier this year for 2010 and 2011. Unfortunately the extension is only for a single year. Beginning in 2013, the Section 179 will return to the historic levels.

PROVISION	2010	2011	2012	2013
Expensing Limit	500,000		125,000	25,000
Purchase Limit	2,000,000		500,000	200,000



Beyond the modifications to the expensing rules, the most significant change many of our business clients will see from the Act is the retroactive extension of the previously expired research and development credit through the end of 2011. When combined with the earlier legislation allowing certain taxpayers to offset of AMT with general business credits, including the R&D credit, it has been a good year for our clients with research activities.

PROVISION	2010	2011	2012	2013
R&D Credit	Available	Available	Not Available	

There were over 50 expiring and expired provisions for businesses and individuals extended as part of the Act through 2011. Other business extensions we know will impact our clients include:

- ▶ Incentives for certain fuels, including ethanol, biodiesel and renewable diesel
- ▶ Alternative fuel tax credit
- ▶ Grants for certain energy property in lieu of the tax credit
- ▶ New Markets Credit

We are familiar with all of the provisions of the Act and will work with you in the coming year to determine if any of these incentives will benefit your business.

ESTATE AND GIFT TAX PROVISIONS

The Act finally gives us certainty for estates through 2012 and allows us to begin helping our clients plan for future generations again. Estates will have an exemption of \$5 million per spouse between 2010 and 2012 and a top rate of 35%. The Act also now allows the executor to elect to transfer unused estate exemptions on to the surviving spouse.

For 2010, estates may elect to use the former 2010 law or the rules set forth in the Act.

PROVISION	2010	2011	2012	2013
Exemption	Can elect zero rate and carryover or 2011/2012	5,000,000		1,000,000
Top Rate		35%		55%

For the coming two years, the gift tax, including generation skipping tax, reunifies with the estate tax for gifts made after December 31, 2010. The top gift tax rate will remain at 35% and the exemption expands to \$5 million.

