

# Planning for 2011 Tax Changes

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# Biography

Terry Durkin is an Enrolled Agent and owner of Durkin Associates specializing in individual, small business, trust, and estate tax return preparation and representation.

Terry is President of the Massachusetts Society of Enrolled Agents (MaSEA) and received the society's highest honor, Enrolled Agent of the Year, in 2010. She is a member of the National Association of Enrolled Agents (NAEA), National Association of Tax Professionals (NATP), and the Boston Estate Planning Council (BEPC). Terry is also a fellow of the National Tax Practice Institute (NTPI).

Terry has a Bachelor of Science degree in Applied Mathematics with Computer Science from Yale University and a Master of Business Administration degree with a concentration in Finance from New York University.

# Agenda

- Review of possible tax changes
  - Bush tax cuts
  - Alternative minimum tax (AMT)
  - Estate taxes
  - Making Work Pay Credit
- Grab bag of tax treats (or tricks)
  - Roth conversions
  - Health related
  - Education credits
  - Energy credits
  - Non-cash contributions
  - Tax preparer licensing

# Possible Tax Changes

- The “Bush tax cuts” of 2001 are set to expire at the end of 2010
  - Tax brackets increase
  - Qualified dividends tax rate increases
  - Capital gains tax rate increases
  - Deduction limitations

# Possible Tax Changes

- Tax brackets increase

2010	2011 Possible
10% (up to \$17,000)	10% or 15%
15% (up to \$68,000)	15%
25% (up to \$137,000)	28%
28% (up to \$209,000)	31%
33% (up to \$373,000)	36%
35% (over \$373,000)	39.6%

# Possible Tax Changes

- Possible tax bracket increase only for those making \$250,000 or more
- Strategy: If tax rates rise, accelerate income into 2010 and defer deductions into 2011

# Possible Tax Changes

- Qualified dividends tax rate increases
  - Instead of 15% in 2010, will be ordinary income rate (up to 39.6%)
  - Proposal to cap this at 20%
- Capital gains tax rate increases
  - Instead of 15% in 2010, will be 20% in 2011
  - Strategy: Consider large capital gains transactions in 2010
  - Note that capital loss carryovers will be more valuable if tax rates rise

# Possible Tax Changes

- Deduction limitations – set to come back
  - Personal Exemption phase-out
    - \$3,700 deduction per family member
    - Reduced for joint filers above \$255,000
    - Reduced for single filers above \$170,000
  - Itemized deductions reduced for incomes above \$170,000
- Other deduction eliminations
  - Child tax credit reduced to \$500 from \$1,000 per child
  - Mortgage insurance premiums no longer deductible

# 'Bush Tax Cuts' - Example

- **Single taxpayer**
  - \$75,000 wages
  - \$6,000 qualified dividends
  - \$2,000 interest income
  - Standard deduction
- **Taxes in 2011 would be \$2,200 higher than 2010**
  - Went from 25% to 28% bracket
  - Qualified dividends went from 15% to 28%

# 'Bush Tax Cuts' - Example

- **Married and working taxpayers with 2 dependents**
  - \$300,000 wages
  - \$4,000 qualified dividends
  - \$2,000 interest income
  - \$24,000 capital gains
  - Itemized deduction
- **Taxes in 2011 would be \$6,500 higher than 2010**
  - Went from 33% to 36% bracket
  - Qualified dividends went from 15% to 36%
  - Capital gains went from 15% to 20%

# 'Bush Tax Cuts' - Example

- **Married and retired taxpayers**
  - \$25,000 social security benefits
  - \$30,000 pension income
  - \$2,000 qualified dividends
  - \$1,000 interest income
  - Standard deduction
- **Taxes in 2011 would be \$1,500 higher than 2010**
  - Stayed in 15% tax bracket
  - Qualified dividends went from 0% to 15%

# Possible Tax Changes

- Alternative Minimum Tax (AMT)
  - The stealth tax
  - Set to hit 32 million tax payers vs. 5 million in 2009
  - Stop gap measures have been 'patches' to index AMT to inflation.
  - Flat 26% or 28% tax rate depending on taxable income
    - 26% applies to first \$175,000
    - 28% rate applies to greater than \$175,000
  - Strategy: Ensure you have made the 'safe harbor' tax payments in 2010 – 110% of your last year's tax liability

# Possible Tax Changes

- Estate taxes
  - In 2009, the top rate was 45% and a \$3.5 million exemption
  - In 2010, NO estate taxes
  - In 2011:
    - If Congress does nothing: top rate of 55% and a \$1 million exemption
    - If Congress does act, one guess is: top rate of 45% and a \$3.5 million exemption
    - If Congress does act, another guess is: top rate of 35% and a \$5 million exemption

# Possible Tax Changes

- Making Work Pay Credit set to expire in 2010
  - Credit of \$400 per taxpayer, \$800 per couple
  - Aimed at 'middle class'
  - In 2010, implemented by changing tax withholding tables for wages
  - In 2011, tax withholding tables will adjust back to pre-credit days

# Grab Bag of Tax Treats

- Roth Conversion
  - In 2010, the \$100,000 income limit for Roth conversion was eliminated
  - Taxable income can be included in 2010 OR spread over 2011 and 2012 tax years (the default)
  - Taxes paid out of conversion amount may be subject to 10% penalty

# Grab Bag of Tax Treats

- Roth Conversion

- Strategy:

- Elect to include ROTH conversion in ty2010
    - Pay all taxes due for ty2010 by April 15, 2011
    - Put return on extension
    - By October 15, 2011 filing date, we should know the 2011 tax rates
    - Can decide then to pay all in 2010 or split conversion amount over 2011 and 2012

# Grab Bag of Tax Treats

- Health Related
  - Beginning in 2011, employers will start to report health insurance premiums on the W2 forms. This is NOT taxable.
  - In 2013, medical expense deductions go from 7.5% of adjusted gross income (AGI) to 10%.
    - Between 2013 and 2016, for those 65 and older, the deduction remains at 7.5%.
    - For 2017 and beyond, ALL taxpayers are subject to the 10% limit.
  - The amount of 2010 and 2011 earnings subject to social security taxes stays at the 2009 level: \$106,800.

# Grab Bag of Tax Treats

- Education Credits – beware of calendar vs. school year
  - In senior school year 2010-2011, to be eligible for education credit, make payment for spring semester in 2011.
- Parents can choose not to claim child as dependent in order for child to claim education credit.
  - Makes sense if parents do not get benefit of exemption
  - Makes sense if child has taxes to pay from other income
  - Child loses exemption as well

# Grab Bag of Tax Treats

- Energy Credits
  - In 2010, you can still qualify for a \$1,500 energy efficiency credit for installing things like insulation, replacement windows, etc.
  - Some hybrid car models still qualify for the alternative motor vehicle credit (e.g., Ford).

# Grab Bag of Tax Treats

- Non-cash charitable contributions
  - ‘Painless’ way to save some taxes
  - Salvation Army Fair Market Value Guide:  
<http://www.satruck.org/>
  - Keep good records
  - A \$2,000 donation of clothes in the 25% tax bracket could save you \$500 in taxes.

# Grab Bag of Tax Treats

- Tax Preparer Licensing
  - Before 2011, tax preparers did not have to have a license.
  - Beginning in 2011, every tax preparer must register with the IRS (PTIN).
  - Within 3 years, all tax preparers must pass a test to be licensed and be able to continue preparing taxes.
  - Enrolled Agents and CPAs have already passed exams and are licensed under IRS Circular 230 rules.



# Thank you!

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