

New Tax Legislation: How It Affects You

On December 17, President Obama signed into law new tax legislation that affects all Americans. So what does this tax deal mean to you? We've highlighted the major terms of the law below:

- **A two-year extension of the "Bush tax cuts" for all income levels:** qualified dividends and capital gains will continue to be taxed at 15 percent for all taxpayers (including those with incomes above \$200,000/\$250,000).
- **A two-percent reduction in the Social Security Tax paid by employees for 2011:** Social Security payroll taxes would decrease from 6.2 percent to 4.2 percent for one year. Over the course of the year, the tax cut would save a worker with an annual income of \$50,000 about \$1,000 a year. A worker with \$70,000 in income would save about \$1,400.
- **Acceptance of the Kyl-Lincoln estate tax proposal:** this proposal would only tax estates of \$5 million and above at a maximum rate of 35 percent.
- **A 13-month extension of unemployment benefits:** long-term unemployed Americans would receive unemployment insurance benefits through the end of 2011.
- **Tax credits for homeowners:** a deduction for mortgage insurance premiums will be extended through 2011, but the tax break for homeowners who do not itemize was not extended. Homeowners can also receive a 10 percent credit (up to specific maximum amounts) for energy-efficient home improvements.
- **An extension of IRA charitable contributions:** seniors who are 70 ½ or older can donate up to \$100,000 from their IRAs to charity throughout the next year. While the contribution isn't tax-deductible, the withdrawal won't be included the taxable income for the year and counts towards the required minimum distribution.
- **An extension of valuable education tax breaks:** the American Opportunity Credit, designed to offset the cost of college, has been extended for two years, allowing taxpayers a credit of up to \$2,500 per college student per year. Families can also contribute up to \$2,000 a year to tax-advantaged Coverdell Savings Accounts through 2012 and student-loan borrowers can also deduct up to \$2,500 in interest on federal student loans through 2012.
- **A fix to the alternative minimum tax:** the AMT is a parallel tax system that eliminates many popular deductions and credits, resulting in a higher tax bill. The income threshold was never indexed to inflation and every year, Congress enacts a temporary fix to limit its growth. This new measure would prevent the AMT from spreading rapidly in 2011. Implementing this fix would save more than 25 million taxpayers from paying an average of \$3,000 to \$5,000 in additional taxes this year.

There are many more components to this new bill that every client should be aware of. Proactive tax planning now can help determine what strategies may work best to reduce your future tax obligations.

If you'd like to discuss strategic tax planning in more detail or have questions about which strategies would be best for you, please do not hesitate to call us at First Financial Bank at 800.606.0100.

Investors should always discuss any tax matters with an appropriate tax professional.

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