

Tax Cuts At-A-Glance

On Friday, December 17, 2010 President Obama signed into law the ***“Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010”***.

In an effort to create jobs and boost the economy, a bi-partisan agreement was reached on December 6th, when President Obama announced a tentative deal with congressional Republicans to extend the tax cuts enacted under President Bush in 2001 and 2003. Referred to as the “Bush tax cuts”, the 2001 and 2003 acts had provided significant tax reductions for individual income tax rates, capital gains and dividend rates, and estate tax exemptions and rates. President Obama’s proposal was introduced into legislation on December 9th and quickly moved through both the Senate and the House.

The goal of the legislation is to provide tax relief to American taxpayers for the next two years. The highlights are as follows:

INCOME, LONG-TERM CAPITAL GAIN AND QUALIFYING DIVIDEND TAX:

- Extend the current income tax rates for all levels of income, including those individuals with income greater than \$250,000, through 2012.
- Keep the top capital gain and qualified dividend tax rate at 15% through 2012.
- Provide temporary Alternative Minimum Tax (AMT) relief by extending the amount of income exempt from AMT for both 2010 and 2011.
- Reduce the employee portion of the FICA tax (Social Security) by 2% for 2011.

QUALIFIED CHARITABLE DISTRIBUTIONS:

- Individuals age 70½ or older can make qualified charitable distributions (QCDs) of up to \$100,000 from IRAs to charity on a tax-free basis through 2011.
- In addition, individuals who make a QCD during January 2011 may elect to treat their QCD as made on December 31, 2010, this would also count toward their RMD for 2010.

ESTATE TAX:

- The exemption amount for estate, gift and generation skipping tax (GST) in 2011 through 2012, is \$5 million per person, or \$10 million for married couples.
- An election may be made by executors on behalf of persons who passed away in 2010 to choose between applying the new estate tax rules or the modified carryover basis rules in place for 2010.
- There is a 35% tax rate for estate, gift and GST for 2010 through 2012.
- Beginning in 2011 through 2012, any unused portion of the decedent spouse’s exemption amount is “portable”, and can be carried over and used by the surviving spouse.
- The gift and estate taxes will be reunified in 2011.

As a result of this new law, it is highly recommended that you work with your professional advisors to reassess your existing estate and wealth management plans. RBC Wealth Management does not provide legal or tax advice. However, your RBC Wealth Management financial consultant will be happy to help you conduct a comprehensive review of your current situation, and collaborate with your legal and tax advisors to maximize the benefits available through this legislation.

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