2010 Tax Law Outlook

This year has already fulfilled promises of sweeping tax reform and new laws. The new health care legislation (HR 3590) signed into law on March 23rd has caused great debate and concern over long-term implications. Increasing medical care costs to employers and individuals and proposed fines for non-covered participants will increase up front costs of health care, and should have many citizens and businesses looking for alternative plans. The new law has many vague provisions but it looks like legislators will have until 2014 to finalize the permanent details.

Many tax credits and other favorable deductions are set to expire by year-end 2010. Uncertainty over estate tax rates, alternative minimum tax and related credits, and the overall income tax structure in general has forced many tax preparers to adopt a "wait and see" approach

to planning 2010 federal tax estimates. Roth IRA conversions have a provision that allows taxpayers to recharacterize taxable conversions from traditional IRA plans (until 10/15/11). Many taxpayers are weighing the benefit of paying related taxes on 2010 conversions (spread over 2011-2012) at the new federal income tax rates, versus keeping pre-tax investments, but potentially paying higher taxes in future years when required minimum distribution rules apply.

The Hiring Incentives to Restore Employment Act (HIRE), signed into law by President Obama on March 18, 2010, contains other favorable credits. New hire credits have given relief to employers with regards to matched Social Security tax. The so-called "payroll tax holiday" pertains to the new hiring of previously unemployed workers after 2/3/10 and before 1/1/11. Workers who have not been employed for more than 40 hours during the 60-day period prior to employment may qualify for the tax exclusion. The $1,000 credit for each retained worker will apply for any newly hired unemployed worker who was employed for at least 52 consecutive weeks and whose wages in the last 26 week period is at least 80% of the wages for the first 26 week period. Sound confusing? We have yet to see final language in this new act.

Other continuations of credits in 2010 include the new and repeat homebuyer credit, home energy credit and electric vehicle credit. Alternative minimum tax credit offsets will now include adoption expense credit, child tax credit, retirement saver's credit, and alternative motor vehicle credit, not included in the 2009 list of nonrefundable personal credits.

On April 22nd, the U.S. Senate budget committee approved the continuation of many favorable tax laws, including the 15% maximum tax rate on capital gains and qualified dividends (adjusted gross income below $250,000 for joint returns), "marriage penalty" relief, the continuation of the 10%, 15%, 25% and 28% income tax brackets, and continuation of adoption, dependent care, and other credits. The budget resolution also set basic parameters for other committees to follow, most notably reinstatement of the 2009 estate tax levels for 2010 and 2011, with an individual exemption of $3.5 million, indexed for inflation, and a top rate of 45%. These are just committee resolutions at this point, but full-floor Senate consideration is expected soon.

On the House of Representatives side of the Capitol, May 6th saw the passing of the Home Star Energy Retrofit Act of 2010 (HR5019). The primary focus of the new legislation is to provide a rebate program for energy saving home improvements. The House Ways and Means committee will now consider an Extenders and Job Stimulus bill. The bill is expected to include Build America Bonds provisions, extension of unemployment insurance and the COBRA premium subsidy, among other stimulus provisions.

It seems that every day brings more proposed legislation, promises of stimulus to the economy, and inevitably more uncertainty. The old adage “the only certainty is change” becomes more pertinent as Congress addresses tax legislation which will set the mood for the upcoming decade. Tax incentives and breaks that worked in the first ten years of this century will need to be addressed and considered with factors which were not present in 2000. Let’s hope that wisdom and forethought will prevail and look forward to a healing of our state and national economy and global welfare for all!