

Summary of Changes

INDIVIDUAL TAX RELIEF

Individual, estate and trust tax rates. Lower income tax rates applicable to individuals, estates and trusts are extended for two years. Thus, through 2012, the 10 percent tax rate continues to apply to the first taxable portion of an individual's income, and the 15%, 25%, 28%, 33% and 35% tax rates continue to apply to individuals, estates and trusts.

Marriage penalty relief. Reductions of the marriage penalty in tax rates and the standard deduction are extended for two years. Thus, for joint filers and surviving spouses in 2011 and 2012, the 15% tax bracket and the standard deduction are both twice as large as they are for single filers.

Payroll tax holiday. For 2011, the employee's portion of the old age, survivors, and disability insurance (OASDI) tax and the railroad retirement tax, as well as the OASDI component of the self-employment tax, are all reduced by two percentage points.

Itemized deduction limits. The repeal of the limit on itemized deductions for higher-income individuals is extended for two years, through 2012.

Personal exemption phaseout. The elimination of the phaseout of personal exemptions for higher-income taxpayers is extended for two years, through 2012.

Sales taxes. The election to claim an itemized deduction for state and local sales taxes in lieu of state and local income taxes is extended two years, through 2012.

Teachers' expenses. The above-the-line deduction for eligible educator expenses, which expired at the end of 2009, is extended two years, through 2011.

Mortgage insurance. The deduction for qualified mortgage insurance premiums is extended for one year, through 2011.

Coverdell education savings accounts. Enhancements to Coverdell education savings accounts, including increased contribution limits and a broader category of qualified education expenses, are extended for two years, through 2012.

Excludable educational assistance. An employee's exclusion from gross income and from wages of up to \$5,250 in annual employer-provided education expenses is extended for two years, through 2012.

Federal health scholarships. The exclusion from gross income for certain federal and military medical scholarships that include obligatory service requirements is extended for two years, through 2012.

Student loan interest. Expansions of the student loan interest deduction are extended for two years. Thus, for 2011 and 2012, the deduction is not limited to interest paid during the first 60 months of repayment, and higher deduction phaseouts apply.

Tuition and fees. The above-the-line deduction for qualified tuition and related expenses, which expired at the end of 2009, is extended for two years, through 2011.

Charitable IRA distributions. The exclusion from gross income of qualified charitable IRA distributions, which expired at the end of 2009, is extended for two years, through 2011.

Charitable conservation contributions. The enhanced deduction for charitable contributions of real property for conservation purposes, which expired at the end of 2009, is extended for two years, through 2011.

Earned income tax credit. Several modifications of the earned income credit are extended for two years. Thus, for 2011 and 2012, the phaseout and earned-income rules remain more generous, the credit is not reduced by AMT liability, and the tiebreaker rules and relationship tests are simplified. In addition, the maximum credit and phaseout ranges are increased for taxpayers with at least three qualifying children, and the marriage penalty in the phaseout of the credit is reduced.

Child tax credit. Expansions of the child tax credit are extended for two years. Thus, for 2011 and 2012, the credit remains \$1,000 per qualifying child, a greater portion of the credit is refundable, and the credit is not reduced by AMT liability.

Child and dependent care credit. Increased credit percentages and expense limits for the child and dependent care credit are extended for two years, through 2012.

Adoption credit and excludable assistance. The increases in the maximum adoption credit and excludable employer-provided adoption assistance are extended for two years, through 2012.

American Opportunity credit. The expanded version of the Hope scholarship credit, known as the American Opportunity credit, is extended for two years, through 2012.

Residential energy property credit. A modified version of the residential energy property credit is extended for one year, through 2011.

Health insurance credit. For tax years beginning after 2013, the maximum repayment of advance premium assistance payments that exceed the allowable health insurance premium assistance credit is increased.

Alternative minimum tax. A new AMT patch applies for 2011 and 2012, with increased exemption amounts. The expanded use of nonrefundable personal tax credits against an individual's AMT liability, which expired at the end of 2009, is extended for two years, through 2011.

Transportation fringe benefits. The temporary increase in certain excludable transportation fringe benefits, which expired at the end of 2009, is extended for two years. Thus, for 2010 and 2011, the same limit applies to excludable parking benefits and excludable transit passes and van pool benefits.

Refund offsets. For purposes of refund offsets to collect unemployment compensation debts, the definition of covered unemployment compensation debt is expanded, and the 10-year lookback period and state residency requirements are eliminated.

Federal assistance. For purposes of an individual's eligibility for federal assistance or federally-financed state assistance, federal tax refunds and advance payments of refundable credits received through 2012 are not taken into account as income, or as resources for 12 months after receipt.

Nonresident alien's RIC stock. Rules allowing the exclusion of some stock in a regulated investment company (RIC) from a nonresident alien's gross estate are extended for two years, through 2012.

Indian lawsuit settlement payments. Indians can exclude from gross income amounts received under the settlement of the class action lawsuit alleging federal mismanagement of Indian trust accounts.

CAPITAL GAINS, DIVIDENDS AND INVESTMENT

Capital gains tax rates. The reductions in maximum capital gains tax rates for noncorporate taxpayers are extended for two years. Thus, for 2011 and 2012, the rate is zero for taxpayers in the 10% and 15% tax brackets, and 15% of adjusted net capital gain for other noncorporate taxpayers. The restoration of the special rates for five-year property is postponed until 2013.

Small business stock. The reduction in the amount of certain gains on small-business stock that is treated as an alternative minimum tax (AMT) preference item is extended for two years, through 2012. The 100% exclusion of a noncorporate taxpayer's gain on the sale or exchange of qualified small business stock is extended for one year, through 2011.

Dividend tax rate. The taxation of noncorporate taxpayers' dividends (including those received through mutual funds, REITs and other pass-through entities) as capital gain, rather than ordinary income, is extended for two years, through 2012.

RIC dividends. Special rules for certain regulated investment company (RIC) dividends paid to foreign persons, which expired at the end of 2009, are extended for two years. Thus, for 2010 and 2011, a RIC's interest-related or short-term capital gain dividends paid to nonresident aliens and foreign corporations are exempt from the 30-percent withholding tax.

Empowerment zones. Tax benefits for empowerment zones, which generally expired at the end of 2009, are extended for two years, through 2011.

D.C. tax benefits. The District of Columbia enterprise zone provisions and the D.C. homebuyer credit, which expired at the end of 2009, are extended for two years, through 2011.

GO Zone tax benefits. Several special tax benefits for the Gulf Opportunity (GO) Zone, including the rehabilitation credit, low-income housing credit, tax-exempt financing, and bonus depreciation, are extended.

School bonds. The increase in the amount of public schools bonds that small governmental units may issue without being subject to arbitrage rebate requirements, and the treatment of public school bonds as exempt facility bonds, are both extended for two years, through 2012.

QZABs. The qualified zone academy bond (QZAB) program is extended for one year, through 2011, and the refundable credit for QZABs is repealed for obligations issued under the 2011 limitation.

New York Liberty Bonds. The authorization of \$8 billion in tax-exempt bonds to finance construction and renovation of real estate and infrastructure in the New York Liberty Zone, which expired at the end of 2009, is extended for two years, through 2011.

ESTATE, GIFT, AND GENERATION-SKIPPING TAXES

Estate and GST taxes. For decedents dying and generating-skipping transfers (GSTs) made during 2010, 2011 and 2012, modified federal estate and generation-skipping transfer (GST) taxes are reinstated, as outlined below.

Transfer tax rates. New transfer tax rates apply for decedents dying and GSTs made after 2009 and before 2013. The maximum tax rate is generally reduced to 35%, though the tax rate for GSTs in 2010 is zero. Gift tax rates are no longer separate, but are the same as estate tax rates. The reinstatement of the surtax on certain estates and gifts that exceed \$10 million is postponed until 2013.

Transfer tax exclusion and exemption amounts. The applicable exclusion amount increases to \$5 million for estates of decedents dying and GSTs made after 2009 and before 2013, and for gifts made after 2010 and before 2013. A decedent's estate can elect to let the surviving spouse's estate utilize the unused portion of the deceased spouse's applicable exclusion amount.

QFOBIs. The reinstatement of the qualified family-owned business interest (QFOBI) deduction is postponed until 2013.

State death taxes. The treatment of estate, inheritance, legacy, and succession taxes paid to any state or the District of Columbia as a tax deduction, rather than a tax credit, is extended for two years, through 2012.

Qualified conservation easements. The easing of location requirements for an estate's excludable qualified conservation easement is extended for two years, through 2012.

Basis for property acquired from decedent. Generally, property received from decedents dying after 2009 receives a stepped up (or down) basis, but the estate of a decedent dying in 2010 can elect to apply the modified carryover basis rules instead. Reporting requirements and penalties are adjusted accordingly. Several provisions related to the modified carryover basis rules are repealed.

Exclusion of gain on principal residence. For estates, heirs and qualified revocable trusts of decedents dying in 2010, gain on the sale of the decedent's principal residence can be excluded from gross income if the estate elects to apply the modified carryover basis rules. If the estate does not make the election, or if the decedent dies after 2010, gain on the sale of the decedent's principal residence is not excludable.

Gain on distributions of appreciated property. Only estates of decedents dying in 2010 that elect to apply the modified carryover basis rules are subject to the general limitation on the recognition of gain on appreciated carryover basis property in satisfaction of a pecuniary bequest or an equivalent distribution from a trust.

GST rules. Several GST rules are extended for two years. Thus, for 2011 and 2012, provisions remain in effect with respect to deemed and retroactive allocations, qualified severance of a trust, clarification of valuation rules applicable to the inclusion ratio, and relief from late GST allocations and elections.

Estate tax payments. Rules expanding eligibility for making deferred and installment estate tax payments are extended for two years. Thus, for decedents dying in 2011 and 2012, deferred

payments are available if the decedent's closely held business had as many as 45 partners or shareholders. For purposes of installment payments, stock in qualifying lending and financing entities may continue to be treated as stock in an active trade or business, and only the stock of holding companies must be non-readily tradable.

BUSINESS DEDUCTIONS AND CREDITS

Bonus depreciation. The additional depreciation allowance is extended for two years to apply to qualifying property placed in service before 2013, and the bonus depreciation allowance rate is increased to 100 percent for certain qualified property acquired and placed in service before 2012. These placed-in-service deadlines are extended for one year for property with longer production periods and certain noncommercial aircraft. Corporations may elect an accelerated AMT tax credit in lieu of this extended bonus depreciation allowance.

Code Sec. 179 expensing. For tax years beginning in 2012, the dollar limit for the Code Sec. 179 expense election is increased to \$125,000, and the investment limit is increased to \$500,000. Rules applicable to off-the-shelf computer software and election methods are also extended for one year, through 2012.

Qualified leasehold and retail improvements; restaurant property. The 15-year recovery period for certain types of property, which expired at the end of 2009, is extended for two years. Thus, qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property placed in service before January 1, 2012 can be depreciated over 15 years.

Motorsports entertainment complexes. The seven-year recovery period for motorsports entertainment complexes, which expired at the end of 2009, is extended for two years, through 2011.

Indian reservation property. Accelerated depreciation periods for qualified Indian reservation property, which expired at the end of 2009, are extended for two years, through 2011.

Film and television productions. The special expensing provision for qualified film and television productions, which expired at the end of 2009, is extended for two years, through 2011.

Mine safety. The election to expense 50% of the cost of advanced mine safety equipment, and the credit for qualified mine rescue training team expenses, which both expired at the end of 2009, are extended for two years, through 2011.

Brownfield remediation costs. The election to deduct environmental remediation costs, which expired at the end of 2009, is extended for two years, through 2011.

R&D credit. The research and development credit, which expired at the end of 2009, is extended for two years, through 2011.

Employer-provided child care. The credit for an employer's qualified expenses for employee child care is extended for two years, through 2012.

Work opportunity credit. The work opportunity credit is extended for four months, through December 31, 2011.

Employer's differential wage credit. The credit for employers that pay differential wage payments, which expired at the end of 2009, is extended for two years. Thus, small businesses with fewer than 50 employees can claim a credit equal to 20 percent of qualified differential wages paid to qualified workers called up for active military duty through 2011.

New markets credit. The new markets tax credit, which expired at the end of 2009, is extended for two years, through 2011.

Indian employment credit. The Indian employment tax credit, which expired at the end of 2009, is extended for two years, through 2011.

Railroad track maintenance credit. The railroad track maintenance credit is extended for two years, through 2012.

American Samoa. The credit for qualifying possessions corporations that are existing claimants operating in American Samoa, which expired at the end of 2009, is extended for two years, through 2011.

New energy efficient homes. The builder's credit for the construction or manufacture of new energy efficient homes, which expired at the end of 2009, is extended for two years, through 2011.

Grants in lieu of energy credits. The authority of the Secretary of the Treasury to issue grants in lieu of the renewable electricity production credit and the energy credit is extended for one year, through 2011.

Energy-efficient appliances. The manufacturer's credit for energy efficient dishwashers, clothes washers and refrigerators is extended for one year, through 2011, with modifications to the credit amount, efficiency requirements and limitations.

Biodiesel, renewable diesel and alternative fuels. Several tax benefits for diesel and alternative fuels that expired in 2009 are extended for two years, through 2011. These include the per-gallon incentives for biodiesel, agri-biodiesel, and renewable diesel, as well as the alternative fuel credit, the alternative fuel mixture credit, and the related outlay payment provisions for several types of fuels.

Alcohol fuels. The income tax credit, excise tax credit, and outlay payment provisions for alcohol fuels and alcohol fuel mixtures are extended for one year, through 2011.

Alternative fuel vehicle refueling property. The alternative fuel vehicle refueling property credit is extended for one year, through 2011.

Refined coal production facilities. The credit for refined coal facilities, which expired at the end of 2009, is extended for two years, through 2011.

Percentage depletion for marginal wells. The suspension of the percentage depletion limitation for oil and gas produced from marginal properties is extended for two years, through 2012.

Dispositions to implement electric restructuring. The special gain recognition rule for qualifying electric transmission transactions that implement Federal Energy Regulatory Commission or state electric restructuring policy, which expired at the end of 2009, is extended for two years, through 2011.

S corporation charitable donations. Special rules governing the effect of an S corporation's charitable donations on shareholders' bases in their stock, which expired at the end of 2009, are extended for two years. Thus, for 2010 and 2011, an S corporation's charitable contribution reduces a shareholder's basis in the stock by the shareholder's share of the adjusted basis of the contributed property.

Food, book and computer donations. The enhanced deduction for charitable contributions of food inventory, and for corporate contributions of book inventory and computers, which all expired at the end of 2009, are extended for two years, through 2011.

CORPORATIONS, TRUSTS AND OTHER PROVISIONS

Accumulated earnings tax rate. The reduction in the tax rate on corporate accumulated earnings to 15% is extended for two years, through 2012.

Personal holding company tax rate. The reduction in the tax rate on personal holding companies to 15% is extended for two years, through 2012.

Collapsible corporations. The repeal of the collapsible corporation rules is extended for two years. Thus, for 2011 and 2012, shareholders' gain on collapsible corporation stock, as well as certain corporate distributions, is treated as capital gain, rather than ordinary income.

Alaska Native Settlement Trusts. Several special rules for calculating, taxing and reporting the income of Alaska Settlement Trusts and their beneficiaries are extended for two years, through 2012.

Exempt organizations. Special rules for certain unrelated business income of tax-exempt organizations, which expired at the end of 2009, are extended for two years. Thus, for 2010 and 2011, qualifying payments from an exempt organization's controlled entity are excludable from the organization's unrelated business income.

FIRPTA distributions. Special rules for certain regulated investment company (RIC) distributions, which expired at the end of 2009, are extended for two years. Thus, for 2010 and 2011, qualified investment entities for purposes of the Foreign Investment in Real Property Tax Act (FIRPTA) include RICs that are U.S. real property holding companies (USRPHCs).

Subpart F exceptions. Exceptions from subpart F for several types of income, which expired at the end of 2009, are extended for two years. Thus, for 2010 and 2011, active financing income and certain insurance and insurance investment income can be excluded from subpart F income.

Payments to related CFC. Look-through treatment for certain payments that a controlled foreign corporation (CFC) receives from a related corporation, which expired at the end of 2009, is extended for two years, through 2011.

DPAD and Puerto Rico. For purposes of the domestic production activities deduction (DPAD), the treatment of Puerto Rico as part of the United States in determining domestic production gross receipts, which expired at the end of 2009, is extended for two years, through 2011.

Rum excise tax. The temporary increase in the cover over amount for certain rum imports, which expired at the end of 2009, is extended for two years, through 2011.