

Two Year End Little Gifts for you:

If you'd like a VERY quick reminiscence of the more dramatic news stories of 2010, here's a one minute video that includes some remarkable photographs:

<http://www.reuters.com/news/video/story?videoId=168879529&videoChannel=2602> .

If, after that, you need some comic relief, you can relax with the most-watched YouTube video of all time:

<http://www.youtube.com/watch?v=dMH0bHeiRNg> .

Not included in the breaking news story montage is the recent passage--and presidential signing--of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010--an \$858 billion package of renewed tax cuts, unemployment benefits and fixes to the uncertainty surrounding the estate tax and AMT. Economists expect the bill to raise U.S. economic growth by one percentage point in 2011, perhaps definitively avoiding a double-dip recession. But the bill will also raise America's \$14 trillion government debt.

The bill makes tax planning a bit easier for all of us by freezing current income tax rates for the next two years. Under the EGTRRA 2001 act, taxes on dividends and capital gains were set to jump from a current 15% all the way up to 40%, and the highest ordinary income tax rates were set to rise from 35% to 39.6%--causing a lot of us to look hard at shifting capital gains and income into the 2010 tax return. Interestingly enough, after the legislation that keeps our tax status quo, U.S. tax rates are now the third-lowest of all 34 members of the Organization of Economic Cooperation and Development (OECD). (Only Mexico and Chile have lower rates; France, as you might expect, has the highest rates.)

The bill will also put money in the hands of taxpayers starting in January, when the FICA payroll tax which funds the Social Security retirement system is reduced from 6.2% to 4.2%. Of course, FICA only applies to the first \$107,000 of income--and the bill provides no reduction in the matching FICA tax for employers; nor does it reduce the 2.9% (1.45% each for employer and employee) Medicare tax collected on all income. Congress also extended the \$2,500 college tax credit and \$1,000 child tax credit, both of which phase out at higher incomes, and the bill repeated the annual ritual of rescuing middle-class taxpayers from having to pay taxes under the alternative minimum tax.

The unemployed will receive 13 additional months of unemployment insurance benefits, and there was a grab-bag of provisions for businesses, including the ability to write off, for tax purposes, 100% of capital investments in 2011 and 2012. The research and development tax credit was extended, and so too was a tax credit for biodiesel fuel manufacturers, a higher excise tax rebate for rum distilled in Puerto Rico and the U.S. Virgin Islands, and an economic development credit to American Samoa.

One of the most complex and interesting provisions involves the estate tax. Under EGTRRA, the estate tax--which had been phased out all the way to zero in 2010--was set to return with a vengeance in 2011: anything over \$1 million left to heirs would be subject to an estate tax of up to 50% at the top marginal rate.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 sets a new exclusion amount of \$5 million per spouse--\$10 million for couples--and anything received by heirs above that will be taxed at 35%. The gift tax exemption has been raised from \$1 million per spouse to \$5 million; persons who had already given at the old limit will be able to pass on an additional \$4 million, either directly or in trust.

The catch is that everything in this tax bill--all of these amounts and rates--will expire in two years, so that in 2013, unless Congress acts again, the ordinary income, dividend, capital gains, estate tax and FICA taxes will all go up to the rates they were in 2002. Between now and then, you can expect a lot of talk in Congress and from the White House about "reforming" or "simplifying" our byzantine tax system. I noted this morning in the LA Times that there is a push on

to eliminate the Home Mortgage Deduction and replace it with a tax credit while simultaneously reducing tax rates. More on this later.

Tax package provisions (general): <http://www.reuters.com/article/idUSTRE6BG5IS20101217>

<http://www.reuters.com/article/idUSTRE6BG3CJ20101217>

Third-lowest among OECD members: <http://www.reuters.com/article/idUSTRE6BE3XT20101215>

Additional provisions: http://articles.cnn.com/2010-12-14/politics/tax.bill.other.items_1_tax-bill-sweeteners-bush-tax-cuts?s=PM:POLITICS

Estate tax provisions: <http://www.nytimes.com/2010/12/18/your-money/taxes/18wealth.html?src=me&ref=your-money>