

Impending Tax Increases

If Congress Takes No Action....

April 2010

Unless Congress takes action, the following tax increases* will automatically occur for the following years:

2010:

- The exemption for the Alternative Minimum Tax (AMT) will decrease from \$46,700 to \$33,750 for single filers and from \$70,950 to \$45,000 for married couples filing jointly.
- Taxpayers will not be allowed to deduct their state and local general sales taxes from their federal income tax.
- Businesses will not be able to claim a tax credit for research, experimentation, and development activities.
- Taxpayers will not be able to claim a deduction for qualified tuition and related expenses.
- School teachers will no longer be able to write off books, supplies and other equipment that they purchase with their own money for the classroom.
- Five year depreciation of farm business machinery and equipment will expire.
- Business property on Indian reservations will no longer be depreciated at an accelerated rate.
- Donations of books to public schools (K-12) will no longer be eligible for an enhanced charitable deduction.
- Corporate contributions of computer equipment for educational purposes will no longer be eligible for an enhanced charitable deduction.
- The minimum required distribution rules for IRAs and defined contribution plans will no longer be waived.
- Tax-free distributions from individual retirement plans for charitable purposes will no longer be allowed.
- The tax credit for first-time DC homebuyers will expire.
- Tax incentives for investment in DC, including the DC Zone employment tax credit, will expire.
- “Renewal Community” tax incentives will expire.
- The net operating loss (NOL) carryback period for small businesses will decrease from 5 years to 2 years.
- The first-time homebuyer credit will expire at the end of April 2010.

2011:

- The marginal income tax rates will increase as follows:
 - 35% bracket will increase to 39.6%
 - 33% bracket will increase to 36%
 - 28% bracket will increase to 31%
 - 25% bracket will increase to 28%
 - 10% and 15% brackets will condense to 15%
- Dividends will no longer be taxed at the capital gains rate for individuals, thereby increasing the double taxation of dividends by as much as 164%.
- The personal capital gains tax will increase to 20% and 10% (from 15% and 5%).
- The child tax credit will decrease from \$1,000 to \$500.
- The standard deduction for couples as a percentage of the standard deduction for singles will decrease from 200% to 167%--restoring the marriage penalty.
- The top end of the 15% marginal income tax bracket for couples as a percentage of the top end for singles will decrease from 200% to 167%--restoring the marriage penalty.
- The "death" tax using the "stepped up" basis will return with a 55% maximum rate (including surtax) and a \$1 million exemption, after years of decreasing "death" tax rates, increasing exemptions, one year using the "carryover" basis to calculate the tax due, and one year of total elimination (2010).
- The Section 179 business expensing cap will decrease from \$250,000 to \$125,000 (plus inflation after 2008), and the starting point for the phase-out of this deduction will decrease from \$800,000 to \$500,000.
- The dependent care tax credit will decrease from \$3,000 to \$2,400.
- The American Opportunity Tax Credit will expire.
- No longer will individuals be able to receive a credit to purchase energy efficient home appliances.
- The tax credit to hire unemployed veterans and disconnected youth will expire.
- The Work Opportunity Tax Credit, which allows employers to credit up to 40% of the first-year wages of a new employee, will expire.
- The \$400 "Making Work Pay" Tax Credit will expire.

2012:

- The adoption tax credit will decrease from \$13,170 to \$5,000.
- The credit for electric drive motorcycles, three-wheeled vehicles, and low-speed vehicles will expire.
- The conversion credit for plug-in electric vehicles will expire.

2013:

- The tax credit for cellulosic biofuel producers will expire.
- The tax credit for the production of Indian coal will expire.
- The election to claim the energy credit in lieu of the electricity production credit for wind facilities will expire.
- The special depreciation allowance for cellulosic biofuel plant property will expire.

*This list is not exhaustive. For a more exhaustive list, see this webpage:

<http://www.jct.gov/publications.html?func=startdown&id=3646> or

http://www.cbo.gov/ftpdocs/108xx/doc10871/ExpiringTaxProvisions_2010-2020.pdf

Sources for the above information: Joint Committee on Taxation and CBO.