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GES NewsFlash

United States – Tax Cuts Extended: Implications for Individual Taxpayers

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Summary

Last week, Congress approved and President Obama signed legislation (The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010) that extends prior tax cuts approved under President Bush for an additional two years, through 2012 (*see attached for a detailed summary of the legislation*). This legislation represents a compromise between the President and Congressional Republicans that extends tax cuts for all taxpayers, while also extending unemployment benefits for unemployed workers. The legislation includes, among other things, an extension of individual income tax rates through 2012, an alternative minimum tax patch for 2010 and 2011, adjustments to the estate tax for 2010 through 2012, a one-year reduction in the employee share of social security withholding, and other extensions of personal and business deductions. Some of the key provisions impacting individual taxpayers are summarized below.

Extension of individual income tax rates

The legislation effectively extends current tax rates for an additional two years, through 2012. Under current law, there are six individual income tax brackets, ranging from 10 percent to 35 percent. Without this legislation, the rates were scheduled to increase in 2011 to five brackets, ranging from 15 percent to 39.6 percent. Now, the rates will remain at their current level for 2011 and 2012. In addition, tax rates on long-term capital gains and qualified dividends will remain at their current rate of 15 percent.

Alternative minimum tax relief

As part of the legislation, Congress extended alternative minimum tax (AMT) relief for 2010 and 2011. Without adopting this "patch" for AMT, the AMT exemption would have reverted to the exemption levels in 2001, which would have resulted in an additional 20-25 million taxpayers becoming subject to the AMT. It is important to note that this change only affects 2010 and 2011 tax years, not 2012, meaning that there will be a continued focus on the AMT for the coming year.

One Year Payroll Tax Cut

The legislation provides a reduction in the employee share of the OASDI portion of social security taxes for calendar year 2011 alone. Under current law, the tax rate applicable to employees is 6.2 percent on income up to the taxpayer's taxable wage base of $106,800, and an additional 6.2 percent paid by the employer. Self-employed individuals pay both the employer and employee portions so the tax rate applicable to self-employed individuals is 12.4 percent. The new law lowers this percentage on the employee portion only by 2 percent, to 4.2 percent for employees and 10.4 percent for self-employed. For individuals earning the taxable wage base or more, this results in a reduction in tax of $2,136.

Other changes

The legislation also extends many income tax credits and deductions that would otherwise have expired. These include, among others, the child tax credit, dependent care credit, education tax incentives and state and sales tax deductions. In addition to the income tax changes, the legislation also changes the estate tax law by lowering the top estate tax rate to 35 percent and increasing the exemption for estate taxes to $5 million per spouse. Many deductions impacting businesses were extended as well.

Deloitte's View

Over the last year, there has been much uncertainty among taxpayers regarding what their tax rates would be and what impact a potential increase in tax rates would have on the economy and their cash flow. This uncertainty existed both for individual taxpayers as well as companies operating tax equalization programs for their international assignees. At least through 2012, this legislation gives taxpayers a measure of certainty regarding the tax law.

With this extension in the tax cuts, tax planning that has been in place for the last several years can remain in place for the next two years. This applies to the individual taxpayers, as well as their employers. Hypothetical tax liabilities for assignees should remain consistent through 2012, allowing for ongoing budgeting and planning for international assignment programs.

While this does provide some relief for the near-term, taxpayers and companies must continue to look to 2013 and the potential tax landscape that may exist at that time.

People to Contact

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