



## Extension of Popular Individual and Business Tax Breaks will Require Legislative Action

As Legislators continue to wrestle over the debt crisis and the U.S. tax system in general, many popular tax benefits and incentives expire on December 31, 2011. Their fate for future tax years is speculative at best, given that 2012 is an election year and debates rage on about the future of the U.S. tax system.

We count at least 50 individual and business provisions set to expire as we sip our New Year's Eve cocktails, but list here only 10 which we feel are most important to our clients and friends:



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1. Certain real estate improvements are eligible for a much faster depreciation life, generally 15 years if placed in service by December 31, 2011. These same assets must be depreciated over 39 years if placed in service after this date.
2. Certain categories of new business property are eligible for an immediate depreciation write off (100% bonus depreciation), while the same asset purchased and in service on January 2, 2012 is eligible for a 50% bonus depreciation deduction.
3. Another depreciation provision, the Section 179 expensing election, is reduced from \$500,000 for 2011 tax years (including up to \$250,000 of eligible real property) to \$139,000 for 2012 tax years. Qualified assets no longer include qualified real property.
4. An annual victim many times restored, the credit for research and development expenses expires on December 31, 2011.
5. An incentive to hiring workers from targeted groups, the Work Opportunity Tax Credit expires except for hiring of certain veterans. Given the state of the economy, this incentive may be revived.

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6. For 2011, an employee's or self-employed individual's share of Social Security taxes was reduced from 6.2% to 4.2%. If you have been watching the news, the battle over the extension of this tax holiday has been drawn out. We think it survives for 2012.
7. Taxpayers in states such as Florida pay no state income tax, and instead may claim a sales tax deduction. The deduction expires after 2011.
8. The Alternative Minimum Tax exemption amount is reduced to \$45,000 for married taxpayers as the clock strikes midnight. Usually, a temporary patch is passed late in the year. However, this reduced amount could result in increased 2012 estimated tax payments for many individuals.
9. Taxpayers acquiring stock in certain C Corporations may be eligible to exclude 100% of the gain from the sale of the stock if it is held for 5 years. The stock must be purchased or acquired by December 31, 2011.
10. Taxpayers age 70 1/2 or older may contribute up to \$100,000 to a charity from their Individual Retirement Account in a trustee to trustee transfer. This could result in significant Federal and State tax savings. The transfer must be complete by December 31, 2011. Additionally, contributions of "qualified conservation property", which enjoy a favorable carryover period if limited in the year of the contribution, must be completed by the end of the current year.

We will keep you posted on any developments with respect to proposed tax matters in future editions. In the interim, please feel free to contact us to discuss any these or any other matters.