How The New Tax Law May Affect You

By Cecil Woodard, MBA, CPA, Anne Arundel Accounting and Tax

After weeks of heated Congressional negotiations on Capitol Hill, President Obama has signed the tax bill into law. The new law temporarily extends the 2001 and 2003 federal income tax rate cuts, extends unemployment insurance for 13 months, provides new payroll tax breaks, reinstates the estate tax, and more.

The good news: The new law will give taxpayers a bit of clarity, and an opportunity to plan with relative confidence knowing the playing field will not change dramatically, at least for two years. Beyond that, an increase in the Medicare tax for upper-income Americans is slated for 2013. More changes are likely in the future, given the pressure to raise revenues to reduce the deficit, and talk of sweeping tax reform.

Passage of this tax law ensures that individuals at all income levels will not face an automatic tax increase in January. The law provides taxpayers with some certainty, but Congress will be back at the table having the same debate in two years.

So, what can you do now? Let's take a look at how the new law may impact you in four key areas: take-home pay, investments, estate and gifting plans, and, if you're over age 70½, Required Minimum Distributions (RMDs) from your IRA. Here is what's changed and what you should be thinking about for both year-end and longer-term tax planning.

Take-Home Pay

Payroll tax relief: There is a two percentage point reduction in an employee's share of the Social Security portion of FICA tax, from 6.2 percent to 4.2 percent in 2011. So, if you make $80,000 a year you could take home an additional $1,600 in 2011.

Your Investments

The top rate on long-term capital gains will remain at 15 percent for the next two years. The top rate for qualified dividends — those on certain stocks held longer than 60 days — will remain at 15 percent for the next two years.

Estate Planning And Gifting

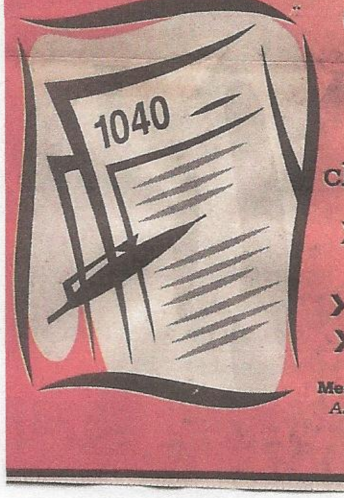
The new law reinstates the estate tax in 2011 and 2012 at a maximum rate of 35 percent with a $5 million exemption per person. This compares to a 45 percent maximum rate and $3.5 million exclusion in 2009. The new rules will sunset after 2012. Beginning in 2013, there will be a $1 million per person exclusion with a 55 percent estate and gift tax rate unless further legislation is enacted.

Retirees

The new tax law does not extend the 2009 suspension of MRDs. Retirees are generally required to take MRDs from their retirement accounts for the year in which they turn 70 1/2, and all subsequent years, by December 31. Failure to comply with this IRS regulation could result in a 50 percent penalty on the amount that should have been distributed.

Cecil Woodard, MBA, CPA is a former IRS Agent and retired DOD (Fort Meade) auditor. He has been serving the tax and accounting needs of small businesses and individuals in Anne Arundel County for 25 years.

Current & Delinquent Tax Returns Prepared by Former IRS Agent



Cecil Woodard, MBA, CPA

410-987-8605

clwooda@verizon.net

› Free Review of Prior Years' Returns
› Free Electronic Filing
› 40 Years' Experience

Member: *Chamber of Commerce, Maryland Association of CPAs and Phoenix Society*