The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

Neil E. Harl
Iowa State University, harl@iastate.edu

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The highly controversial Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, hereinafter referred to as the Tax Relief Act, which involved major political compromises, was signed into law on Dec. 17, 2010. Although the legislation is only 33 pages in length, the budget implications are substantial and the provisions far-reaching. A brief summary of the more important provisions to the agricultural sector is provided here. A more detailed discussion of the provisions which were extended is published in volumes 4-8 of *Agricultural Law* and volumes 1 and 2 of *Farm Income Tax Manual*.

**Federal estate, gift and generation-skipping tax provisions**

**Federal estate tax for 2011 and 2012**

As is widely known, the federal estate tax was repealed in 2001 effective for deaths after Dec. 31, 2010, for a one-year period, at a time when the applicable credit amount was set at $3.5 million and the maximum rate was 45 percent. However, the tax was scheduled to re-emerge Jan. 1, 2011 with an applicable credit amount of $1 million and a maximum rate of 55 percent.

The Tax Relief Act approved an applicable credit amount (which equals the applicable exclusion amount) of $5 million for 2011 and 2012 (with inflation adjustment for 2012) and a maximum estate tax rate of 35 percent.

The 2010 Act enables the surviving spouse to utilize the remaining applicable credit (or applicable exclusion amount) of the last deceased spouse (dying after 2010) of the surviving spouse. That could mean up to a $10 million applicable credit amount for the surviving spouse (if the last deceased spouse used none of the applicable credit amount available to that individual). The executor must elect and the election must be on a timely-filed federal estate tax return.

**Election and basis determination for deaths in 2010**

The Tax Relief Act did not make the 2010 enactment retroactive to cover deaths in 2010, as had been widely discussed, but the Tax Relief Act did authorize an election for deaths in 2010 relative to income tax basis determination. Under that provision, for decedents dying in 2010, the executor of the estate can elect (for property acquired or passing from a decedent within the meaning of I.R.C. § 1014(b) – (1) to apply the estate tax rate and applicable credit amount for 2011 with a new basis at death (stepped up or down, as the case may be) or (2) to apply the estate tax rules for 2010 (no tax) and use the modified carryover basis rules applicable to deaths in 2010.

For deaths in 2010, the dates returns are due, the dates payments of tax are due and the dates making disclaimers by reason of death are set not earlier than nine months from the date of enactment (Dec. 17, 2010). The income tax basis for property passing at the death of a decedent in 2010 is set at death in 2010, not in some later year when the property is sold as some have argued.

**Federal gift tax for 2011 and 2012**

The Tax Relief Act reunifies the federal estate and gift tax, beginning in 2011. Therefore, the $1 million applicable exclusion amount for federal gift tax is no longer available after 2010 and gifts beyond the annual exclusion, charitable deduction, transfers for educational expenses and medical expenses, and loans of artworks are subtracted from the $5 million applicable credit amount for estate and gift tax purposes.

**Generation-skipping tax for 2011 and 2012**

The Tax Relief Act reinstates the generation-skipping transfer tax and provides for a $5 million exemption for 2010 and later years which equals the applicable credit for estate tax purposes with a tax rate of zero percent for 2010. The zero rate for 2010 transactions suggests that the generation-skipping tax was in effect for 2010, notwithstanding the language in the legislation repealing (and reinstating) federal estate tax and generation-skipping transfer tax. The Economic Growth and Tax Relief Reconciliation Act of 2001 states –

“This chapter [Chapter 13, Generation-Skipping Transfers] shall not apply to generation-skipping transfers after December 31, 2009.”

The same legislation states, in Section 901(a)(2) –

“All provisions of, and amendments made by, this Act shall not apply -- . . . estates of decedents dying, gifts made, or generation skipping transfers, after December 31, 2010.”
Thus, a reasonable conclusion could be reached that the
generation skipping transfer tax was repealed for the
year 2010.

The conclusion that the drafters believe that the gener-
ation skipping transfer tax was retroactively reenacted
effective in 2010 is buttressed by Section 301(d)(2) of
the Tax Relief Act which states –

“GENERATION-SKIPPING TAX. -- In the case
of any generation-skipping transfer made after De-
cember 31, 2009, and before the date for filing any
return under section 2662 of the Internal Revenue
Code of 1986 (including any election required to be
made on such a return) shall not be earlier than the
date which is 9 months after the date of the enact-
ment of this Act.”

Moreover, Sections 301(a) of the Tax Relief Act pro-
vides as follows –

“(a) IN GENERAL. – Each provision of law
amended by subtitle A or E of title V of the Eco-
nomic Growth and Tax Relief Reconciliation Act of
2001 is amended to read as such provision would
read if such subtitle had never been enacted.”

At stake is the tax liability in later years (after 2010)
for distributions from GST transfers in 2010. The issue
of constitutionality for a retroactive enactment may
be raised of a tax provision on which taxpayers had
planned and executed transfers in reliance on the repeal
language believed to be effective in 2010.

The GST rate equals the highest estate and gift tax rate
for 2011 and 2012 (35 percent).

Changes in depreciation

Expense method depreciation

The Small Business Jobs Act of 2010 increased the
expense method depreciation allowance to $500,000
(with no inflation adjustment) with an investment limit
phase-out of $2 million for tax years beginning in 2010
and 2011. The Tax Relief Act provides for a $125,000
limit (indexed for inflation) for tax years beginning in
2012 (with a phase-out of $500,000) and $25,000 after
2012 (with a phase-out of $200,000).

Computer software eligibility for expense method
depreciation is extended through 2012. To be eligible,
the software must be Section 1245 property and be
acquired for use in a trade or business.

Bonus depreciation

The Tax Relief Act increased 50 percent bonus
depreciation to 100 percent for qualified investments
The Act also authorizes 50 percent bonus depreciation
for qualified property placed in service after Dec. 31,

Depreciable real estate – 15-year property

The Tax Relief Act specifies that qualified leasehold
improvements, qualified restaurant buildings and
improvements and qualified retail improvements are
15-year property if placed in service before Jan. 1,
2012.

Other provisions

Payroll tax reduction

The Tax Relief Act reduces the employee share of
the OASDI portion of social security taxes from 6.2
percent to 4.2 percent. That is for wages earned in cal-
endar year 2011 and is up to the taxable wage base of
$106,800. For self-employed individuals, the reduced
rate is 10.4 percent on self-employment income up to
the threshold of $106,800.

Alternative minimum tax

For 2010, the Tax Relief Act increases the AMT ex-
emption amount to $47,450 for individual taxpayers,$72,450 for married taxpayers filing jointly and sur-
viving spouses and $36,225 for married couples filing
separately. For 2011, the figures are $48,450, $74,450
and $37,225, respectively.

Capital gains and dividends

The Tax Relief Act continues for two years the rates
in effect for 2010 (a maximum rate of 15 percent and
zero percent for taxpayers in the 10 and 15 percent tax
brackets). The Act also extends for one year, through
2011, the 100 percent exclusion of gain from qualified
small business stock held for more than five years for

Tax-free distributions from individual retirement
plans for charitable purposes

The Tax Relief Act extended the tax-free distributions
of up to $100,000 from individual retirement accounts
by individuals age 70 ½ or older without triggering
income and without taking a charitable deduction
through 2011. A taxpayer can elect for qualified distri-
butions after Dec. 31, 2010 and before Feb. 1, 2011
to be deemed to be 2010 distributions.
Contributions of real property for conservation purposes
The Act extends the deduction for “qualified conservation contributions” for two additional years, through 2011 and extends the rule for qualified farmers and ranchers for two more years, also.

Expensing of environmental remediation costs
The Tax Relief Act extended the election to treat “qualified environmental remediation expenditures” as currently deductible, through 2011.

Work Opportunity Credit
The Act extends, through Dec. 31, 2011, for those who begin work for the employer after the date of enactment of the Act (Dec. 17, 2010), the Work Opportunity Tax Credit. However, the Act did not extend the authority for the two categories of target groups which were added in 2009, unemployed veterans and disconnected youth (ages 16 through 24). I.R.C. § 51(d)(14) authorized the credit for the two categories of targeted groups added in 2009.

Incentives for biodiesel and renewable diesel
Credits for biodiesel and renewable diesel used as fuel were extended through 2011. The excise tax credits and outlay payments for biodiesel and renewable diesel fuel mixtures were also extended through 2011 with a procedure for allowing payments for 2010.

Extension of provisions for alcohol used as fuel
The Act extends the income tax credit for alcohol used as fuel, the reduced amount for ethanol blenders, the excise tax for alcohol used as fuel, the payment for alcohol fuel mixtures and the extension of additional duties on ethanol, for one year, through 2011.

Enhanced charitable deduction for food inventory
The Tax Relief Act extends the enhanced charitable deduction for food inventory through 2011.

Itemized deduction limitation
The Act continues the repeal of the limitation on itemized deductions which was in effect in 2010 for two additional years, through Dec. 31, 2012. This is important for high income taxpayers and encourages charitable giving, among other itemized deductions.

Personal exemption phase-out
The Tax Relief Act also extends repeal of the personal exemption phase-out for two years, through 2012.

Basis adjustment of stock of S corporations for charitable contributions
The reduction in stock basis in an S corporation equal to the shareholder’s pro rata share of the adjusted basis of property contributed to a charitable organization is continued for two more years, through 2011.

Energy provisions
The Tax Relief Act contains several provisions which have provided energy tax incentives and those are continued for one or two years including the non-business energy property credit under I.R.C. § 25C with modifications, including a return to pre-ARRA standards; a new energy efficient home credit for qualified builders and manufacturers (for homes purchased before 2012); and the energy efficient appliance credit. The latter includes credits, applicable to appliances produced after Dec. 31, 2010, for $25, $50 and $75 on dishwashers, based on kilowatt usage; a credit for clothes washers of $175 and $225 based on energy and water consumption; and a credit for $150 and $200 for refrigerators based on rated energy usage.

Other provisions
The Act extends, for two years, the child tax credit; the earned income tax credit; the American Opportunity Tax Credit; state and local sales tax deduction; higher education tuition deduction; and the teachers’ classroom expense deduction. The Act also extends the adoption credit, the dependent care credit, employer-provided child care credit, the educational assistance exclusion, the student loan interest deduction and the Coverdell education savings account contributions, all under the general continuation provisions of the Act.

Updates, continued from page 1

Delayed and Prevented Planting Provisions – A1-57 (4 page)
Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) – A1-58 (2 pages)
Cash Corn and Soybean Prices – A2-11 (4 pages)

Please add these files to your handbook and remove the out-of-date material.

Internet Updates
The following updates have been added on www.extension.iastate.edu/agdm.

Checklist for Iowa Agricultural Employers – C6-58 (2 pages)

Decision Tools and Current Profitability
The following tools have been added or updated on www.extension.iastate.edu/agdm.

Corn Profitability – A1-85
Soybean Profitability – A1-86
Ethanol Profitability – D1-10
Biodiesel Profitability – D1-15
Returns for Farrow-to-Finish – B1-30
Returns for Weaned Pigs – B1-33
Returns for Steer Calves – B1-35
Returns for Yearling Steers – B1-35