

Congress Passes Middle Class Tax Relief Act of 2010

Highlights of the Act

- Continuation of 2009 income tax rates, including the preferential 15% tax rate for qualified dividends and long-term capital gains
- Decreased withholding of Social Security from wages and self-employment income for 2011
- Ability to make non-taxable distributions from IRAs to charity in 2010 and 2011
- AMT "relief" for most taxpayers through 2011
- Ability to deduct state sales tax as an itemized deduction through 2011
- Enhanced business capital investment deductions and research and development credits
- Estate tax exemption amount of \$5,000,000 per person; portability of the exemption between spouses
- Estate, gift and generation-skipping transfer tax rate of 35%
- Unification of estate, gift and generation-skipping transfer tax exemption amounts and rates
- A tax rate on generation-skipping transfers for 2010 of 0%, but generation-skipping gifts in 2010 will count towards the new \$5,000,000 exemption amount
- Grantor Retained Annuity Trusts (GRATs) were not restricted by the Act

Immediate Effect on Income, Estate and Gift Planning for 2010

- Give to charity. If you are age 70½ or older, you may make a non-taxable distribution of up to \$100,000 directly from your IRA to a public charity. Any IRA charitable gift made between the date the President signs the Act and January 31, 2011 may be counted for 2010 income tax purposes.
- Make gifts to grandchildren. There is no urgency to make special gifts before year-end unless you have been planning a gift of more than \$5 million to take advantage of the GST 0% tax rate for 2010. The gift tax exemption for 2010 is still \$1,000,000, not \$5,000,000.
- Move forward with new GRATs.
- Start thinking about how you can use the new \$5,000,000 gift tax exemption after January 1, 2011.

Income Tax under the Tax Relief Act

	2010 with Tax Relief Act	2011 & 2012 with Tax Relief Act	2013
Highest marginal tax rate	35%	35%	39.6%*
Qualified Dividends	15%	15%	39.6%*
Long-Term Capital Gains	15%	15%	20%*
Decreased personal contribution to Social Security from 6.2% to 4.2% of earned income	No	Only 2011	No
AMT Relief	Yes	Only 2011	No
Non-taxable IRA distributions to charity (max \$100,000)	Yes	Only 2011	No
Deductions for state sales tax	Yes	Only 2011	No
Enhanced deductions for business capital investments and extension of research & development credits	No	Yes, 2011 Limited, 2012	No

*In 2013 an additional 3.8% Medicare surcharge will be imposed on the "net investment income" (dividends, interest, capital gains, etc.) of "high income" persons (married persons with more than \$250,000 joint adjusted gross income and trusts with more than \$11,200 adjusted gross income).

Estate and Gift Tax under the Tax Relief Act

	2010	2011 & 2012	2013
Estate Tax Exemption	All Exempt	\$5,000,000	\$1,000,000
Estate Tax Rate	N/A	35%	55%
Gift Tax Exemption	\$1,000,000	\$5,000,000	\$1,000,000
Gift Tax Rate	35%	35%	55%
Generation Skipping Exemption	\$5,000,000	\$5,000,000	\$1,000,000
Generation Skipping Tax Rate	0%	35%	55%

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The executors of estates of persons dying in 2010 may choose to be taxed under the currently existing 2010 law or the Tax Relief Act. Current law imposes no estate tax but gives only a limited step-up in cost basis to estate assets. The new Act exempts estates under \$5,000,000 from estate tax and applies tax at 35% to assets in excess. Estate representatives are advised to engage professionals to assess and determine the most tax-effective choice for their particular circumstances. Glenmede has an experienced group of estate tax professionals to assist you.

The Tax Relief Act of 2010 provides a level of certainty for income and estate tax rates that we have been anticipating for more than eighteen months. That certainty, however, will only last for the next two years. Glenmede advisors welcome your questions and look forward to discussing with you the many planning decisions challenging you over the next two years. Our wealth advisory professionals are committed to staying current with planning trends and opportunities and to helping guide you through the complexities of ever-changing estate and income tax planning issues and opportunities.