

We're sure you saw that both houses of Congress pass The New Tax Relief Act of 2010 which continues tax rates at their current levels for two years. You could almost hear the sigh of relief from investors as one important element of uncertainty was whisked away with the President's pen. Here are the highlights:



**Date of Enactment – December 17, 2010**

**Estate Tax for 2011-2012**

- Maximum rate 35%
- \$5 million exemption per person, indexed for inflation (\$10 million per couple and unused exemption is portable)
- \$5 million GST exemption
- \$5 million gift tax exemption

**Estate Tax for 2010**

Can use new rules (\$5 /\$10 million exemption) or NO estate tax rules with carryover basis after \$1.3 million basis step-up (\$3 million for a surviving spouse) ***For those of you that lost loved ones in 2010, your CPA will have the chance to calculate which choice maximizes the value of the estate passed on to heirs.***

**For 2010: Gift tax exemption stays at \$1 million**

Due date for estate tax returns for 2010 deaths: 9 months from the date of enactment (December 17, 2010)

***This legislation will enable more Roth IRAs and traditional IRAs to pass estate tax free (up to \$5 million per person / \$10 million per couple)***

*Inherited Roth IRAs will now not only be income tax free, but will also be ESTATE TAX FREE (up to \$5 million per person / \$10 million per couple). It's not too late to consider a Roth conversion in 2010.*

### **Income Tax**

Current (2010) Income Tax Rates Extended for 2011 and 2012

Top federal income tax rate stays at 35%

*2010 Roth conversions are more valuable since you can now spread the taxes over the 2011 and 2012 income tax years without concern about tax rates increasing. You don't often get an interest free loan from the Federal government.*

### **Long-term capital gains and dividend tax rates stay at 15%**

Hurray for our Dividend Growth Strategy!

### **Charitable IRA Distributions Extended Through 2011**

The new Tax Relief Act of 2010 includes an extension of the qualified charitable distribution (QCD) provision. The extension is retroactive from Jan 1, 2010 through December 31, 2011. Because it was passed so late in the year and taxpayers will not have enough time to plan for these distributions, ***Congress has decided that you can donate your IRA distribution in January of 2011 to your favorite charity and have it treated as a 2010 distribution.*** Your donation can also satisfy your required minimum distribution (RMD) for 2010, just in case you haven't taken your 2010 RMD yet. We will have to wait for regulations from IRS to see exactly how this will work. Those regulations should be issued soon since they will be needed to file a taxpayer's 2010 tax return.

As a reminder, you must be at least 70 ½ to make a direct transfer from your IRA to a qualified charity. The amount transferred isn't included in income and can be used to satisfy an account owner's RMD for the year up to \$100,000 per IRA owner. Also, there is no tax deduction for the donation. The tax savings is that the distribution is not included in adjusted gross income.

If you prefer to take the distribution personally, your 2010 RMD must be made by year-end as usual. If it is not timely taken, the 50% penalty on the amount not taken will apply.

All of us at Seascope Capital Management wish you a healthy, happy, and prosperous New Year.