

# THE INSIDE TRACK



## 2010 Tax Update

Here are some key facts and figures you should know during tax season\*.

### 2010 IRA Contribution Limits/Traditional and Roth

Regular \$5,000  
 Catch-up<sup>1</sup> \$1,000

Adjusted gross income (AGI) phase-out range for contributions to Roth IRAs:

Married filing jointly (MFJ) \$167,000 - \$177,000  
 Single/ HH \$105,000 - \$120,000

Roth conversions: For Year 2010, there is no modified adjusted gross income limit on Roth Conversions.

Contributions to Roth IRAs are not deductible.

### IRA Deduction if not covered by Retirement Plan

Filing Status	MAGI	Deduction
Single	Any amount	Full <sup>2</sup>
MFJ (neither spouse is covered)	Any amount	Full <sup>2</sup>
MFJ (spouse is covered)	\$167,000 or less	Full <sup>2</sup>
	\$167,001 - \$177,000	Partial
	\$177,001 or more	No
MFS	Less than \$10,000	Partial
	\$10,000 or more	No

Note: If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "single" filing status.

For 2010, the first \$2,400 of unemployment benefits you receive is no longer tax-free.

### IRA Deduction if covered by Retirement Plan

Filing Status	MAGI	Deduction
Single or Head of the Household (HOH)	\$56,000 or less	Full
	\$56,001 - \$66,000	Partial
	\$66,001 or more	No
MFJ or qualifying widow	\$89,000 or less	Full
	\$89,001 - \$109,000	Partial
	\$109,001 or more	No
MFS	Less than \$10,000	Partial
	\$10,001 or more	No

### Maximum qualified long term care (LTC) insurance premiums eligible for deduction

Age	40 or less	41-50	51-60	61-70	Over 70
2010	\$330	\$620	\$1,230	\$3,290	\$4,110

LTC insurance premiums may be paid from a Health Savings account (HSA)

Personal Exemptions	Exemption
MFJ (MFS is ½)	\$3,650
Single	\$3,650

Beginning in 2010, personal exemptions phase out is repealed but comes back in 2011 and thereafter.

### Standard Deduction

MFJ	\$11,400
Single (also MFS)	\$5,700
HOH	\$8,400

### Social Security

- Maximum annual earnings subject to social security taxes: \$106,800
- Maximum social security tax for 2010: \$6,622 (EE); \$13,243 self employed
- Social security tax rate: 12.4% self employed, 6.2% employees
- No ceiling for Medicare tax
- Medicare tax rate: 2.9% self employed, 1.45% employees
- Max Earnings before SS benefits are reduced: under full retirement age \$14,160. The year an individual reaches full retirement age \$37,680 year; there is no limit on earnings beginning the month an individual attains full full retirement age,

### Income causing Social Security benefits to be taxable.

	50% taxable	85% taxable
MFJ	\$32,000	\$44,000
Single	\$25,000	\$34,000

<sup>1</sup> Taxpayers age 50 and over are eligible to make catch-up contributions.

<sup>2</sup> Up to the amount of your contribution limit.

<sup>3</sup> Lose \$1 for every \$2 earnings over \$14,160; Lose \$1 for every \$3 earning for over \$37,680 until the month the worker turns age 66.

## 2010 Capital Gain Rates

Tax Bracket	Short Term Gains (< 12 mo)	Long Term Gains (> 12 mo)
10% and 15% Tax Brackets	Ordinary Rate	0%
Other Tax Brackets	Ordinary Rate	15%

**Making Work Pay credit** is a credit against income tax in an amount equal to the lesser of 6.2% of one's earned income or \$400 (\$800 for married joint filers). The full credit can be used by individuals with a MAGI not exceeding \$75,000 (\$150,000 for joint filers). It is phased out at a rate of 2% above this threshold.

The **First Time Homebuyer Credit** is 10% of the purchase price of the home. For 2010, the max credit is \$8,000, there are MAGI limits. No credit for single filers with MAGI over \$145,000 nor is there a credit for MFJ with MAGI over \$245,000.

The Credit is not allowed for homes purchased for more than \$800,000.

The **Earned Income Credit** for 2010 is 45% for those with three or more qualifying children. This is available on the first \$12,570 of earned income. Unemployment compensation has historically been an item of income for 2010 up to \$2,400 is excluded from income.

## 2009 Qualified Plans

Maximum elective deferral to retirement plans, i.e. 401(k), 403(b)	\$16,500
Maximum elective deferral to Roth 401(k) plan (no income phase out)	\$16,500
Catch-up contribution limit for 401(k), 403(b), 457, & Roth 401(k)	\$5,500
Maximum elective deferral to SIMPLE 401(k) plans	\$11,500
Catch-up contribution limit for SIMPLE plans	\$2,500
Maximum elective deferral to 457 Plans of tax exempt employers	\$16,500
Limits on annual additions to SEP Plans	\$49,000
Annual compensation threshold requiring SEP contribution (limited to 25%)	\$550
Limit on annual additions to defined contribution plans	\$49,000
Maximum annual compensation taken into account for contributions	\$245,000
Annual benefit limit under defined benefit plans	\$195,000
Threshold amount for definition of highly compensated employee	\$110,000
Threshold amount for definition of key employee in top-heavy plans	\$160,000

## Education Incentives

### Coverdell Education Savings Accounts

Contribution Limit: \$2,000 per beneficiary, per year  
 AGI Phase outs: MFJ \$190,000 - \$220,000  
 Single \$95,000 - \$110,000

### Qualified Tuition Programs (Code Section 529 programs).

Distributions which are used to pay for a beneficiary's qualified education expenses are tax-free. Other distributions are included in income and subject to penalty. For 2010 beneficiaries can have tax-free distributions to pay for computers, computer technology and even internet services. These have now been included in the definition of qualified education expenses.

## Education Incentives (Continued)

**American Opportunity Tax Credit** (Hope Education Credit). 100% of the first \$2,000 of tuition and related college expenses; 25% of the next \$2,000, the max credit for 2010 is \$2,500.

### Phase outs:

- Jt Return \$160,000 to \$180,000
- All other Returns \$80,00 to \$90,00

For 2010 it is \$2,500 per year with an AGI phase-out starting at \$80,000/\$160,000 for individuals and joint filers respectively. Forty percent of the credit is refundable. The maximum credit of \$2,500 will be allowed with 100% of the first \$2,000 and 25% on the next \$2,000 of qualifying payments.

### Lifetime Learning Credit<sup>4</sup>

Equal to 20% of taxpayers' first \$10,000 of out-of-pocket qualified tuition and related expenses. Subject to MAGI limitations.

### Student Loan Interest Deduction

Maximum deduction:		\$2,500
AGI Phase outs:	MFJ	\$120,000 - \$150,000
	Single	\$60,000 - \$75,000

### Children

For 2010, the child tax credit that may be refundable is \$3,000. The credit for qualified adoption expenses is \$12,170 in 2010.

## Kiddie Tax

Children under age 19 with unearned income of:<sup>5</sup>

First	\$950	No tax
Next	\$950	10% tax
Amounts over	\$1,900	Parents' tax rate

## Health Savings Account

	Regular	Catch-up <sup>6</sup>
Single	\$3,050	\$1,000
Family	\$6,150	\$1,000

<sup>4</sup> Lifetime Learning Credit Phase outs; Jt Return = \$100,000 to \$200,000; All other = \$50,00 to \$60,00 credit is 40% return.

<sup>5</sup> Under age 24 if a full-time student whose earned income does not exceed half of his or her own support for the year.

<sup>6</sup> For taxpayers age 55 and over, and not on Medicare.

## 2009 Rate Schedules

### Single filing

(Tax Rate)

- 10% on income between \$0 and \$8,375
- 15% on the income between \$8,376 and \$34,000; plus \$837.50
- 25% on the income between \$34,001 and \$82,400; plus \$4,681.25
- 28% on the income between \$82,401 and \$171,850; plus \$16,781.25
- 33% on the income between \$171,851 and \$373,650; plus \$41,827.00
- 35% on the income over \$373,650; plus \$108,421.25

### Married filing jointly or qualifying widow(er) filing status

- 10% on income between \$0 and \$16,750
- 15% on the income between \$16,750 and \$68,000; plus \$1,675.00
- 25% on the income between \$68,001 and \$137,300; plus \$9,362.50
- 28% on the income between \$137,300 and \$209,250; plus \$26,687.50
- 33% on the income between \$209,251 and \$373,650; plus \$46,833.50
- 35% on the income over \$373,650; plus \$101,085.50

### Married filing separately filing status

- 10% on income between \$0 and \$8,375
- 15% on the income between \$8,375 and \$34,000; plus \$835.00
- 25% on the income between \$34,001 and \$68,650; plus \$4,675.00
- 28% on the income between \$68,651 and \$104,625; plus \$13,318.75
- 33% on the income between \$104,626 and \$186,825; plus \$23,370.75
- 35% on the income over \$186,825; plus \$50,447.25

### Head of household filing status

- 10% on income between \$0 and \$11,950
- 15% on the income between \$11,951 and \$45,500; plus \$1,195.00
- 25% on the income between \$45,501 and \$117,650; plus \$6,227.50
- 28% on the income between \$117,650 and \$190,550; plus \$24,215.00
- 33% on the income between \$190,551 and \$373,650; plus \$44,585.00
- 35% on the income over \$373,650; plus \$104,892.50

## Death/Gifts occurring in 2010

The federal estate tax will not apply to decedents dying after Dec. 31, 2009 and before Jan. 1, 2011

2010	Exclusion Amount	Applicable Credit
1. Federal Estate gift	N/A	N/A
2. Federal Gift tax	\$1,000,000	\$330,800 <i>(Please note top rate is 35% down from 45%)</i>
3. Federal GST tax	N/A	N/A

The current federal estate tax is repealed for one year in 2010. During 2010, there will be no estate tax but the step-up basis at death will be replaced with a modified carryover basis approach. For year 2010, estates will have a \$1,300,000 basis increase and there will be an additional \$3,000,000 basis increase for assets transferring to the Spouse directly or into a QTIP (for a total potential basis increase of \$4,300,000 to a Spouse). Subject to any changes, under the current law, the Federal estate tax will return in January 1, 2011, with an exemption of \$1,000,000 per person and a top bracket of 55%.

**Annual gift tax exclusion: \$13,000 (individual), \$26,000 (married)**

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\*Sources: IRC: IRS and SSA Publication No. 5 10003, January 2010.