How the New Tax Laws Affect Your 2010 Tax Returns

After much skirmishing in Congress, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 has emerged a winner.

Most attention has been on the bill's provision that will keep the current six income tax rates that start at 10 percent and top out at 35 percent in place for two more years. If Congress had not acted, all taxpayers would pay higher taxes in 2011.

There are still tax moves to make by Dec. 31 that could lower this year's tax bill, and some of them are part of the new tax bill. These are tax provisions that expired on Dec. 31, 2009, but which now are retroactively in effect for the 2010 tax year

Earned Income Credit (EIC)

Amount of credit increased. The maximum amount of the credit has increased. The most you can get for 2010 is:

- $3,050 if you have one qualifying child,
- $5,036 if you have two qualifying children,
- $5,666 if you have three or more qualifying children, or
- $457 if you do not have a qualifying child.

Expanded Definition of Qualified Expenses for Qualified Tuition Programs

The definition of qualified higher education expenses for tax-free distributions from a qualified tuition program is expanded to include amounts paid in 2009 or 2010 for the purchase of computer software, any computer or related peripheral equipment, fiber optic cable related to computer use, and Internet access (including related services) that are to be used by the beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

Residential Energy Credits

1. **Nonbusiness energy property credit**. This credit, which expired after 2007, has been reinstated. You may be able to claim a nonbusiness energy property credit of 30% of the cost of certain energy-efficient property or improvements you placed in service in 2010. This property can include high-efficiency heat pumps, air conditioners, and water heaters. It also may include energy-efficient windows, doors, insulation materials, and certain roofs. The credit has been expanded to include certain asphalt roofs and stoves that burn biomass fuel.
2. **Limitation.** The total amount of credit you can claim in 2009 and 2010 is limited to $1,500.

Standard Mileage Rate

For 2010, the standard mileage rate for the cost of operating your car for business use is 50 cents per mile.

First-Time Homebuyer Credit and Repayment of the Credit

For most taxpayers, 2010 is the final year to claim the first-time homebuyer credit. In order to claim the credit for a main home purchased in 2010, taxpayers must have purchased their home:

1. Before May 1, 2010, or
2. After April 30, 2010, and before September 1, 2010, and entered into a binding contract before May 1, 2010, to purchase the property before July 1, 2010.

Am I going to have to pay the alternative minimum tax?

Chances are that fewer taxpayers will face the alternative minimum tax, or AMT, when they file their 2010 tax returns. The tax bill includes a patch that increases the income level at which this costly parallel tax kicks in.

Can I deduct my state sales taxes?

Yes. If you live in a state that doesn't have a state income tax, you still can claim your state and local sales tax amounts as a deduction instead. Even if your state does assess an income tax, if the rate is low and your sales tax level is high, this deduction might be preferable. Remember, you have to itemize to claim this deduction.

Is the tuition and fees tax break still available?

This is one of the above-the-line deductions. You don't have to itemize to claim this tax break, which could be as much as $4,000. You take the deduction directly on your Form 1040.

I have a student loan. Can I still deduct the interest on the loan?

Yes. The tax bill continues the $2,500 annual interest deduction on qualified student loans. Older loans, interest paid beyond the first 60 months of the loan, also are still OK and the income levels at which this tax break is reduced will remain at the higher levels, adjusted for inflation, set by the previous and now-extended tax law. This, too, is done directly on 1040 tax returns.

I'm a teacher. Will I still be able to deduct some of my expenses?

Educators are OK under the new tax bill. The ability to deduct some out-of-pocket expenses for classroom supplies will remain as an above-the-line deduction.

Are private mortgage insurance payments still deductible?

Private mortgage insurance, or PMI, generally is required if a homebuyer can't make at least a 20 percent down payment on a residence. Since 2006, some PMI payers have been able to deduct their policy premiums as itemized expenses on Schedule A. That option will remain in effect for a while, thanks to the just-passed tax bill. The existing limits (those that say if you make more than $110,000 you can't claim this deduction, and if you make between $100,000 and $110,000 the deduction is reduced) will stay on the tax books, too.

Can I still deduct my home's property taxes if I take the standard deduction?

Sorry. This home-related tax break wasn't part of the new tax package. In previous tax years, the last one being 2009, homeowners could add up to $500 (or $1,000 if married filing jointly) in residential real estate taxes to their standard deduction amount. That tax break ended on Dec. 31, 2009, and was not extended.

I'd like to donate some of my IRA money to a charity. Can I do that?

Older, generous owners of traditional IRAs are in luck. The ability for folks age 70 1/2 or older to directly donate up to $100,000 per year from their IRA to a qualified charity is back on the tax books. This is a particularly appealing tax move for individuals facing a required minimum distribution, or RMD. This is a specific amount, based on the retirement account owner's age that must be taken out of tax-deferred retirement accounts each year.
Now an RMD, and more as long as it doesn't exceed $100,000, can go directly to a charity so that the IRA owner follows the distribution rule but doesn't have to count the donated money as taxable income.

And because of the lateness in getting this law back in the tax code, the new bill provides a grace period. Eligible IRA owners will be able to make their retirement account charitable donations in January 2011 and have the distributions count as if they were made for the 2010 tax year.

There's even better news for all these reinstated tax breaks. Taxpayers won't have to worry about their status next year. In addition to putting the deductions back in place for 2010, the new tax bill extends them through the 2011 tax year.

The Affordable Care Act was enacted on March 23, 2010.

1. There is a new credit to help small businesses and small tax-exempt organizations afford the cost of covering their employees and are specifically targeted for those with low- and moderate-income workers.
2. Effective Jan. 1, 2011, the cost of an over-the-counter medicine or drug cannot be reimbursed from Flexible Spending Arrangements or health reimbursement arrangements unless a prescription is obtained. The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles. The new standard applies only to purchases made on or after Jan. 1, 2011, so claims for medicines or drugs purchased without a prescription in 2010 can still be reimbursed in 2011, if allowed by the employer's plan.

New Rules for Children of Divorced or Separated Parents

Revocation of release of claim to an exemption. For tax years beginning after July 2, 2008 (the 2009 calendar year for most taxpayers), new rules apply to allow the custodial parent to revoke a release of claim to exemption that was previously released to the noncustodial parent on Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or similar statement. The revocation is effective no earlier than the tax year following the year in which the custodial parent provides, or makes reasonable efforts to provide, the noncustodial parent with written notice of the revocation. Therefore, if the custodial parent provides notice of revocation to the noncustodial parent in 2009, the earliest tax year the revocation can be effective is the tax year beginning in 2010. You can use Part III of Form 8332 for this purpose. You must attach a copy of the revocation to your return for each tax year you claim the child as a dependent as a result of the revocation.

ATTENTION: For anyone taking Schedule A or above-the-line deductions (tuition, teacher's expense, etc.), their tax returns will take additional time to process by IRS due to current changes in tax laws.

Courtesy: IRS.gov and Yahoo! Finance