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### 2011 Tax Law Update

**Home Energy Savings Improvement Credit** – Taxpayers who invest in energy saving improvements, such as new windows and doors to their homes, can claim a tax credit of 10% of the cost of such property. The credit now has a lifetime limit of \$500, of which only \$200 may be used for windows. If you have already taken at least \$500 in credits since 2006, you have exhausted this credit.

**Residential Energy Efficient Property Credit** – Taxpayers who invest in solar energy electric and heating property, small wind energy property (wind turbines), fuel cell property and geothermal heat pumps can claim a tax credit of 30% of the cost of such property.

**American Opportunity Tax Credit** – An enhanced Hope Credit can be applied to qualified education expenses for the first 4 years of higher education. Maximum credit is \$2,500, of which 40% is refundable. The credit begins to phase out for individuals with adjusted gross income over \$80,000 (\$160,000 for joint filers).

**Buying U.S. Series I Savings Bonds with your Refund** – You can now receive up to \$5,000 of U.S. Series I Savings Bonds as part of your income tax refund without setting up a Treasury Direct account in advance.

**Sales Tax Deduction** – The choice to deduct state and local sales taxes instead of state and local income taxes on Schedule A was extended through 2011.

**Tuition and Fees Deduction** – The above the line deduction for up to \$4,000 of qualified higher education expenses (\$2,000 for higher income taxpayers) was extended through 2011.

**Educator Expenses** – The \$250 above the line deduction for out of pocket classroom expenses for teachers K - 12 was extended through 2011.

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**Payroll Tax Cut** – The 2010 Tax Relief Act reduced the employee share of the OASDI portion of Social Security taxes from 6.2% to 4.2% for wages earned in calendar year 2011 up to the taxable wage base of \$106,800. This payroll tax cut expires on 12/31/11.

**Tax Rates** – The 2010 Tax Relief Act extended all individual tax rates ranging from 10% to 35% through 2012.

**Reduced Rate on Capital Gains and Dividends** – The 2010 Tax Relief Act extended the reduced tax rate of 15% for long term capital gains and qualified dividends (0% for those in the 10%/15% regular tax brackets) through 2012.

**Estate tax** – The current estate exemption is \$5 million with a top estate tax rate of 35%. Spouses can now carryover the portion of their deceased spouse's unused exemption. This new estate tax regime is temporary and is scheduled to sunset on December 31, 2012.

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