

Tax Flash

New Federal tax developments
from Grant Thornton's National Tax Office

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Low inflation leaves tax brackets and benefits largely unchanged in 2010

The IRS has announced its annual cost-of-living and inflation adjustments for 2010, and most of the figures are not changing.

Tax laws require the IRS to adjust the dollar amounts of dozens of tax provisions each year to account for inflation. The adjustments affect many tax benefits, limits and tests. The low rate of inflation over the last year has led to very few IRS adjustments for 2010, meaning many taxpayers will not enjoy a larger standard deduction, gift tax exclusion or personal exemption than they did in 2009.

The 2010 adjustments were announced in a pair of releases, one with cost-of-living adjustments for pension and retirement plan limits (IR-2009-94) and another with inflation adjustments for other items in the Code (Rev. Proc 2009-50).

General inflation adjustments

Tax items addressed by Rev. Proc. 2009-50 that will remain unchanged include:

- \$3,650 personal exemption,
- \$1,900 threshold for the “kiddie tax,”
- \$11,400 standard deduction for joint filers,

- \$5,700 standard deduction for singles and couples filing separately, and
- \$13,000 annual gift tax exclusion.

Items that are changing include:

- \$100 increase in the foreign earned income exclusion to \$91,500,
- \$50 increase in the standard deduction for heads of households to \$8,400, and
- slight changes in some of the tax brackets, ranging from \$0 to a few hundred dollars.

It is worth noting that the phaseouts of itemized deductions and personal exemptions were not included among the adjustments because those phaseouts are repealed for 2010.

Retirement plan adjustments

The limits on retirement plans that will remain unchanged in 2010 include:

- \$16,500 employee contribution limit for 401(k)s and other retirement accounts,
- \$5,500 limit for catch-up contributions for individuals 50 and older,
- \$49,000 limit for total employee and employer contributions to defined contribution plans,

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- \$195,000 limit on annual benefits from a defined benefit plan,
- \$89,000 income limit for determining the deductibility of IRA contributions for married couples who participate in an employer retirement plan, and
- \$105,000 income limit for Roth IRA contributions for single taxpayers.

Items that are changing include:

- \$1,000 increase to \$56,000 for the income limit for determining deductibility of IRA contributions for singles who participate in an employer retirement plan, and
- \$1,000 increase to \$167,000 for the income limit on Roth IRA contributions for joint filers.

Health savings accounts

The IRS released the inflation adjustments for health savings accounts (HSAs) earlier in the year (Rev. Proc. 2009-29).

The 2010 limits on HSA contributions are:

- \$3,050 for self-only coverage, and
- \$6,150 for family coverage.

The 2010 requirements for high deductible plans that must be paired with HSAs are:

- \$1,200 minimum deductible for self-only coverage,
- \$2,400 minimum deductible for family coverage,
- \$5,950 limit on annual out-of-pocket expenses for self-only coverage, and
- \$11,900 limit on annual out-of-pocket expenses for family coverage.

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