

IRS Fact Sheet

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2010 Changes Offer Expanded Tax Benefits

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Three Extra Days to File and Pay

Taxpayers, nationwide, will have until Monday, April 18, 2011, to file their 2010 returns and pay any taxes due. Taxpayers get the extra time because Emancipation Day, a holiday in the District of Columbia, is observed this year on Friday, April 15. By law, D.C. holidays impact tax deadlines in the same way that federal holidays do. The April 18 deadline applies to any return or payment normally due on April 15. It also applies to the deadline for requesting a tax-filing extension and for making 2010 IRA contributions.

Special Charitable Contributions for Certain IRA Owners

This provision, now available through the end of 2011, offers older owners of individual retirement accounts (IRAs) a different way to give to charity. An IRA owner age 70½ or over can directly transfer, tax-free, up to \$100,000 per year to eligible charities. Known as a qualified charitable distribution (QCD), this option is available for distributions from IRAs, regardless of whether the owners itemize their deductions. Distributions from employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, are not eligible to be treated as a qualified charitable distribution. For tax-year 2010 only, IRA owners can choose to treat QCDs made during January 2011 as if they occurred in 2010.

To qualify, the funds must be contributed directly by the IRA trustee to an eligible charity. Amounts so transferred are not taxable and no deduction is available for the transfer.

Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients. Remember to check eligibility of the charity before requesting a QCD.

All QCDs from an IRA to eligible charities are counted in determining whether the owner has met the IRA's required minimum distribution. Where individuals have made nondeductible contributions to their traditional IRAs, a special rule treats QCD amounts as coming first from taxable funds, instead of proportionately from taxable and nontaxable funds, as would be the case with regular distributions.

Report qualified charitable distributions on [Form 1040](#) Line 15. See the instructions for Form 1040 Line 15 for details.

More People Qualify for Roth IRA Conversions

Income limits no longer apply to rollovers or conversions to Roth IRAs from other retirement plans. In the past, only taxpayers with modified adjusted gross income of \$100,000 or less were eligible, and a married person filing a separate return who lived with his or her spouse at any time during the year was barred from Roth IRA rollovers or conversions, regardless of income.

For 2010 rollovers and conversions only, half of the resulting income must be included in income in tax year 2011 and the other half in 2012, unless the taxpayer chooses to include all of it in income in 2010. In all situations, taxpayers must report any 2010 conversion on [Form 8606](#) for tax year 2010. These rules do not apply to rollovers from another Roth IRA or from a designated Roth account. See Form 8606 and its instructions for details.

Exemptions and Itemized Deductions No Longer Phased Out

Overall income limits for personal and dependency exemptions and itemized deductions do not apply. Before 2010, taxpayers whose incomes were above certain levels lost part or all of their exemptions and part of their itemized deductions. For taxpayers at all income levels, limitations continue to apply to particular itemized deductions, such as medical and dental expenses, certain miscellaneous itemized deductions and casualty and theft losses.

Adoption Credit Expanded

The maximum adoption credit for 2010 is increased to \$13,170 per child, up from \$12,150 in 2009. The credit is refundable, meaning that eligible taxpayers can get the credit even if they owe no tax. In general, the credit is based on the qualified adoption expenses, which include adoption fees, court costs, attorney's fees and travel expenses. Income limits and other special rules apply.

In addition to filling out Form 8839, Qualified Adoption Expenses, eligible taxpayers must include with their return an adoption order or decree or certain other documents.

Because of these documentation requirements, taxpayers claiming the adoption credit will have to file paper tax returns. Normally, it takes six to eight weeks to get a refund claimed on a complete and accurate paper return where all required documents are attached. Taxpayers claiming the credit will still be able to use [IRS Free File](#) to prepare their returns, but the returns must be printed out and sent to the IRS, along with all required documentation.

Health Insurance Deduction Reduces Self Employment Tax

In 2010, eligible self-employed individuals can use the self-employed health insurance deduction to reduce their social security self-employment tax liability in addition to their income tax liability. As in the past, eligible taxpayers claim this deduction on Form 1040 Line 29. But in 2010, eligible taxpayers can also enter this amount on [Schedule SE](#) Line 3, thus reducing net earnings from self-employment subject to the 15.3 percent social security self-employment tax.

Premiums paid for health insurance covering the taxpayer, spouse and dependents generally qualify for this deduction. Premiums paid for coverage of an adult child, under age 27 at the end of the year, for the time period beginning on or after March 30, 2010, also qualify for this deduction, even if the child is not the taxpayer's dependent.

As before, the insurance plan must be set up under the taxpayer's business, and the taxpayer cannot be eligible to participate in an employer-sponsored health plan. Details, including a worksheet, are in the instructions to Form 1040.

First-time homebuyer credit

Taxpayers who claimed the first-time homebuyer credit for a home bought in 2008 must generally begin repaying it on the 2010 return. In most cases, the credit must be repaid over a 15-year period. Many of those affected by this requirement received reminder letters from the IRS.

A repayment requirement also applies to a taxpayer who claimed the credit on either their 2008 or 2009 return and then sold it or stopped using the home as their main home in 2010. Use [Form 5405](#) to report the repayment.

In addition, certain members of the armed forces and some other taxpayers still have time to buy a home and take the credit. See Form 5405 and its [instructions](#) for details.

Deduction for Corrosive drywall

Taxpayers may claim a casualty loss deduction, using a special formula, for amounts paid to repair damage to their homes and household appliances resulting from corrosive drywall. The deduction is smaller for taxpayers with a pending claim for reimbursement or those who plan to pursue reimbursement through property insurance, litigation or other means.

Standard Mileage Rates for 2010

The standard mileage rate for business use of a car, van, pick-up or panel truck is 50 cents for each mile driven. The rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 16.5 cents per mile. The rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

AMT Exemption Increased

For tax-year 2010, the alternative minimum tax exemption increases to the following levels:

- \$72,450 for a married couple filing a joint return and qualifying widows and widowers, up from \$70,950 in 2009.
- \$36,225 for a married person filing separately, up from \$35,475.
- \$47,450 for singles and heads of household, up from \$46,700.

Tax Breaks Extended

Several tax breaks that expired at the end of 2009 were renewed and can be claimed on 2010 returns. They include:

- State and local general sales tax deduction, primarily benefiting people living in areas without state and local income taxes. Claim on [Schedule A](#) , Line 5.
- Higher education tuition and fees deduction benefiting parents and students. Claim on [Form 8917](#) .
- Educator expense deduction for kindergarten through grade 12 educators with out-of-pocket classroom expenses of up to \$250, Claim on Form 1040, Line 23 or [Form 1040A](#) Line 16.
- District of Columbia first-time homebuyer credit. Claim on Form 8859.