

# legislativeUPDATE

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## 2010 Tax Relief Act Extends Tax Cuts and Includes Benefits Provisions

On December 17, President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Relief Act). The law primarily extends the Bush-era tax cuts, originally scheduled to expire at the end of 2010, for an additional two years. For calendar year 2011, the law also reduces the employee portion of the FICA (Social Security) tax from 6.2% to 4.2% (applies up to the taxable wage base of \$106,800). The employer portion of the FICA tax remains at 6.2%. (See [IRS Notice 1036](#) for new withholding tables that employers will use in 2011 to calculate the income and Social Security taxes that should be deducted from workers' paychecks.)

Other notable compensation and benefit changes include the following:

**Transit and Vanpool Benefits.** The 2010 Tax Relief Act includes a one-year extension of the increase in the monthly exclusion for employer-provided transit and vanpool benefits to that of the exclusion for employer-provided parking benefits (\$230 for 2010). Without this extension, the maximum monthly transit benefit allowed by federal law would have decreased from \$230 to \$120.

**Educational Assistance Benefits.** Through 2012, the law extends employer-provided educational assistance authorized under Section 127 of the Internal Revenue Code. Section 127 allows reimbursements of up to \$5,250 per year, per employee to be excluded from income. The education received need not be job-related. Under pre-Act law, for tax years beginning after December 31, 2010, the specific exclusion for employer-provided educational assistance was no longer to apply, so that educational assistance would be excludable from gross income only if it qualified as a working condition fringe benefit (i.e., the expenses would have been deductible as business expenses if paid by the employee and related to the employee's current job).

**Adoption Assistance Benefits.** For employer-provided adoption assistance, there is a maximum exclusion of \$13,170 (\$13,360 for 2011) per eligible child (both special needs and non-special needs adoptions) under Code Section 137. The benefit is phased out for taxpayers with adjusted gross income (i.e., modified AGI) over \$182,520 in 2010 (\$185,210 in 2011), and is fully eliminated when AGI reaches \$222,520 in 2010 (\$225,210 in 2011). Under pre-Act law, for tax years beginning after December 31, 2011, the employer-provided adoption assistance exclusion was to be available only to special needs adoptions, and the maximum credit and

exclusion was to be reduced to \$6,000. The phase-out range was to be reduced to between \$75,000 and \$115,000. The maximum credit, exclusion, and phase-out range were not indexed for inflation. The 2010 Tax Reform Act extends the exclusion from income for employer-provided adoption assistance for one year through 2012.

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