

## **American Taxpayer Relief Act of 2012**

### **Enacted January 2, 2013**

#### **Individual Income Tax Provisions:**

- Makes permanent for 2013 and beyond the Bush-era individual income tax rates for all brackets, except for taxable incomes over \$400K single, \$450K married joint, \$225K married separate, and \$425K HOH, which will be taxed at a new top 39.6% bracket.
- Personal exemptions and itemized deductions phaseouts are reinstated at higher thresholds of \$250K single, \$300K married joint, \$150K married separate, and \$275K HOH. Certain itemized deductions are excluded.
- Capital gains rate of 15% retained for the middle tax brackets, zero percent rate retained for the 10% and 15% brackets, and a 20% rate applies to taxpayers in the new 39.6% bracket.
- AMT exemption is permanently indexed for inflation beginning in 2013. For 2012, the exemptions are set at \$78,750 for married joint and surviving spouses, \$39,375 married separate, and \$50,600 for single. Relief from AMT for nonrefundable credits is retained.
- Estate, gift tax and GST exclusion retained at \$5M and indexed for inflation, top tax rate increases from 35% to 40%, and the portability election for the deceased spouse's unused exemption is made permanent, for years after 2012. State estate tax deduction for Federal estate return extended.
- Trust income tax rates retained for all brackets, the addition of a new top 39.6% bracket.
- Restrictions lifted for participants in 401(K) plans with Roth conversion features. Participants can now make conversions at any time (a revenue raiser).
- State and local itemized general sales tax deduction extended through 2013.
- American opportunity tax credit for qualified tuition and other higher education expenses extended through 2017.
- Above-the-line deduction for qualified tuition and related expenses extended through 2013, retroactive relief for 2012.
- Earned income credit enhancements extended through 2017.
- \$500 energy credit for home improvements extended through 2013.
- Teacher's classroom expense deduction for AGI, of up to \$250, extended through 2013.
- Cancellation of mortgage indebtedness on a principle residence of up to \$2M excluded through 2013.
- Mortgage insurance premiums treated as qualified residence interest extended through 2013.
- Tax-free distributions of up to \$100K from IRA's for charitable donation purposes extended through 2013. January 2013 distributions can be applied to 2012.

#### **Various temporary individual income tax provisions were extended permanently, including:**

- Marriage penalty relief (increased size of the 15% bracket) and increased standard deduction for married taxpayers filing jointly.
- \$1K child tax credit, but not indexed for inflation.
- Child and dependent care credit: 35% credit on the first \$3K of expenses for one child, \$6K two or more children.
- Adoption credit, and the income exclusion for employer paid or reimbursed adoption expenses up to \$10K, indexed for inflation.
- Exclusion for employer provided education assistance up to \$5,250.
- Suspension of the 60-month rule for the \$2,500 student loan interest deduction for AGI.
- \$2K maximum contribution to a Coverdell ESA, and treatment of elementary, secondary and post-secondary expenses as qualified expenditures.
- Credit for employer provided child care facilities and services.

**Business Tax Provisions:**

- Section 179 dollar limitation for 2012 (retroactive) and 2013 is set at \$500K with a \$2M maximum investment limitation before phaseout.
- 50% first-year Bonus depreciation extended through 2013. Certain eligible property extended through 2014.
- 15-year recovery period for qualified leasehold improvements, qualified retail improvements and qualified restaurant property extended through 2013.
- Research and development tax credit extended through 2013.
- Work opportunity tax credit extended through 2013.
- Reduction of the 10-year recognition period for built-in gains of S Corporations to five years, through 2013.
- Certain other business tax provisions extended through 2013.
- Certain other energy related tax credits extended through 2013.

Note: This is not a complete list of all the provisions in the Act. Please give us a call to discuss an item in greater depth or to inquire about an item not on this list.

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