

“FISCAL CLIFF” LEGISLATION -- WHAT DOES IT MEAN FOR YOU?

The American Taxpayer Relief Act, passed by Congress on January 1, 2013, permanently extends a large number of tax items from the 2001 and 2003 tax acts and extends many expired tax provisions.

Individual tax changes

- A new top rate of 39.6% (up from 35%) is imposed on taxable income over \$400,000 for single filers, \$425,000 for heads-of-household filers, and \$450,000 for married taxpayers filing jointly (\$225,000 for each married spouse filing separately).
- Phase out of personal exemptions and itemized deductions is reinstated at a higher threshold of \$250,000 for single taxpayers, \$275,000 for heads-of-household, and \$300,000 for married taxpayers filing jointly.
- The rate on capital gains and qualified dividends increase to 20% for individuals above the top income tax brackets. The 15% rate is retained for taxpayers in the middle brackets. The zero rate is retained for taxpayers in the 10% and 15% brackets.
- The exemption amount for the AMT on individuals is permanently indexed for inflation. For 2012, the exemption amounts are \$78,750 for married taxpayers filing jointly and \$50,600 for single filers. Relief from AMT for nonrefundable credits is retained.
- The American opportunity tax credit for qualified tuition and other expenses of higher education was extended through 2018 and the above-the-line deduction for qualified tuition and related expenses was extended through 2013.
- Deduction of state and local general sales taxes was extended through 2013.

Estate and gift tax changes

- The estate and gift tax exclusion amount is retained at \$5 million indexed for inflation (\$5.12 million in 2012), but the top tax rate increases from 35% to 40% effective Jan. 1, 2013. The estate tax “portability” election, under which, if an election is made, the surviving spouse’s exemption amount is increased by the deceased spouse’s unused exemption amount, was made permanent by the act.

Business tax changes

The act also extended many business tax credits and other provisions.

- The research credit which expired on December 31, 2011 is now extended from Jan. 1, 2012 through 2013 and modified the Sec. 41 credit for increasing research and development activities, which expired at the end of 2011.
- Section 179 - The \$139,000 expense allowance under Sec. 179 was increased to \$500,000 for 2012 and extended through 2013 at \$500,000. The investment ceiling is \$2,000,000 for 2012 and 2013.
- The additional 50% first-year bonus depreciation was also extended for one year by the act. It now generally applies to property placed in service before Jan. 1, 2014 (Jan. 1, 2015 for certain property with longer production periods).
- The work opportunity tax credit that expired on Dec. 31, 2011 is extended retroactively from Jan. 1, 2012 through Dec. 31, 2013

This is just a partial list of the changes brought on by this legislation, for more information, please call us.