The American Taxpayer Relief Act of 2012

Highlights

In a successful last-minute effort, President Obama and Congressional leaders hammered out an agreement that averted many of the tax increases that were a significant part of what had been popularly termed the "Fiscal Cliff." The American Taxpayer Relief Act of 2012 (ATRA 2012), signed into law by the President on January 2, 2013, makes permanent many of the income and estate tax changes contained in the Economic Growth and Tax Relief Reconciliation Act of 2001, (EGTRRA), and subsequent legislation, as well as providing ongoing tax relief to a slowly-recovering economy.

ATRA 2012 did not address the across-the-board budget cuts that had been required under the Budget Control Act of 2011. Instead, these mandatory spending reductions were delayed until March 1, 2013.

The following is a brief summary of a few of the many provisions of ATRA 2012.[1] Except where noted, the changes are generally effective for tax years beginning after 2012.

Individual Income Taxes

Item	Prior Law	ATRA 2012
Individual Income Tax Rates	Under EGRTRRA, the individual tax rates were 10%, 15%, 25%, 28%, 33% and 35%. These marginal rates were scheduled to revert to 15%, 28%, 31%, 36%, and 39.6% in 2013.	The 10%, 15%, 25%, 28%, 33%, and 35% brackets are made permanent. A 39.6% rate will apply to taxable incomes above \$450,000 (MFJ); \$425,000 (HoH); \$400,000 (Single); and \$225,000 (MFS).

[1] The discussion here concerns federal income tax law. State or local income tax law may vary.

Presented by William Howard, CFP, ChFC

Individual Income Taxes (continued)

Item	Prior Law	ATRA 2012
Marriage Penalty Relief	The basic standard deduction for a married couple was scheduled to decline to 167% (from 200%) of that for an unmarried person filing a single return. The top of the MFJ 15% marginal bracket was also scheduled to decrease to 167% (from 200%) of the size of the corresponding bracket for an unmarried person filing Single.	The standard deduction and the top of the 15% marginal tax bracket for married taxpayers will permanently remain at 200% of that for Single taxpayers.
Capital Gains and Qualified Dividends	Generally, taxed at a 0% for taxpayers in the 10% and 15% marginal brackets. Taxed at a 15% for all other taxpayers.	For taxpayers in the 39.6% bracket, a 20% tax rate will apply to long-term capital gains and qualified dividends. For those in the 25%, 28%, 33%, or 35% brackets, a 15% rate will apply. For those in the 10% or 15% brackets a 0% rate is applicable.
Alternative Minimum Tax (AMT)	In 2012, AMT exemption amounts were scheduled to drop to $45,000 for MFJ, $33,750 for Single, and $22,500 for MFS. Most nonrefundable personal credits were no longer allowed against the AMT.	Retroactively increases the AMT exemption amounts for 2012 to $78,750 for MFJ; $50,600 for Single; and $39,375 for MFS. These increases are permanent and will be subject to adjustment for inflation in future years. Nonrefundable personal credits are allowed in full against the AMT.
Personal and Dependent Exemption Phase-Out	The phase-out of personal and dependent exemptions was suspended.	Requires taxpayers whose income exceeds certain limits to phase-out their personal and dependent exemptions. For 2013 these limits are: $300,000 for MFJ; $275,000 for HoH; $250,000 for Single; and $150,000 for MFS. The thresholds are subject to adjustment for inflation.

Individual Income Taxes (continued)

Item	Prior Law	ATRA 2012
Itemized Deduction Phase-Out	The phase-out of Schedule A itemized deductions was suspended.	Taxpayers whose incomes exceed specified limits must reduce certain, otherwise deductible, items on Schedule A. The same threshold amounts applicable to the personal exemption phase-out (see above) apply to the itemized deduction phase-out. These threshold amounts will be subject to adjustment for inflation in future years.
Child and Dependent Care Credit	In 2013, the credit was scheduled to decline to 30% of the first $2,400 of eligible expenses for one qualifying individual or $4,800 for two qualifying individuals. The credit was reduced for those with an AGI above $10,000.	Makes permanent the amount of allowable expenses ($3,000 for one qualifying dependent, $6,000 for two qualifying dependents) and a maximum rate of 35%. The credit is phased-out when AGI reaches $15,000.
Child Tax Credit	In 2013, the Child Tax Credit was scheduled to decline to $500 per qualifying child and, for most families, would be non-refundable.	Permanently extends the EGTRRA enhancements to the Child Tax Credit, including a maximum credit of up to $1,000 per child. The reduced threshold ($3,000) for the refundable portion of the credit is extended through 2017.
Earned Income Tax Credit (EITC)	The EITC is a refundable credit available to low-income workers who meet certain requirements. EGTRRA significantly liberalized the availability of this credit.	The new law makes permanent many of the EGTRRA changes to the EITC. ATRA 2012 extends through 2017 some of the EGTRRA provisions.
Unreimbursed Educator Expenses	An above-the-line deduction of up to $250 was allowed to qualifying educators for unreimbursed classroom expenses. The deduction expired at the end of 2011.	Retroactively reinstates the deduction for 2012 and extends it to 2013.

Individual Income Taxes (continued)

Item	Prior Law	ATRA 2012
Mortgage Debt Relief	For 2007-2012, qualifying taxpayers were allowed to exclude from income "cancellation of debt" income arising from forgiven indebtedness on a principal residence.	ATRA 2012 extends this provision for one year, through 2013.
Private Mortgage Insurance as Qualified Residence Interest	During 2007-2011, prior law allowed a taxpayer to deduct as qualified mortgage interest certain private mortgage insurance payments.	The new law extends this provision to amounts paid or accrued in 2012 and 2013.
Deduction for State and Local Sales Taxes	During 2004 – 2011 a taxpayer could deduct the larger of state and local income taxes or state and local sales taxes.	Extends this provision to 2012 and 2013.

Estate, Gift, and Generation-Skipping Taxes

Item	Prior Law	ATRA 2012
Transfer Tax Rates	For 2013, prior law provided for a return to the pre-EGTRRA transfer tax rates of up to 55%, with a 5% surcharge on taxable estates between $10,000,000 and $17,184,000.	In 2013, the new law applies a 40% marginal rate on taxable estates in excess of $1,000,000.
Applicable Exclusion Amount	For 2013, a $1,000,000 applicable exclusion amount, as adjusted for inflation.	A $5,000,000 applicable exclusion amount, as adjusted for inflation. In 2013 this is equivalent to $5,250,000.
Unused Spousal Exemption	For 2011 and 2012, the unused portion of a deceased spouse's applicable exclusion amount could be carried over for use by the surviving spouse.	Provision made permanent.

Estate, Gift, and Generation-Skipping Taxes (continued)

Item	Prior Law	ATRA 2012
State Death Tax Deduction	For 2005 – 2012, provided for a deduction from the gross estate of state and local death taxes.	Provision made permanent.
State Death Tax Credit	Prior to 2005, provided for a credit against the estate tax for state and local death taxes. This provision was scheduled to return in 2013.	Provision permanently repealed.
Qualified Family-Owned Business Exclusion	Prior to 2004, this code section provided for a deduction from the gross estate of Qualified Family-owned Business Interest Property. The provision was repealed for 2004-2012, but was scheduled to return in 2013.	Provision permanently repealed.

Charitable Tax Provisions

Item	Prior Law	ATRA 2012
Tax-Free IRA Distributions to Charity	For 2006 – 2011, provided for an exclusion from gross income for qualified charitable distributions up to $100,000 from an IRA for taxpayers age 70½ and older.	The provision was extended retroactively to 2012 and forward to 2013. Special provisions allow contributions made by January 31, 2013 to be treated as having been made in 2012.
Contributions of Capital Gain Real Property for Conservation Purposes	For 2006 – 2011, allowed an enhanced income tax deduction for the charitable contribution of a qualified conservation easement.	The provision was extended retroactively to 2012 and forward to 2013.

Tax Benefits for Education

Item	Prior Law	ATRA 2012
Coverdell Education Savings Accounts (ESA)	For 2013, pre-EGTRRA law would apply: (1) Maximum annual contribution limited to $500; (2) qualified expenses limited to higher education only; (3) reduced donor contribution phase-out range; (4) no age-limitation wavier for special needs students; (5) 6% excise penalty if contributions for the same beneficiary were made to a 529 and a Coverdell in the same year.	The EGTRRA enhancements to ESAs are made permanent: (1) Maximum annual contribution is $2,000; (2) qualified expenses include those for elementary and secondary schools as well as higher education; (3) higher donor contribution phase-out range; (4) age limitations are waived for special needs student; (5) contributions allowed to an ESA and a 529 for the same beneficiary the same year.
American Opportunity Tax Credit	Through 2012, allowed for a credit of up to $2,500 per student, per year, for tuition and fees paid during the first four calendar years of college.	Extends the credit for five years, 2013 – 2017.
Student Loan Interest Deduction	Pre-EGTRRA law allowed an above-the-line deduction of up to $2,500 during the first 60 months that interest payments were required. The deduction was phased out for high-income taxpayers.	Permanently repeals the 60-month deductibility limitation. Also makes permanent the EGTRRA increased phase-out limitations for high-income taxpayers.
Tuition and Fees Deduction	Under EGTRRA, a taxpayer was allowed an above-the-line deduction for up to $4,000 in tuition and higher-education expenses. The deduction was phased-out for taxpayers with an AGI in excess of certain limits. The deduction expired at the end of 2011.	The provision was extended retroactively to 2012 and forward to 2013.

Tax Benefits for Education (continued)

Item	Prior Law	ATRA 2012
Employer-Provided Educational Assistance	EGTRRA temporarily expanded to $5,250 per year, an employee's exclusion from gross income of employer-provided educational assistance.	Provision made permanent.

Business Tax Changes

Item	Prior Law	ATRA 2012
IRC Section 179 Expensing	In 2012, a business could expense up to $139,000 of tangible personal property, subject to an investment limitation of $560,000. In 2013, the cap was scheduled to drop to $25,000, with an investment limit of $200,000.	Increases the expensing cap to $500,000 with an investment limit of $2,000,000. These increases are applied retroactively to 2012 and forward to 2013.
Bonus Depreciation	During 2012, a business could take an additional 50% "bonus" depreciation on qualifying new business property placed in service during the year.	Extends this provision for one year, to 2013.
Increased Research Tax Credit	A credit allowed to businesses for increasing qualified research activities. Credit previously expired at the end of 2011.	Retroactively reinstates the credit for 2012 and extends it to 2013.

Seek Professional Guidance

Because federal tax law can be complex, the advice and guidance of experienced financial and tax professionals is strongly recommended.