

## Fiscal Cliff News

### Last-Minute Fiscal Cliff Deal

Although the country technically went off the fiscal cliff at midnight on December 31, 2012, several hours later Congress and the President reached agreements that resolved many of the most pressing tax issues, including extender legislation for 2012 and tax rate provisions for 2013 and beyond.

The following is a summary of legislation contained in HR 8, the *American Taxpayer Relief Act of 2012*, as passed by the Senate and the House of Representatives on January 1, 2013.

We will provide a detailed analysis of the legislation for our customers at no charge, which will be available on our website Monday, January 7. We will also provide page updates to *TheTaxBook* resulting from the new legislation. We will notify our customers via email when the analysis is available.

### Tax Rates

**Income tax rates made permanent.** For 2013 and beyond, the top individual income tax bracket will increase from 35% to 39.6% for taxpayers with taxable income of \$400,000 or more (\$450,000 or more Married Filing Jointly). Taxpayers with income below the thresholds will not see an increase in tax rates.

**Capital gain rates.** Beginning in 2013, the maximum capital gains tax will increase from 15% to 20% for taxpayers with taxable income of \$400,000 or more (\$450,000 or more Married Filing Jointly).

**Payroll tax holiday.** The 2% reduction in Social Security tax for employees and self-employed individuals expired at the end of 2012 and will not be extended for 2013. An employee's Social Security portion of FICA will increase from 4.2% to 6.2%, with a corresponding increase in self-employment tax.

**Employer withholding.** On December 31, 2012, the IRS issued guidance on withholding, assuming expiration of the 2001 and 2003 tax rates and subsequent tax rate increases at all income levels. The IRS instructed employers to begin using the new withholding rates as soon as possible, but no later than February 15, 2013. Since this guidance was issued before the new law, the IRS is expected to quickly release new withholding tables to reflect the changes in tax rates.

**Other taxes.** The taxes contained in the new legislation are in addition to the 0.9% increase in Medicare tax on earned income and the 3.8% increase in Medicare tax for unearned income for taxpayers with earned/unearned income in excess of \$250,000 (MFJ), \$125,000 (MFS), and \$200,000 (any other filing status) that were implemented as part of the Affordable Care Act of 2010.

## **Alternative Minimum Tax (AMT)**

The AMT “patch” is applied retroactively to January 1, 2012, and made permanent. For 2012, the AMT exemption amounts will be \$50,600 for individuals and \$78,750 for married couples. The bill also allows nonrefundable personal credits to offset AMT.

## **Extenders**

**Child Tax Credit.** The \$1,000 amount for each child for the Child Tax Credit has been extended permanently.

**Earned Income Credit.** The enhanced Earned Income Credit amounts have been extended for five years.

**American Opportunity Credit.** The partially-refundable American Opportunity Credit has been extended for five years.

**State and local general sales taxes.** The deduction on Schedule A, Form 1040, for state and local general sales taxes has been extended through 2013.

**Educator expenses.** The adjustment to income for educator expenses for primary and secondary teachers has been extended through 2013.

**Qualified principal residence indebtedness.** The exclusion from income for qualified principal residence indebtedness has been extended through 2013.

**Mortgage insurance premiums.** The deduction for mortgage insurance premiums as mortgage interest on Schedule A, Form 1040, has been extended through 2013.

**Tuition and fees.** The adjustment to income for tuition and fees has been extended through 2013.

**Charitable distribution of IRAs.** The provision allowing tax-free distributions from IRAs for charitable purposes has been extended through 2013.

## **AGI Phaseouts**

**Phaseout on itemized deductions.** Beginning in 2013, itemized deductions will begin to phase out for taxpayers with AGI of \$250,000 or more Single, \$275,000 or more Head of Household, or \$300,000 or more Married Filing Jointly.

**Phaseout of personal exemptions.** Beginning in 2013, personal exemptions will begin to phase out for taxpayers with AGI of \$250,000 or more Single, \$275,000 or more Head of Household, or \$300,000 or more Married Filing Jointly.

## **Estate Tax**

Beginning in 2013, the estate tax rate will increase from 35% to 40% for estates that exceed \$5 million in value.

## **Energy Tax Extenders**

A variety of energy tax credits have been extended for energy-efficient homes, alternative fuel vehicle refueling property, and energy-efficient appliances.

### **Marriage Penalty**

In 2001, legislation enacted marriage penalty relief to avoid a higher tax bill for a married couple as compared to two single individuals. As evidenced by the \$400,000/\$450,000 income thresholds for increased tax rates and standard deduction, the provisions for marriage penalty relief expired beginning in 2013.

### **Unemployment Compensation**

The temporary extension for unemployment benefits has been extended for one year.

### **Sequestration**

The mandated sequestration spending cuts that were scheduled to take effect at the end of 2012 were delayed for two months by the new legislation.