

Supplement

AMERICAN TAXPAYER RELIEF ACT OF 2012

SIGNED INTO LAW JANUARY 3, 2013

YOUR AND YOUR FAMILY

- Income tax rates increase to 39.6% in 2013 for taxable income above \$400,000 (Single), \$450,000 (MFJ), and \$425,000 (HH). The 10%, 15%, 25%, 28%, 33%, and 35% rates remain intact.
- “Marriage penalty” relief has been permanently extended: the standard deduction and 15% income tax bracket for MFJ will remain twice that of Single.
- AMT exemption amounts for 2012 retroactively increased to \$50,600 (Single), \$78,750 (MFJ), \$39,375 (Married, filing sep’y). Exemption amounts will be indexed to inflation annually beginning in 2013.
- A phaseout of itemized deductions and a phaseout of personal exemptions will apply in 2013 for those at income levels of: \$250,000 (Single), \$300,000 (MFJ), \$275,000 (HH), and \$150,000 (Married, filing sep’y).
- Extended permanently or through 2017: the Earned Income Credit; the Adoption Credit; the Child Tax credit; the Child and Dependent Care Credit; the American Opportunity Tax Credit.
- Extended through 2013 (and retroactively for 2012): tax deductions for state and local sales tax in lieu of income taxes; the above-the-line deduction for eligible college expenses; the deduction for teachers’ supplies up to \$250; tax-free direct transfers up to \$100,000 to eligible charities by IRA holders age 70 ½ and older. (There are special transition rules for donations made in December 2012 or January 2013. See your advisor.)
- The employee portion of Social Security payroll tax reverts back to 6.2% in 2013 on the first \$113,700 of wages.

INVESTMENTS

- The top rate for capital gains and dividends rises to 20% for those in the new 39.6% income tax bracket. (See above.) This does not include the 3.8% surtax on net investment income for high incomers as defined by the Affordable Care Act enacted previously.

ESTATE PLANNING

- The estate tax rate rises to 40% in 2013 with a \$5 million exclusion (adjusted annually for inflation).
- “Portability” between spouses becomes permanent.
- The unified estate and gift tax exemption and the generation-skipping tax exemption rise to \$5 million (adjusted annually for inflation) and the top tax rate to 40% in 2013 and beyond.

BUSINESS

- Extended through 2013: higher Section 179 expensing limit of \$500,000 with a \$2 million investment limit; rule allowing for computer software as part of Section 179 expensing; 50% bonus depreciation; the R & D credit; the Work Opportunity Tax Credit for non-veteran groups and qualified veterans; the 15 year recovery period for certain assets.