"American Tax Payer Relief Act Effective January 1, 2013"

To prevent our country from falling over the fiscal cliff, Congress passed the American Tax Payer Relief Act ("ATRA") on January 1, 2013. President Obama signed the bill into law on January 2, 2013.

The bill makes permanent many of the "temporary" Bush tax cuts which were expiring on December 31, 2012. It also extended other expiring tax cuts temporarily. The following is a summary of ATRA.

Individuals:

1. ATRA permanently retains the Bush tax cuts for the 10%, 15%, 25%, 28% and 33% income tax brackets. However, those filing single who earn $400,000 or more will have their taxes increased from 35% to 39.6%. This "threshold" amount differs based on how the taxpayer files. A summary of the filers who will be paying the new 39.6% rate is as follows:

   a. Married Filing Jointly/Qualifying Widow:
   $450,000 threshold

   b. Head of Household
   $425,000 threshold

   c. Single
   $400,000 threshold

   d. Married Filing Separate:
   $225,000 threshold

2. For those who fall within the above 39.6% bracket, their long term capital gains and qualified dividends increase to 20%. Otherwise, the long term capital gains and qualifying dividends remain at 15%.

3. The alternative minimum tax ("AMT") provide the following exemptions:

   a. Married Filing Jointly/Qualifying Widow:
   $78,750

   b. Single:
   $50,600

   c. Head of Household:
   $50,600

   d. Married Filing Separate:
   $39,375

4. Itemized Deductions are now limited in that certain deductions are reduced by 3% of the tax payer's adjusted gross income (AGI) over the threshold amount or by 80% of the allowable itemized deductions, whichever is less. Your deductions will start to be decreased at the following ceilings:

    a. <u>Married Filing Jointly/Qualifying Widow</u>:
    $300,000 of AGI

    b. <u>Head of Household</u>:
    $275,000 of AGI

    c. <u>Single</u>:
    $250,000 of AGI

    d. <u>Married Filing Separately</u>:
    $150,000 of AGI

The above-amounts are adjusted for inflation commencing 2014.

5. <u>Other Changes</u>:
    a. The rule that the student loan interest deduction can only be claimed during the first 16 months of repayment is eliminated and the interest deduction is permanently extended throughout the life of the loan.

    b. The child care credit is maximized at $1,000 and becomes permanent. The dependent tax care credit also becomes permanent. Day care expenses up to $3,000 for one child and $6,000 for two or more children qualify for the tax credit.

    c. The adoption credit up to $10,000 becomes permanent.

    d. The earned income tax credit for families of three or more becomes permanent.

    e. The American Opportunity Tax Credit is extended through the end of 2017.

    f. The $2,000 contribution allowance to education savings account becomes permanent.

    g. Employer educational assistance becomes permanent and employers are permitted to reimburse employees for undergraduate and graduate level courses.

Estate and Gift Tax:

a. The Estate and Gift Tax exemption and the generation skipping tax exemption permanently remain at $5,120,000 per person and $10,240,000 for two spouses.

b. These exemptions increase in future years for inflation.

c. The Unified Estate and Gift Tax rate (as well as the generation skipping tax rate) increases from 35% to 40%.

d. ATRA now allows a spouse to transfer to the surviving spouse their unused estate tax exemption.

e. No limitation in the use of GRATS (Grantor Retained Annuity Trusts).

Business/Corporations:

The following business tax provisions were extended to 2013 but were not made permanent:

a. Minimum low income tax credit rate for non-federally subsidized new buildings.

b. New markets tax credit.

c. Employer wage credit for employees who are active duty members of the Uniform Services.

d. Work opportunity tax credit.

e. Enhanced charitable deduction for contributions of food inventory.

f. Increased expensing limitations with the section 179 dollar limit for tax years 2012 to 2013 to be $500,000 with an investment based phase out of $2,000,000.

g. The additional 50% first year bonus depreciation deduction.

h. The inclusion of qualified leasehold property, qualified restaurant property and qualified retain improvement property in the 15 year class for depreciation purposes.

i. Special expensing rules for certain film and television productions.

j. Certain international tax provisions relating to foreign investments in real property.

k. Temporary exclusion of 100% of gain on certain small business stock.

l. Basis adjustment to stock of “S” corporations making charitable contributions of property.

m. Reduction in “S” corporation recognition period for built in gains tax.

n. Empowerment zone incentives.

o. Research credit.

<u>Energy Incentives</u>:

There were certain tax incentives that had previously expired but were extended through 2013 and not made permanent.

a. The credit for energy efficient existing homes.

b. The credit for alternative fuel vehicle refueling property.

c. The credit for two or three wheel plug in electric vehicles.

d. The credit for energy efficient new homes.

e. The credit for energy efficient new appliances.

f. Alternative fuels excise tax credit.

<u>Increased Taxes</u>:

ATRA increased the taxes on the following individuals:

a. The FICA tax for individual wage earners and self-employed individuals went from 4.2 to 6.2 percent on earned income up to the social security yearly ceiling of $113,700 in 2013.

b. To pay for Obama Care, the tax on net investment income for high income earners increased to as high as 23.8%. The definition of “high income” earner is different than stated previously in that a high income earner under Obama Care for single tax payers is $200,000 and those filing married filing jointly is $250,000.

c. The preferential tax rate given to Hedge Fund and private equity fund managers remained unchanged.

Tax Summary:
Many of the taxes were extended by a mere three months until the end of March, 2013 when Congress must address the increase of the debt ceiling. Therefore, many of these tax code provisions are subject to further change at the end of March, 2013. Therefore, our firm will address additional changes as they occur.

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