



Tax Law Change Update

American Taxpayer Relief Act addresses the “fiscal cliff”

The American Taxpayer Relief Act averts the United States’ descent over the “fiscal cliff” — a combination of higher taxes and forced spending cuts scheduled to go into effect in 2013. The act prevents income tax rate increases for about 98% of taxpayers and makes other changes affecting individuals and businesses. Here’s a brief summary of the most important provisions.

Individual tax provisions

- Makes permanent 2012 ordinary-income tax rates, ranging from 10% to 35%
- Increases the top marginal tax rate to 39.6% on taxable income in excess of the applicable threshold of \$400,000 (singles), \$425,000 (heads of households) or \$450,000 (married filing jointly)
- Allows the scheduled 2013 return of the limits on certain itemized deductions and personal exemptions — setting limit thresholds of \$250,000 (singles), \$275,000 (heads of households) and \$300,000 (married filing jointly)
- Makes permanent 2012 long-term capital gains rates of 0% and 15%
- Increases long-term capital gains rate to 20% for taxpayers with taxable income exceeding \$400,000 (singles), \$425,000 (heads of households) or \$450,000 (married filing jointly)
- Makes permanent long-term capital gains treatment for qualified dividends
- Makes permanent (and retroactive to Jan. 1, 2012) alternative minimum tax (AMT) relief
- Extends the deduction for state and local *sales* tax in lieu of state and local *income* tax
- Extends various child- and education-related credits and deductions
- Extends the ability of taxpayers age 70½ or older to make a direct tax-free rollover from an IRA to charity
- Extends certain home and energy-related breaks
- Increases the top estate tax rate to 40%
- Maintains the estate tax exemption amount at \$5 million, inflation-adjusted annually

Business tax provisions

Several valuable tax breaks for businesses have been extended, such as:

- Bonus depreciation
- Enhanced Section 179 expensing
- Accelerated depreciation for qualified leasehold, retail and restaurant improvements
- The Work Opportunity credit
- The research and development credit
- Certain energy-related breaks

The impact on you

We’ve touched on only some of ATRA’s numerous provisions here. In addition, many breaks are subject to a variety of rules and limitations. So be sure to discuss them with your tax advisor to determine exactly how they’ll affect you. We’d be pleased to help. ▶