
Tax Issues Addressed in Fiscal Cliff Legislation

If you have been following all the political drama connected with the "fiscal cliff," you know that Congress finally passed legislation that dealt with the tax portion of the issue, leaving the spending half of the problem for later resolution. Here are the highlights of the new tax law, the "American Taxpayer Relief Act of 2012."

- \$ The Bush-era income tax rates are extended permanently for all but taxpayers whose income exceeds \$400,000 (single), \$425,000 (head of household) or \$450,000 (married couples filing jointly). Those higher-income taxpayers will have income above these threshold amounts taxed at 39.6%, and other taxpayers will pay at rates ranging from 10% to 35%.
- \$ Long-term capital gains and dividends for taxpayers with income in the 39.6% bracket will be taxed at a top rate of 20%. Taxpayers in the two lowest ordinary income rates (10% and 15%) will have a zero percent rate on capital gains and dividends. Those in all other brackets will continue to have a 15% rate on capital gains and dividends.
- \$ The alternative minimum tax is permanently "fixed," with 2012 exemption amounts set at \$50,600 for singles and \$78,750 for couples. These amounts will be adjusted annually for inflation.
- \$ Itemized deductions and personal exemptions will again be limited for singles with adjusted gross income exceeding \$250,000 (\$300,000 for married couples).
- \$ The estate and gift tax exemption is permanently set at \$5,000,000 (with annual inflation adjustments), and the top tax rate is set at 40%.
- \$ First-year expensing for business equipment purchases is increased for 2012 and 2013 to \$500,000, with a \$2,000,000 investment limit. 50% bonus depreciation is extended through 2013.
- \$ The business research and development credit and the work opportunity tax credit are extended through 2013.
- \$ Among the tax breaks reinstated for 2012 and 2013 are the educator expense deduction, the optional deduction for state and local sales taxes, the deduction for college tuition and fees, and the income exclusion for charitable distributions from IRAs for older taxpayers.

The new law has a number of other provisions that may have an impact on your tax and business situation. For additional information, contact me.