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▪ Summary of American Taxpayer Relief Act of 2012 ▪

Dear Clients, Colleagues, and Friends:

Some of the tax provisions relating to the fiscal cliff have been settled for now. President Obama has signed into law the American Taxpayer Relief Act of 2012 (the Act). The Act allows for increases in tax rates on the nation's highest earners and also extends dozens of tax cuts for individuals and businesses. Below are several highlights:

The Act's Longer Term Individual Provisions Starting 2013:

- √ Raises the top tax rate to 39.6% for married couples earning \$450,000 and single taxpayers earning \$400,000. These amounts will be indexed for inflation.
- √ Raises the long-term capital gains and qualifying dividends tax rate to 20% (from 15%) for taxpayers in the 39.6% tax bracket for regular and alternative minimum tax.
- √ Permanently extends Bush-era tax cuts from 2001 and 2003 for all other taxpayers. Thus, for most taxpayers their taxes are not changing.
- √ Patches the AMT for **2012** and adjusts the exemption amount for inflation going forward.
- √ Reinstates phase-out of personal exemptions and overall limitation on itemized deductions for married couples filing jointly earning over \$300,000 and single taxpayers earning over \$250,000.
- √ Raises the maximum estate tax rate to 40% but keeps the exemption amount at \$5 million, adjusted for inflation.
- √ Extends for 5 years (through 2018) the American Opportunity Tax Credit to pay for higher education.
- √ Special relief for families with 3 or more children for the refundable portion of the child tax credit.
- √ Increased percentage for the earned income tax credit.

Individual Provisions Extended through 2013:

- √ Above-the-line deduction for teacher expenses
- √ Relief from cancellation of debt income for principal residences
- √ Deduction for mortgage insurance premiums as interest
- √ Election to deduct state and local sales taxes in lieu of income taxes
- √ Above-the-line deduction for qualified education expense
- √ Tax-free distributions from IRA accounts for charitable purposes

Business Provisions Extended through 2013:

- √ Extends 50% bonus depreciation
- √ The Section 179 asset expensing at \$500,000
- √ Other tax business provisions that were extended include:
 - The research credit
 - Work opportunity credit
 - Section 1202 stock exclusion at 100%
 - Empowerment zone incentives

Some Tax Provisions that ARE NOT in the Act:

- √ The 2% reduction for employment taxes was not extended
- √ The president campaigned on raising top rates starting at \$200,000 and \$250,000
- √ Qualified dividends are not taxed at the highest marginal rates
- √ A large (as compared to the old \$25,000 limit) Sec. 179 asset expense election was not made permanent. However, most likely after 2013 businesses will still be able to quickly write off assets through either an extension of bonus depreciation or a robust Sec. 179.

The above are only general statements of some of the provisions of the Act. Of course the details are much more extensive and this Newsletter is designed to provide a basic understanding of how some of the major tax laws are beginning for 2013. If you have any questions or would like further information regarding the Act, please contact us via email at paul@paulhburgess.com or by phone at 918-599-7755.

For information about other tax, accounting, business, and estate planning topics, see our website at paulhburgess.com or by scanning the QR Code in the letterhead.