



GILLAM & ZETZL, INC.

Certified Public Accountants

American Taxpayer Relief Act of 2012

Dear Clients,

Congressional gridlock delayed passage of necessary tax legislation until January 2, 2013 that was made retroactive in many cases to January 1, 2012. As a result of the late changes made by Congress, the IRS has announced that the earliest processing of 2012 income tax returns will be delayed until January 30, 2013 for individuals and early March 2013 for most businesses. Farm returns which are typically due on March 1st have been granted relief with a one-time alternative filing date of April 15, 2013. Specifically the bill:

- Raises the top tax rate to 39.6% for married couples earning \$450,000; single taxpayers earning \$400,000. These amounts will be indexed for inflation.
- Raises 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.
- Reinstates phaseout of personal exemptions and overall limitations 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 \$5,000,000, adjusted for inflation to \$5,250,000 for 2013.
- Extends for 5 years (through 2018) the American Opportunity Tax Credit to pay for higher education, and special relief for families with 3 or more children for the refundable portion of the child tax credit and increased percentage for the earned income tax credit.
- Patches the AMT for 2012 and adjusts the exemption amount for inflation going forward.
- Extends through 2013 the following individual tax benefits; 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 expenses, tax-free distributions from IRA accounts for charitable purposes.
- Extends through 2013 certain business tax provisions that expired at the end of 2011 including: the research credit, the work opportunity credit, the Section 179 asset expensing at \$500,000 and 50% bonus depreciation.
- Extends through 2013 certain energy tax incentives that expired at the end of 2011 including: energy efficient credit for existing homes, wind credit and energy efficient credit for new homes.

Key provisions from prior legislation will begin impacting 2013 as well, including:

- Reversion of the employee portion of Social Security from 4.2% to 6.2%.
- A 0.9% Medicare surtax on earned income kicks in when earned income exceeds \$250,000 for married filing jointly and \$200,000. Earned income includes self-employment income and wages.
- A 3.8% Medicare surtax on net investment income is effective when modified adjusted gross income exceeds \$250,000 for married filing jointly and \$200,000. Investment income includes interest, dividends, capital gains, annuities, royalties and most rental income. Retirement income is not included.
- Raises the threshold for deducting medical expenses to 10% (from 7.5%) of adjusted gross income for taxpayers under age 65.

If you need clarification for any of the above changes please contact our office.

Sincerely,

Gillam & Zetzl, Inc.