

AMERICAN TAXPAYER RELIEF ACT OF 2012

The agreement to avoid the fiscal cliff has been finalized. The agreement is the American Taxpayer Relief Act (ATRA) of 2012. Here are the highlights for businesses and individuals:

CODE SECTION 179 SMALL BUSINESS EXPENSING

ATRA extends enhanced small business expensing of equipment purchases through 2013. For tax years 2012 and 2013 businesses can deduct up to \$500,000 of equipment purchases each year. Without ATRA the expensing limit for 2012 was scheduled to be \$139,000 and \$25,000 for 2013.

BONUS DEPRECIATION

ATRA extends the 50% bonus depreciation through 2013. Without ATRA bonus depreciation would have ended after 2012.

INDIVIDUAL INCOME TAX RATES

ATRA makes permanent for 2013 and beyond the lower Bush-era income tax rates for all, except those with taxable income above \$400,000 (\$450,000 for married taxpayers). Income above these levels will be taxed at a 39.6% rate. In other words if your "taxable income" is less than the \$400,000 or \$450,000 then your taxes will not go up because of ATRA. Note the threshold is "taxable income" and not adjusted gross income.

CAPITAL GAINS/DIVIDENDS TAX RATES

ATRA does raise the top rate on capital gains and dividends to 20% from 15%, but only on those taxpayers whose taxable income exceeds the \$400,000/\$450,000 thresholds. If your taxable income is less than the threshold then the top rate remains 15% and if you are in the 15% or 10% bracket then you pay no tax on your capital gains or dividends.

PERMANENT AMT RELIEF

ATRA "patches" the Alternative Minimum Tax (AMT) for 2012 and subsequent years. It also provides for an annual inflation adjustment for 2013 and future years. This should prevent AMT from affecting most taxpayers going into the future.

LIMITATION ON ITEMIZED DEDUCTIONS AND PERSONAL EXEMPTIONS BROUGHT BACK

ATRA does re-establish the limitation on itemized deductions and personal exemptions, albeit at higher income thresholds than before. If your adjusted gross income (AGI) is over \$250,000 (\$300,000 for married taxpayers) then your itemized deductions and personal exemptions on your tax return will be decreased.

FEDERAL ESTATE AND GIFT TAX

ATRA permanently provides for a maximum federal estate tax rate of 40% with an annually inflation-adjusted \$5 million exclusion for estates. It also makes permanent the \$5 million lifetime exclusion for gifts.

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STATE AND LOCAL SALES TAX DEDUCTION

ATRA extends through 2013 the election to claim sales tax as an itemized deduction.

CHILD TAX CREDIT

ATRA extends permanently the \$1,000 child tax credit. Without ATRA the child tax credit was scheduled to revert after 2012 to \$500 per qualifying child (dependents under age 17).

EARNED INCOME CREDIT

ATRA makes permanent or extends through 2017 enhancements to the earned income credit.

AMERICAN OPPORTUNITY TAX CREDIT (AOTC)

ATRA extends through 2017 the AOTC, which is an enhanced tuition credit and includes a refundable provision.

COVERDELL EDUCATION SAVINGS ACCOUNTS

ATRA extends permanently Bush-era enhancements to Coverdell ESAs. These enhancements include a \$2,000 maximum annual contribution amount and treatment of elementary and secondary school expenses as well as post-secondary expenses as qualified expenditures.

TEACHERS' CLASSROOM EXPENSE DEDUCTION

ATRA extends through 2013 the teachers' classroom expense deduction. The deduction, which expired after 2011, allows primary and secondary education professionals to deduct qualified expenses up to \$250 paid out-of-pocket during the year.

MORTGAGE INSURANCE PREMIUMS

ATRA extends through 2013 the deduction of mortgage insurance premiums. This deduction originally expired after 2011.

IRA DISTRIBUTIONS TO CHARITY

ATRA extends through 2013 the provision allowing tax-free distributions from individual retirement accounts (IRAs) to public charities by individuals age 70 ½ or older, up to a maximum of \$100,000 per taxpayer per year.

HOW MUCH DOES ALL OF THIS COST US TAXPAYERS?

According to the Congressional Budget Office ATRA costs \$1.435 trillion dollars in tax cuts and raises \$105 billion dollars in revenue over ten years. In other words ATRA costs \$1.33 trillion dollars more than it earns. I wonder how long we can afford to kick this can down the road.