Alpern Rosenthal Shares Advice on the Impact of the American Taxpayer Relief Act of 2012

/EINPresswire.com/ The bill, known as The American Taxpayer Relief Act of 2012, extends many provisions of the 2001 and 2003 tax cuts while hoping there will be opportunities for broader tax reform.

With the sequester cuts looming in March and the debt limit approaching, it is highly probable that tax policy will continue to be prominent in the national narrative in 2013. The future still remains uncertain, but the current legislation answers many questions that were previously unknown.

Rates

For 2013, a new top marginal tax bracket has been created for high earners. Taxable income over $450,000 for married taxpayers filing joint returns ($400,000 for single filers) will be taxed at 39.6 percent. Also for taxpayers in this bracket, the long-term capital gains rate will increase to 20 percent, but only on the amount that exceeds $450,000. If the taxpayers taxable income exceeds $450,000 before considering their long-term capital gain, then the entire amount of their long-term capital gain will be subject to the 20 percent.

For taxpayers with taxable income below this amount, the 2001 and 2003 tax cuts were largely extended.

High income individuals may also be subject to the 3.8 percent Medicare surtax on net investment income that goes into effect for 2013 as a result of the Patient Protection and Accordable Care Act. This provision imposes the tax on net investment income, but not to exceed the amount by which a taxpayer's adjusted gross income exceeds a threshold ($250,000 for joint filers, $200,000 for single filers).

Congress declined to extend the two percent reduction in Social Security tax paid by employees. For 2013, employees will pay 6.2 percent in Social Security tax on wages up to $113,700. With tax legislation passed as part of the health care overhaul, an additional 0.9 percent in Medicare taxes will be levied on earned income over $250,000 for joint filers and $200,000 for single filers.

Notable Business Provisions

The 50 percent bonus depreciation benefit has been extended through 2013. In addition, the section 179 deduction has been extended through 2012 and 2013. Taxpayers will still be able to deduct up to $500,000 if the total capital investment does not exceed $2,000,000.

Also, the class life for qualified leasehold and restaurant property will remain at 15 years. This would have increased to 39 years for leasehold property if Congress failed to act, and restaurants would have lost qualified property privileges altogether.

The research and development credit was also extended for 2012 and 2013, however, it was not made permanent.

The work opportunity credit was extended, allowing employers who hire from targeted groups to recoup a portion of that employee's salary up to $6,000, or $9,600 for some qualified veterans.

Further, the 100 percent exclusion on gain for qualified small business stock was extended. Gains from qualified stock held for more than five years can be excluded from income up to $5 million.

Itemized Deductions, Pease Limitations, and Exemptions

Pease limitations will once again be in effect beginning in 2013. The Pease limitation limits itemized deductions for taxpayers with adjusted gross income over a threshold amount that is adjusted for inflation. However, Congress was more generous than inflation when determining a threshold. Without Congressional action, the threshold would have been reinstated at $178,150 for joint filers. These limitations will go into effect at $300,000 of AGI for joint filers and $250,000 for single filers. Three percent of the excess AGI will be subtracted from the itemized deductions, with a maximum limitation of 80 percent.

Similar to the Pease limitation, personal exemption amounts will be phased out for taxpayers with AGI over the same thresholds noted above. The personal exemption will be phased out by two percent for each increment of $2,500 over the AGI threshold. While the IRS has not yet issued guidance regarding the 2013 exemption amount, it is estimated to be $3,900. Thus, a taxpayer and spouse filing jointly with AGI of $350,000 and no dependents would have personal exemptions reduced to $4,680 from $7,800.

Congress also extended the provisions allowing premiums for mortgage insurance to be deducted as qualified residence interest.

Taxpayers will continue to have the option to deduct state and local sales taxes in lieu of state and local income taxes. This is beneficial for taxpayers who live in states that do not have a personal income tax or who have made large purchases during the tax year.

Retirement Accounts

Taxpayers with a 401k retirement plan will now be able to convert their portfolio to a Roth 401k. This was allowed previously, but the funds had to be considered distributable. Under the new legislation, that requirement no longer applies and taxpayers across the board can convert their holdings to Roth by paying the tax due on the amount transferred, provided their plan offers designated Roth accounts and allows the rollover.

Credits

Permanent extensions were also granted to the child tax credit, which remains at $1,000, and the earned income credit. The child and dependent care credit was also extended.

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For more information on AMT/education expense and other tax issues, please contact Alpern Rosenthal.

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