

# Tax law changes to consider before filing

By Mike Slotopolsky

**Many new tax provisions have been enacted – including the elimination of the 2% payroll tax cut – so be sure to speak to your tax professional in order to make the most of your 2012 tax return.**

**MANY OF YOU ARE GETTING READY** to file tax returns and the recently enacted 2012 American Taxpayer Relief Act – a sweeping tax package that includes a permanent extension to the Bush-era tax cuts, revised tax rates on ordinary and capital gain income for high-income individuals, modification of the estate tax, permanent relief from the alternative minimum tax (AMT), limits on deductions and exemptions of high-income individuals, and a host of retroactively resuscitated and extended tax breaks for individuals and businesses – will probably affect what this year's return looks like.

• For tax years beginning after 2012, the 10%, 15%, 25%, 28%, 33%, and 35% tax brackets from the Bush tax cuts will remain in place and are permanent. This means for most Americans the tax rate stays the same. However, there's a new 39.6% rate for the following thresholds: $400,000 (single); $425,000 (head of household); $450,000 (joint filers and qualifying widow(er)s); and $225,000 (married filing separately). These dollar amounts will be inflation-adjusted for tax years after 2013.

• The new law prevents steep increases in estate, gift, and generation-skipping transfer (GST) taxes that were slated to occur for individuals dying and gifts made after 2012 by permanently keeping the exemption level at $5 million. However, the new law also permanently increases the top estate, gift, and GST rate from 35% to 40% as well as continues the portability feature that allows the estate of the first spouse to die to transfer unused exclusion to the surviving spouse.

• The new law retains the 0% tax rate on long-term capital gains and qualified dividends, modifies the 15% rate, and establishes a new 20% rate. Beginning in 2013, the rate is 0% if income falls below the 25% tax bracket; 15% if income falls at or above the 25% tax bracket, but below the new 39.6% rate; and 20% if income falls in the 39.6% tax bracket. It should be noted that the 20% top rate doesn't include the new 3.8% surtax on investment-type income and gains for tax years beginning after 2012 which applies on investment income above $200,000 (single) and $250,000 (joint filers). So the top rate for capital gains and dividends starting in 2013 is 23.8% in the 39.6% tax bracket. For lower income levels, the tax is 0%, 15%, or 18.8%.

• Beginning in 2013, personal exemptions are phased out for AGI over $250,000 (single), $275,000 (head of household) and $300,000 (joint filers). Last year, each exemption was worth $3,800.

• Beginning in 2013, itemized deductions will be limited for AGI over $250,000 (single), $275,000 (head of household), and $300,000 (joint filers).

• The new law provides permanent alternative minimum tax (AMT) relief. Prior to the act, the individual AMT exemption amounts for 2012 were to have been $33,750 for unmarried taxpayers, $45,000 for joint filers, and $22,500 for married persons filing separately. Retroactively effective for tax years beginning after 2011, the new law permanently increases these exemption amounts to $50,600 for unmarried taxpayers, $78,750 for joint filers, and $39,375 for married persons filing separately. In addition, for tax years beginning after 2012, it indexes these exemption amounts for inflation. For 2013, the AMT exemption amounts are $51,900 for unmarried taxpayers, $80,800 for joint filers, and $40,400 for married persons filing separately.

• The new law extends for five years the following items that were originally enacted as part of the 2009 stimulus package and were slated to expire at the end of 2012: the expanded American Opportunity tax credit, which provides up to $2,500 in refundable tax credits for undergraduate college education; favorable rules for determining the refundable portion of the child tax credit; and various earned income tax credit (EITC) changes.

• The new law extends increased expensing limitations and treatment of certain real property as well as extends and modifies the bonus depreciation provisions with respect to property placed in service after Dec. 31, 2012.

Don't forget to ask your tax professional about these changes. ❑

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