The 2012 Taxpayer Relief Act

2013 Tax Law Change Highlights

Presented by

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AMT Patch

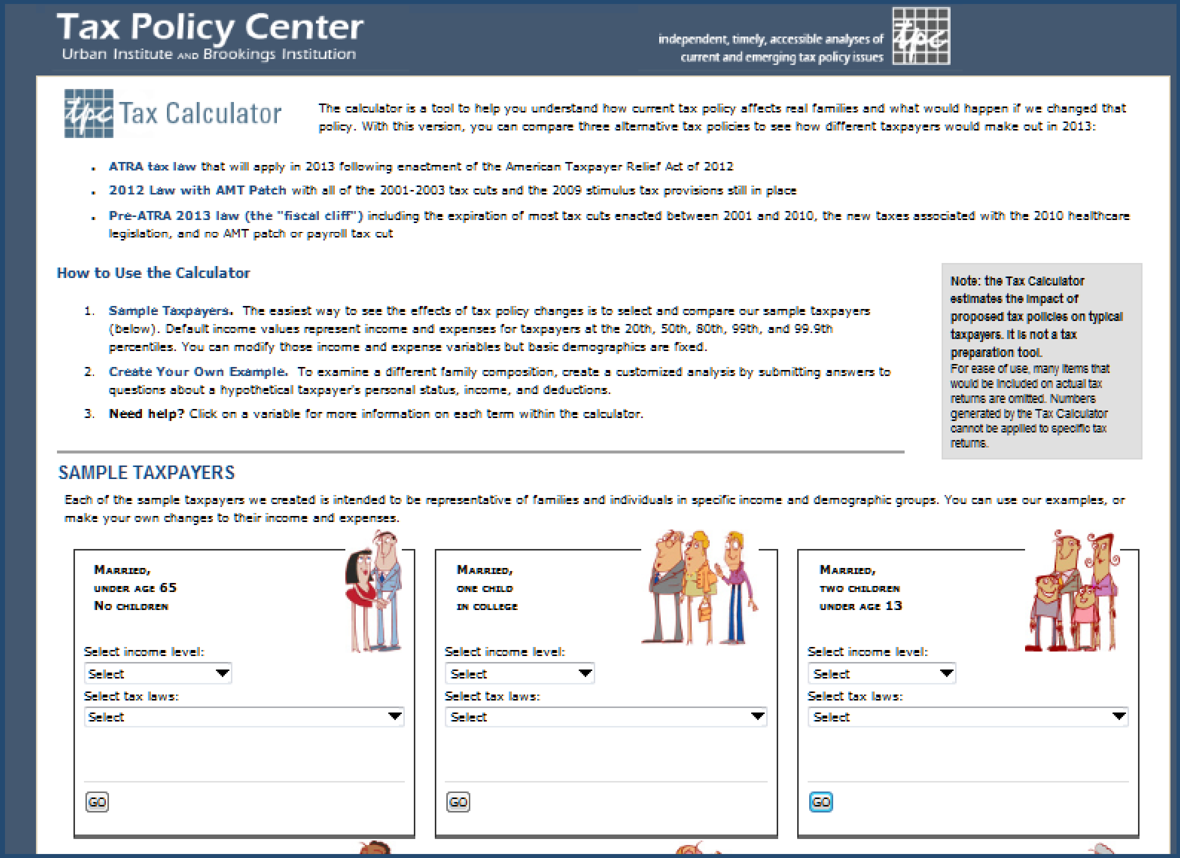
- Retroactively effective for 2012
- Exemption permanently increased
- $50,600 for unmarried taxpayers,
- $78,750 for joint filers
- $39,375 for married persons filing separately.
- After 2012, indexed for inflation.

2013 MFJ Rate Schedule

Beginning at	And ending at	Ordinary Tax Rate	Investment Income Surtax	Itemized Deduction Phase-out	Capital Gain	Earned income surtax	FICA Tax	Medicare Tax	Interest Income	Dividend & Capital Gain Income	W-2 Income
-	17,400	10.0%			0.0%		6.2%	1.45%	10.0%	0.0%	17.65%
17,400	70,700	15.0%			0.0%		6.2%	1.45%	15.0%	0.0%	22.65%
70,700	113,700	25.0%			15.0%		6.2%	1.45%	25.0%	15.0%	32.65%
113,700	142,700	25.0%			15.0%			1.45%	25.0%	15.0%	26.45%
142,700	217,450	28.0%			15.0%			1.45%	28.0%	15.0%	29.45%
217,450	250,000	33.0%			15.0%			1.45%	33.0%	15.0%	34.45%
250,000	300,000	33.0%	3.8%		15.0%	0.9%		1.45%	36.8%	18.8%	35.35%
300,000	388,350	33.0%	3.8%	1.0%	15.0%	0.9%		1.45%	37.8%	19.8%	36.35%
388,350	450,000	35.0%	3.8%	1.0%	15.0%	0.9%		1.45%	39.8%	19.8%	38.35%
450,000		39.6%	3.8%	1.0%	20.0%	0.9%		1.45%	44.4%	24.8%	42.95%

Calculators

- http://calculator2.taxpolicycenter.org/index.cfm


Tax Policy Center
Urban Institute AND Brookings Institution
independent, timely, accessible analyses of current and emerging tax policy issues

Tax Calculator

The calculator is a tool to help you understand how current tax policy affects real families and what would happen if we changed that policy. With this version, you can compare three alternative tax policies to see how different taxpayers would make out in 2013:

- **ATRA tax law** that will apply in 2013 following enactment of the American Taxpayer Relief Act of 2012
- **2012 Law with AMT Patch** with all of the 2001-2003 tax cuts and the 2009 stimulus tax provisions still in place
- **Pre-ATRA 2013 law (the "fiscal cliff")** including the expiration of most tax cuts enacted between 2001 and 2010, the new taxes associated with the 2010 healthcare legislation, and no AMT patch or payroll tax cut

How to Use the Calculator

1. **Sample Taxpayers.** The easiest way to see the effects of tax policy changes is to select and compare our sample taxpayers (below). Default income values represent income and expenses for taxpayers at the 20th, 50th, 80th, 99th, and 99.9th percentiles. You can modify those income and expense variables but basic demographics are fixed.
2. **Create Your Own Example.** To examine a different family composition, create a customized analysis by submitting answers to questions about a hypothetical taxpayer's personal status, income, and deductions.
3. **Need help?** Click on a variable for more information on each term within the calculator.

Note: the Tax Calculator estimates the impact of proposed tax policies on typical taxpayers. It is not a tax preparation tool.
For ease of use, many items that would be included on actual tax returns are omitted. Numbers generated by the Tax Calculator cannot be applied to specific tax returns.

SAMPLE TAXPAYERS

Each of the sample taxpayers we created is intended to be representative of families and individuals in specific income and demographic groups. You can use our examples, or make your own changes to their income and expenses.

MARRIED, UNDER AGE 65 NO CHILDREN
Select income level: Select
Select tax laws: Select
GO

MARRIED, ONE CHILD IN COLLEGE
Select income level: Select
Select tax laws: Select
GO

MARRIED, TWO CHILDREN UNDER AGE 13
Select income level: Select
Select tax laws: Select
GO

Capital Gains Rates

- For taxpayers with incomes exceeding $400,000 ($450,000 for married taxpayers), the top rate for capital gains and dividends will permanently rise to 20% (up from 15%)
- Including the 3.8% surtax on investment-type income, the overall rate for higher-income taxpayers will be 23.8%.

Higher tax rate on net capital gains

- For taxpayers whose ordinary income is generally taxed at a rate below 25%, capital gains and dividends will permanently be subject to a 0% rate.
- Taxpayers who are subject to a 25%-or-greater rate on ordinary income, but whose income levels fall below the $400,000/$450,000 thresholds, will continue to be subject to a 15% rate on capital gains and dividends.
- The rate will be 18.8% for those subject to the 3.8% surtax (MAGI over $250,000 for joint filers)

Pease Limitation

- Taxpayers with incomes > $300,000 will once again reduce the amount of itemized deductions allowed by the lesser of: (1) 3% of the excess of AGI over the threshold amount; or (2) 80% of the itemized deductions that could otherwise be taken.

- In general, the addition to the statutory tax rate due to the Pease limitation is determined by multiplying 3% by the taxpayer's marginal statutory rate.

35% = 1.05%   39.6% = 1.2%

Pease Limitation

- “A couple with income of $400,000 average about $50,000 in itemized deductions, according to IRS statistics. Because their income would exceed the $300,000 threshold by $100,000 their allowed deductions would be reduced by about $3,000 to $47,000 – potentially boosting their tax bill by about $1,000” *WSJ 1/3/2013*

Return of the Personal Exemption Phase-out (PEP)

- The personal exemption phase-out (PEP) is designed to reduce or eliminate altogether the benefit of personal and dependency exemptions for higher-income taxpayers (MFJ > $300,000, S > $250,000

- Those taxpayers will have to reduce the total of their exemptions by 2% for every $2,500 by which their AGI exceeds the threshold amount for their filing status, which is indexed for inflation

- The tax effect depends on the number of exemptions the taxpayer could claim. Therefore, one cannot determine a variable tax rate with respect to PEP to add to the statutory rate.

Historical individual extenders revived for 2012 and continued through 2013.

- the deduction for certain expenses of elementary and secondary school teachers
- the exclusion for discharge of qualified principal residence indebtedness, which applied for discharges before Jan. 1, 2013 and which is now continued to apply for discharges before Jan. 1, 2014;
- parity for the exclusions for employer-provided mass transit and parking benefits
- the treatment of mortgage insurance premiums as qualified residence interest

Tax Extenders revived for 2012 and continued through 2013

- the option to deduct State and local general sales taxes
- the special rule for contributions of capital gain real property made for conservation purposes
- the above-the-line deduction for qualified tuition and related expenses

Individual tax credits

- The American Opportunity tax credit, which permits eligible taxpayers to claim a credit equal to 100% of the first $2,000 of qualified tuition and related expenses, and 25% of the next $2,000 of qualified tuition and related expenses (for a maximum tax credit of $2,500 for the first four years of post-secondary education) extended for five years
- Rules eased for qualifying for the refundable child credit;
- Various earned income tax credit (EITC) changes relating to higher EITC amounts for eligible taxpayers with three or more children, and increases in threshold phaseout amounts for singles, surviving spouses, and heads of households.

Charitable Contributions from Qualified Plans

- Tax-free distributions from individual retirement plans for charitable purposes, which expired at the end of 2011 and which is now revived for 2012 and continued through 2013.
- Because 2012 has already passed, a special rule permits distributions taken in 2012 to be transferred to charities for a limited period in 2013.
- Another special rule permits certain distributions made in 2013 as being deemed made on Dec. 31, 2012

Pension provision

- For transfers after Dec. 31, 2012, in tax years ending after that date, plan provisions in an applicable retirement plan (which includes a qualified Roth contribution program) can allow participants to elect to transfer amounts to designated Roth accounts with the transfer being treated as a taxable qualified rollover contribution under Code Sec. 408A(e).

Health Care Act Provisions effective 2013

Unearned income Medicare contribution tax

- Imposed at the rate of 3.8% on the lesser of:
  - the taxpayer's net investment income; or
  - the excess of the taxpayer's MAGI over a threshold amount.

- MAGI is defined as AGI plus the excess of excluded foreign earned income over the deductions and exclusions disallowed with respect to such income.

- The threshold amounts are $200,000 for unmarried taxpayers, $250,000 for married couples filing joint returns, and $125,000 for married taxpayers filing separate returns

Exclusions

- Municipal bond interest or the gain excluded on the sale of a principal residence is also excluded when determining net investment income.

- Any income, gain, or loss on working capital is not considered to be derived in the ordinary course of a trade or business.

- Finally, net investment income excludes income subject to self-employment tax and any distributions from qualified retirement plans, Section 403(b) and 457 plans, and regular and Roth IRA accounts.

Observations

- Like payroll taxes, it is imposed in addition to the income tax and is not deductible for income tax purposes.
- The Medicare contribution tax increases the marginal effective tax rate on dividend and interest income and capital gains by 3.8 percentage points.
- Since there is no employer or agent to specifically collect the tax, it is subject to the estimated tax rules for individuals

Observations

- Because trusts and estates are subject to the tax, the tax cannot be postponed by allowing the investment income to accumulate in such entities.

- Because the threshold for the 3.8% surtax for trusts and estates begins with income above $11,950, accumulating investment income may result in more tax than if the income were distributed to the beneficiaries

Observations

The threshold amounts are not indexed for inflation, the number of taxpayers liable for the tax will increase in the future.

Additional hospital insurance tax of 0.9%

- Effects wages exceeding $250,000 (125/200)
- Doesn’t effect the employer’s portion
- Employer’s withhold on all wages above $200,000
- Employees need to adjust withholdings or pay estimated payments.
- Not deductible for income tax purposes

Applies to self-employment income exceeding the wage thresholds

- The HI component of the self-employment tax is 3.8% for self-employment income exceeding the threshold.
- The thresholds are reduced (but not below zero) for the amount of the taxpayer's wages subject to HI tax, so that the additional HI tax is owed on the total of the taxpayer's wages and self-employment income in excess of the applicable threshold.

Estate Tax Provisions

- Permanently keeps the exemption level at $5,000,000 (as indexed for inflation).
- permanently increases the top estate, gift and GST rate from 35% to 40%
- continues the portability feature that allows the estate of the first spouse to die to transfer his or her unused exclusion to the surviving spouse.
- All changes are effective for individuals dying and gifts made after 2012.

Business Provisions

Depreciation provisions

- 15-year straight line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements;
- 7-year recovery period for motorsports entertainment complexes;
- accelerated depreciation for business property on an Indian reservation;
- increased expensing limitations and treatment of certain real property as Code Sec. 179 property;
- special expensing rules for certain film and television productions;
- the election to expense mine safety equipment.

Depreciation provisions

- The 2012 Taxpayer Relief Act also extends and modifies the 50% bonus depreciation provisions for one year so that it applies to qualified property placed in service before 2014 (before Jan. 1, 2015 for certain aircraft and long-production-period property).

Tax Credits

- The Code Sec. 41 research credit is modified and retroactively extended for two years through 2013.
- The temporary minimum low-income tax credit rate for nonfederally subsidized new buildings under Code Sec. 42(b)(2)(A) is extended to apply to housing credit dollar amount allocations made before Jan. 1, 2014.
- The housing allowance exclusion for determining area median gross income for qualified residential rental project exempt facility bonds is extended two years.
- The Code Sec. 45A Indian employment tax credit is retroactively extended for two years through 2013.
- The Code Sec. 45D new markets tax credits is retroactively extended for two years through 2013.

Tax Credits

- The Code Sec. 45G railroad track maintenance credit is retroactively extended for two years through 2013.
- The Code Sec. 45N mine rescue team training credit is retroactively extended for two years through 2013.
- The Code Sec. 45P employer wage credit for employees who are active duty members of the uniformed services is retroactively extended for two years through 2013.
- The Code Sec. 51 work opportunity tax credit is retroactively extended for two years through 2013.
- Code Sec. 54E qualified zone academy bonds are retroactively extended for two years through 2013.

Tax Credits

- The enhanced charitable deduction for contributions of food inventory under Code Sec. 174(e) is retroactively extended for two years through 2013.
- Allowance of the domestic production activities deduction for activities in Puerto Rico, for the first eight tax years of the taxpayer beginning after 2005, and before 2014.
- The exclusion from a tax-exempt organization's unrelated business taxable income (UBTI) of interest, rent, royalties, and annuities paid to it from a controlled entity under Code Sec. 512(b)(13)(E)(iv) is extended through 2013
- The treatment of certain dividends of regulated investment companies (RICs) as “interest-related dividends” is extended through 2013.
- The inclusion of RICs in the definition of a “qualified investment entity” under Code Sec. 897(h)(4) is extended through 2013.

Tax Credits

- The exception under subpart F for active financing income (i.e., certain income from the active conduct of a banking, financing, insurance, or similar business) under Code Sec. 953(e)(10) and Code Sec. 954(h)(9) for tax years of a foreign corporation beginning after '98, and before 2014, for tax years of foreign corporations beginning after 2005, and 2014.
- Look-through treatment for payments between related controlled foreign corporations (CFCs) under the foreign personal holding company rules under Code Sec. 954(c)(6) is extended through 2013.
- The exclusion of 100% of gain on certain small business stock acquired before 2014.
- The basis adjustment to stock of S corporations making charitable contributions of property under Code Sec. 1367(a) is extended to apply to tax years beginning in 2013.

Tax Credits

- The reduction in S corporation recognition period for built-in gains tax under Code Sec. 1374(d)(7) is extended through 2013, with a 5-year period instead of a 10-year period.
- Various empowerment zone tax incentives are extended, including the designation of an empowerment zone and of additional empowerment zones under Code Sec. 1391(d) (through 2013) and the period for which the percentage exclusion for qualified small business stock of a corporation which is a qualified business entity is 60% under Code Sec. 1202(a)(2) (through 2018).
- Tax-exempt financing for the New York Liberty Zone under Code Sec. 1400L(d)(2) is extended for bonds issued before 2014.
- The temporary increase in the limit on cover over run excise taxes to Puerto Rico and the Virgin Islands is extended for spirits brought into the U.S. before 2014.
- The American Samoa economic development credit, as modified, is extended through 2014.

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