

## Quick Summary of American Taxpayer Relief Act of 2012

### Bad News:

1. **Income Tax Rates** - ordinary income tax rates will increase from 35% to 39.6% for single individuals making more than \$400,000 a year (\$450,000 for joint filers).
2. **Capital Gain & Dividend Rates** - capital gain and qualified dividend rates will increase from 15% to 20% for single individuals making more than \$400,000 a year (\$450,000 for joint filers).
3. **Payroll Tax Holiday** - the employee's share of social security payroll tax will increase from 4.2% to 6.2%, as the 2% temporary reduction was allowed to expire. Likewise, the self-employment tax rate increases from 13.3% to 15.3%.
4. **Limits on Exemptions & Deductions** - the phase-out of personal exemptions and the limitation on itemized deductions was reinstated for single individuals with adjusted gross income exceeding \$250,000 (\$300,000 for joint filers).
5. **Estate & Gift Tax** - the top estate, gift, and GST rate is permanently increased from 35% to 40%. However, there is good news on this front - see 4. below for details.

### Good News:

1. **Tax Rates** - those making under \$400,000 will generally not be affected by the rate changes, nor the increase in dividends and capital gain rates. Dividends will still be taxed at capital gain rates and 0% rate continues to apply to two lowest brackets.
2. **Alternative Minimum Patch** - a higher alternative minimum tax (AMT) exemption has been made permanent, which should allow more taxpayers to escape paying AMT. In 2012, \$50,600 (single) and \$78,750 (married), with annual inflation adjustments in future years.
3. **Various Credits and Deductions** - have been extended, including: state/local sales tax deduction; educators' classroom expense deduction; child tax credit; American Opportunity Tax Credit; adoption credit; and nonbusiness energy property credit.
4. **Estate & Gift Tax** - for estate, gift, and generation-skipping transfer (GST) tax purposes, the \$5 million exemption has been extended permanently and will be indexed for inflation. Spousal portability is now permanent.
5. **Charitable distribution of IRAs** - the provision allowing tax-free distributions from IRAs for charitable purposes has been extended through 2013 (includes 2012!).
6. **Business Related** - for businesses, various credits have been extended, including the research credit and the Work Opportunity Tax Credit through 2013. In addition, the increased section 179 depreciation deduction of \$500,000 and the 50% bonus depreciation have been extended, along with 15-year recovery period for leasehold improvements