

American Taxpayer Relief Act of 2012

On January 1, 2013, Congress passed the American Taxpayer Relief Act (2012 Taxpayer Relief Act), which the President quickly signed into law on Jan. 2, 2013. The 2012 Taxpayer Relief Act will prevent many of the tax hikes that were scheduled to go into effect this year and retain many favorable tax breaks that were scheduled to expire, but will also increase income taxes for some high-income individuals and slightly increase transfer tax rates from 2012 levels. Further, it extends a host of expired and expiring tax breaks for businesses and individuals.

Below is a list of some of the key provisions that were extended as a result of the Act:

For businesses...

- **Bonus first-year depreciation extended for one year**

The 2012 Taxpayer Relief Act extends 50% first-year bonus depreciation so that it applies to qualified property acquired and placed in service before Jan. 1, 2014 (before Jan. 1, 2015 for certain longer-lived and transportation property).

- **First year depreciation cap for 2013 autos and trucks boosted by \$8,000**

Under the luxury auto limits, depreciation for passenger autos is limited to certain dollar limits; \$3,160 for 2012 (\$3,360 for light trucks or vans with a gross vehicle weight of 6,000 pounds or less). An additional first year bonus depreciation of \$8,000 (maximum) was available for qualified property placed in service before December 31, 2012. The American Taxpayer Relief Act extends the available \$8,000 bonus depreciation for qualifying property placed in service before December 31, 2013.

- **Increased Section 179 expensing amounts for 2013**

Retroactively effective for tax years beginning in 2012, the 2012 Taxpayer Relief Act increases the maximum expensing amount under Code Section 179 from \$139,000 to \$500,000. Effective for tax years beginning in 2013, the Act increases the maximum expensing amount under Code Section 179 from \$25,000 to \$500,000. The Act also increases the phaseout amount to \$2,000,000 for tax years beginning in 2012 or 2013 (purchasing property in excess of \$2,000,000 will trigger a phaseout of Section 179 expensing). However, for tax years beginning after 2013, the maximum expensing amount is scheduled to drop to \$25,000 and the investment-based phaseout amount is scheduled to drop to \$200,000.

- **Work Opportunity Tax Credit extended**

The 2012 Taxpayer Relief Act retroactively extends the WOTC so that it applies to hiring eligible veterans and nonveterans who begin work for the employer before January 1, 2014.

- **Temporary exclusion of 100% of gain on certain small business stock extended**

The 2012 Taxpayer Relief Act retroactively extends the provision that taxpayers may exclude 100% of gain from the disposition of qualified small business stock acquired after September 27, 2010 and before January 1, 2014 (previously January 1, 2012).

For individuals...

- **Income tax rates stay the same (with an exception)**

For tax years beginning after 2012, the Act provides that the income tax rates for most individuals will stay at 10%, 15%, 25%, 28%, 33% and 35% (instead of moving to 15%, 28%, 31%, 36% and 39.6% as would have occurred). However, a 39.6% rate will apply to taxable income above a certain threshold. The applicable threshold is \$450,000 for joint filers and surviving spouses; \$425,000 for heads of household; \$400,000 for single filers; and \$225,000 for married taxpayers filing separately.

- **Reduced capital gains and qualified dividends rate except for higher-income taxpayers**

For tax years beginning after 2012, the Act provides that a 20% tax rate applies to capital gains and qualified dividends *only* for individuals above a threshold (\$450,000 for joint filers and surviving

spouses; \$425,000 for heads of household; \$400,000 for single filers; and \$225,000 for married taxpayers filing separately). The Act retains the 15% rate for taxpayers in the middle brackets and the zero rate for taxpayers in the 10% and 15% brackets, which were originally set to expire.

- **Phaseout of personal exemptions for higher-income taxpayers reinstated**

For tax years beginning after 2012, the personal exemption phaseout is reinstated with a starting threshold of \$300,000 for joint filers and a surviving spouse; \$275,000 for heads of household; \$250,000 for single filers; and \$150,000 for married taxpayers filing separately.

- **Limitation on itemized deductions for higher-income taxpayers reinstated**

For tax years beginning after 2012, the Act provides that the limitation on itemized deductions, which had previously been suspended, is reinstated with a starting threshold of \$300,000 for joint filers and a surviving spouse, \$275,000 for heads of household, \$250,000 for single filers, and \$150,000 for married taxpayers filing separately. For taxpayers subject to the limitation, the total amount of their itemized deductions is reduced by 3% of the amount by which the taxpayer's AGI exceeds the threshold amount.

- **Alternative minimum tax (AMT) exemption permanently increased**

Retroactively effective for tax years beginning after 2011, the Act permanently increases the AMT exemption amounts and includes a provision for indexing these amounts for inflation after 2012. Under pre-Act law, the AMT exemption amounts for tax years beginning after 2011 were: \$33,750 for unmarried individuals; \$45,000 for married couples filing jointly and surviving spouses; and \$22,500 for married individuals filing separately.

- **Expanded American Opportunity Tax Credit (AOTC) extended**

The AOTC allows eligible taxpayers to claim a *refundable* 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). This credit was scheduled to expire in 2012, but is now available through 2017.

- **Above-the-line deduction for educator expenses reinstated and extended**

The 2012 Taxpayer Relief Act retroactively extends the \$250 above-the-line educator expense deduction for two years so that it applies to expenses incurred in tax years 2012 and 2013.

- **Exclusion for discharged home mortgage debt extended**

Discharge of indebtedness income from qualified principal residence debt, up to a \$2 million limit (\$1 million for married individuals filing separately) is excluded from gross income. The 2012 Taxpayer Relief Act extends this exclusion for one year so that it applies to home mortgage debt discharged before 2014.

- **Treatment of mortgage insurance premiums as deductible qualified residence interest reinstated and extended**

The 2012 Taxpayer Relief Act retroactively extends a provision that a taxpayer can deduct, as qualified residence interest, mortgage insurance premiums paid or accrued before January 1, 2014.

- **State and local sales tax deduction reinstated and extended**

The 2012 Taxpayer Relief Act retroactively extends a provision that allows itemizers to elect to deduct state and local sales and use taxes instead of state and local income taxes for tax years beginning before January 1, 2014.

- **Above-the-line deduction for higher education expenses reinstated and extended**

A taxpayer may claim an above-the-line deduction for qualified tuition and related expenses for higher education, subject to income and dollar limits. The 2012 Taxpayer Relief Act retroactively extends the qualified tuition deduction for two years so that it can be claimed for tax years beginning before January 1, 2014.

- **Nontaxable IRA transfers to eligible charities reinstated and extended**

Taxpayers who are age 70 1/2 or older can make tax-free distributions to a charity from an Individual Retirement Account (IRA) of up to \$100,000 per year. The Act retroactively extends this provision for two years so that it's available for transfers made in tax years beginning before January 1, 2014.