

January 2, 2013

What You Need To Know About the Bipartisan Tax Agreement

In the early hours of January 1, 2013, the Senate passed the American Taxpayer Relief Act of 2012, which, along with many other provisions, permanently extends the so-called Bush-era tax cuts for individuals making under \$400,000 and families making under \$450,000. The House followed with passage late in the day on January 1, 2013.



Thus, the more than decade-long fight over the fate of the tax cuts, originally enacted under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), accelerated under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) and extended by Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (2010 Tax Relief Act) comes to an end. President Obama is expected to sign the bill into law.

The Act's key changes follow:

Income taxes. The Act keeps the "Bush" tax rates intact for individuals with taxable income under \$400,000 (\$450,000 for married taxpayers, \$425,000 for heads of household). Income above these levels would be taxed at a 39.6% rate.

AMT patch. The Act provides a permanent patch to the alternative minimum tax (AMT).

Capital gains and dividends. The Act raises the top rate for dividends and capital gains from 15% to 20% for taxpayers who would be subject to the new 39.6% bracket.

Deduction limitations for high-income individuals. The Act reinstates the limitations on the personal exemption and itemized deductions for taxpayers exceeding certain income thresholds.

Transfer taxes. The Act prevents steep increases in estate, gift and generation-skipping transfer (GST) tax that were slated to occur for individuals dying and gifts made after 2012 by permanently keeping the exemption level at \$5,000,000 (as indexed for inflation). However, the Act also permanently increases the top estate, gift and GST rate from 35% to 40%.

Individual extenders. The Act extends a host of individual provisions, including the treatment of mortgage insurance premiums as qualified residence interest, deductions for State and local general sales taxes, and the above-the-line deduction for qualified tuition and related expenses.

Business tax extenders. Many key business tax breaks are also extended including depreciation provisions, notably including bonus depreciation, and the research and work opportunity tax credits.

Payroll taxes. The Act **did not** extend the Social Security tax reduction from 2012 and, accordingly, payroll tax withholdings will increase by 2 percent for all individuals with earned income. In the next week, we will provide more information on this issue, but we wanted to get this information out to everyone today.

From all of us at HBLA, Happy New Year!

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