Summary of the American Taxpayer Relief Act of 2012
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On January 2, 2013 President Barack Obama signed into law the American Taxpayer Relief Act of 2012. Passage of this Act averted the so-called “fiscal cliff” and made “permanent” changes to the tax code. As with all Congressional legislation, however, no change is truly permanent so readers should understand that any of the components of the legislation could be changed in the future.

In a nutshell, the American Taxpayer Relief Act of 2012 extended specific provisions of two major Bush-era tax bills, the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs Growth Tax Relief Reconciliation Act of 2003. A compromise measure, the Act gives permanence to the lower rate of much of the Bush tax cuts, while retaining the higher tax rate at upper income levels that became effective on January 1 as a result of the expiration of the Bush tax cuts.

A. MAJOR TAX PROVISIONS

The following is a summary of some of the major tax provisions of the Act:

1. Individual Income Tax Rates

The American Taxpayer Relief Act of 2012 retains the 10%, 15%, 25%, 28%, and 33% income tax brackets. The 35% tax bracket ends at $400,000 for single filers. Above this threshold, there’s a new 39.6% tax bracket. Thresholds for the new 39.6% bracket for 2013 will be:

- Married Filing Jointly: $450,000 of taxable income;
- Qualifying Widow(er): $450,000 of taxable income;
- Head of Household: $425,000 of taxable income;
- Single: $400,000 of taxable income; and
- Married Filing Separately: $225,000 of taxable income.

2. Capital Gains Rate

The American Taxpayer Relief Act of 2012 retains the 0% and 15% tax rates on qualified dividends and long-term capital gains, and adds a new 20% tax rate that would apply to taxpayers who fall within the new 39.6% tax bracket. Which capital gains tax rate will apply depends on what tax bracket a person is in. The new capital gains tax rates for 2013 and future years will be:

- 0% applies to capital gains income if a person is in the 10% and 15% tax brackets;
• 15% applies to capital gains income if a person is in the 25%, 28%, 33%, or 35% tax brackets; and

• 20% applies to capital gains income if a person is in the 39.6% tax bracket.

3. Alternative Minimum Tax

The American Taxpayer Relief Act of 2012 provides the following AMT exemption amounts for 2012, and provides that these amounts will be indexed for inflation annually:

• Married Filing Jointly: $78,750;
• Qualifying Widow(er): $78,750;
• Single: $50,600;
• Head of Household: $50,600; and
• Married Filing Separately: $39,375.

4. Estate Tax Rates

The American Taxpayer Relief Act extends the $5 million exclusion. The new top tax rate for estates is 40%.

5. Pease Limitation

The American Taxpayer Relief Act resulted in reinstatement of the so-called “Pease Limitation” that caps the amount of itemized deductions high income earners are able to take. Under the new law, itemized deductions are limited for the following taxpayers:

• $300,000 for married couples and surviving spouses;
• $275,000 for heads of household;
• $250,000 for unmarried taxpayers; and
• $150,000 for married taxpayers filing separately.

These levels will be adjusted for inflation after 2013.

6. Personal Exemption Phaseout

The American Taxpayer Relief Act also phases out the amount of the personal exemption high earners are entitled to take. The total amount of exemptions a taxpayer may take is reduced under the new law by two percent for each $2,500 or portion thereof over which the taxpayer’s adjusted gross income exceeds specific levels, i.e., $300,000 for married couples and surviving spouses.
B. MISCELLANEOUS PROVISIONS

The Act contains numerous other provisions relating to both tax deductions and tax credits, including the following:

- The student loan interest deduction is permanently extended. The American Taxpayer Relief Act eliminates the rule that the deduction can be claimed only during the first 60 months of repayment;
- Mortgage insurance premiums will continue to be deductible as part of the mortgage interest deduction through the end of 2013;
- The sales taxes deduction, in lieu of a deduction for state income taxes, is temporarily extended through the end of 2013;
- The charitable deduction for contributing real property for qualified conservation purposes is temporarily extended through the end of 2013;
- The above-the-line tuition and fees deduction is temporarily extended through the end of 2013;
- The child tax credit remains unchanged and is permanently extended. The maximum amount of the child tax credit is $1,000, and the credit is partially refundable. However, the provision that reduces the earnings threshold for the refundable portion of the child tax credit to $3,000 will expire at the end of 2017;
- The dependent care tax credit remains unchanged and is permanently extended. Daycare expenses up to $3,000 for one child and $6,000 for two or more children qualify for the tax credit, and these amounts are not indexed for inflation;
- The adoption credit is permanently extended. The credit is worth up to $10,000 (indexed for inflation); and
- The American opportunity tax credit is extended temporarily through the end of 2017.

The American Taxpayer Relief Act also allows the two-year old payroll tax cut to expire, meaning employees will see immediate reductions in their paychecks.

In all, the bill included $600 billion over ten years in new tax revenue. The Act did not permanently address the spending cuts that were set to take effect if the legislation had not passed. Rather, it merely extended by two months the time Congress has to reduce spending or have the so-called “sequestration” law take effect that will have a major impact on federal spending.