

The American Taxpayer Relief Act

By David C. Guarino, Esq.

The 2012 American Taxpayer Relief Act includes significant changes to the personal and business income tax rules. The following summary highlights some of the most important provisions:

ORDINARY INCOME TAX RATES: For most taxpayers, the personal income tax brackets will remain the same, but those taxpayers in the highest income brackets will see their marginal tax rate increase to 39.6%. For example, a married couple that files a joint income tax return will be taxed at the 39.6% rate to the extent that their income exceeds \$450,000.

CAPITAL GAINS TAX RATES: The new law includes a 20% tax rate for capital gains of taxpayer's who are in the new 39.6% income tax bracket discussed above. These capital gains could also be subject to the new 3.8% surtax on investment income and gains.

PERSONAL EXEMPTIONS AND ITEMIZED DEDUCTIONS: The new law provides for the reduction of personal exemptions and itemized deductions for higher income taxpayers. For example, a married couple with adjusted gross income over \$300,000 will see the exemptions for themselves and their dependents phased out, and their itemized deductions reduced in proportion to how much their adjusted gross income exceeds \$300,000.

PAYROLL TAXES: The 2% reduction in payroll taxes that was in place in 2012 is no longer in effect in 2013.

OTHER PERSONAL TAX ISSUES: The new law extends a number of credits that were scheduled to expire after 2012, including various educational and earned income credits. The new law also extends through 2013 the election to take a deduction for state and local sales taxes (instead of income taxes), and certain other tax elections.

BUSINESS TAX DEDUCTIONS AND CREDITS: The new law extends a number of provisions for 2013, including the use of Section 179 expensing of certain business investments, the use of bonus depreciation for qualified property, and the research and development tax credit. The new law also includes hiring incentives and energy incentives.

The provisions of the new tax law are complex, and the foregoing discussion is only a broad summary of some of the most important aspects of the new law. For a more comprehensive analysis of how the new law applies to you and your family or your business, please contact us.

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