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HIGHLIGHTS OF THE AMERICAN TAXPAYER RELIEF ACT OF 2012 FOR INDIVIDUALS

The American Taxpayer Relief Act (ATRA) passed on Jan. 1 by Congress and signed by the President on Jan. 2, means the IRS will open the 2013 filing season on Jan. 30th for 1040 filers. Paper returns will not be processed before that opening date and the IRS encourages taxpayers to efile since there is no advantage to paper filing.

The act included a provision making the alternative minimum tax (AMT) permanent. It also temporarily extends many other tax provisions that had lapsed at midnight on Dec. 31, 2012 and others that had expired a year earlier. However, the temporary lower 4.2% rate for employees' portion of the Social Security payroll tax was not extended and has reverted to 6.2%.

Individual tax rates
All the individual marginal tax rates (10%, 15%, 25%, 28%, 33%, and 35%) remain at 2012 levels. A new top rate of 39.6% is imposed on taxable income over $400,000 for single filers, $425,000 for head-of-household filers, and $450,000 for married taxpayers filing jointly ($225,000 for each married spouse filing separately).

Capital gains and dividends
A 20% rate applies to capital gains and dividends for individuals above the top income tax bracket threshold of 39.6%; the 15% rate remains for taxpayers in the middle brackets (25%, 28%, 33%, and 35%). The zero rate is retained for taxpayers in the 10% and 15% brackets.

Phaseout of itemized deductions (the Pease Limitation) and personal exemptions
The personal exemptions and itemized deductions phaseout is reinstated at a higher threshold of $250,000 for single taxpayers, $275,000 for heads of household, and $300,000 for married taxpayers filing jointly.

Alternative minimum tax
The exemption amount for the AMT on individuals is permanently indexed for inflation. For 2012, the exemption amounts are $78,750 for married taxpayers filing jointly and $50,600 for single filers.

Estate and gift tax
The estate and gift tax exclusion amount is retained at $5 million indexed for inflation ($5.12 million in 2012), but the top tax rate increases from 35% to 40% effective Jan. 1, 2013.

Permanent extensions
Various temporary tax provisions were made permanent including the following popular provisions:

- Marriage penalty relief (i.e., the increased size of the 15% rate bracket and increased standard deduction for married taxpayers filing jointly;
- The child and dependent care credit rules (allowing the credit to be calculated based on up to $3,000 of expenses for one dependent or up to $6,000 for more than one);
- Expanded adoption credit and income exclusion for adoption-assistance programs;
- The exclusion for employer-provided educational assistance;
- The enhanced rules for student loan deductions;
- The employer-provided child care credit;
- Special treatment of tax-exempt bonds for education facilities;
- Special rates for accumulated earnings tax and personal holding company tax.

Individual credits expired at the end of 2012
The American opportunity tax credit for qualified tuition and other expenses of higher education was extended through 2017. Other credits and items from the American Recovery and Reinvestment Act of 2009 that were extended for the same five-year period include enhanced provisions of the child tax credit and the earned income tax credit. In addition, the bill permanently extends a rule excluding from taxable income refunds from certain federal and federally assisted programs.

Individual provisions expired at the end of 2011

The act also extended through 2013 a number of temporary individual tax provisions, most of which expired at the end of 2011:

- Exclusion from gross income of discharge of qualified principal residence indebtedness;
- Parity for exclusion from income for employer-provided mass transit and parking benefits;
- Deduction for certain expenses of elementary and secondary school teachers;
- Above-the-line deduction for qualified tuition and related expenses;
- Deduction of state and local general sales taxes;
- Mortgage insurance premiums treated as qualified residence interest;
- Tax-free distributions from individual retirement plans for charitable purposes; and
- Special rule for contributions of capital gain real property made for conservation purposes.

Energy tax extenders

The act also extends through 2013, and in some cases modifies, a number of energy credits and provisions that expired at the end of 2011 including these outlined below:

- Credit for energy-efficient existing homes;
- Credit for alternative fuel vehicle refueling property;
- Credits with respect to facilities producing energy from certain renewable resources, as modified);
- Credit for energy-efficient new homes;
- Credit for energy-efficient appliances;
- Alternative fuels excise tax credits.

Foreign provisions

The IRS's authority to apply a withholding tax to gains on the disposition of U.S. real property interests by partnerships, trusts, or estates that are passed through to partners or beneficiaries that are foreign persons is made permanent, and the amount is increased to 20%.