

Tax changes included in Congress' fiscal cliff legislation

Here is a summary of the provisions included in the bill, which the President is expected to sign.

Tax rates beginning January 1, 2013

A top rate of 39.6% (up from 35%) will be imposed on individuals making more than \$400,000 a year, \$425,000 for head of household, and \$450,000 for married filing joint.

2% Social Security reduction gone

AMT permanently patched

A permanent AMT patch, adjusted for inflation, will be made retroactive to 2012.

Dividends and capital gains

The maximum capital gains tax will rise from 15% to 20% for individuals taxed at the 39.6% rates (those making \$400,000, \$425,000, or \$450,000 depending on filing status, as noted above).

Itemized deduction and personal exemption phase-outs

The Pease itemized deduction phase-out is reinstated, and personal exemption phase-out will be reinstated, but with different AGI starting thresholds (adjusted for inflation): \$300,000 for married filing joint, \$275,000 for head of household, and \$250,000 for single.

Estate tax

The estate tax regime will continue to provide an inflation-adjusted \$5 million exemption (effectively \$10 million for married couples) but will be applied at a higher 40% rate (up from 35% in 2012).

Personal tax credits

The \$1,000 Child Tax Credit, the enhanced Earned Income Tax Credit, and the enhanced American Opportunity Tax Credit will all be extended through 2017.

Other personal deductions and exclusions

The following deductions and exclusions are extended through 2013:

- Discharge of qualified principal residence exclusion;
- \$250 above-the-line teacher deduction;

- Mortgage insurance premiums treated as residence interest;
- Deduction for state and local taxes;
- Above-the-line deduction for tuition; and
- IRA-to-charity exclusion (plus special provisions allowing transfers made in January 2013 to be treated as made in 2012).

Business provisions

- The Research Credit and the production tax credits, among others, will be extended through 2013;
- 15-year depreciation and §179 expensing allowed on qualified real property through 2013;
- Work Opportunity Credit extended through 2013;
- Bonus depreciation extended through 2013; and
- The §179 deduction limitation is \$500,000 for 2012 and 2013.