The American Taxpayer Relief Act of 2012

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President Obama has signed the American Taxpayer Relief Act of 2012 into law. The Act is the bipartisan response to the massive spending cuts and tax increases of the fiscal cliff. While decisions on spending have been deferred until March, the law does provide a degree of certainty with regard to taxation. The tax highlights of the new Act include:

- Ordinary income rates for 2013 will remain at 2012 levels for married couples with income below $450,000; singles below $400,000. For trusts and estates, that threshold is projected to be $12,000.
  — For taxpayers over these amounts, the top income tax bracket increases to 39.6%

- Itemized deductions and personal exemptions will be phased out or limited (up to 80%) for married couples earning more than $300,000; $250,000 for singles.

- The Alternative Minimum Tax (AMT) income levels were raised to $78,750 for married couples and $50,600 for singles for 2012 and are indexed for inflation going forward, thereby removing the year-by-year uncertainty.

- The payroll tax holiday ended and the Social Security tax rate returned to 6.2%. This represents an increase of 2% over the 2012 rate.

- A number of individual tax benefits have been extended including: deduction of sales taxes in lieu of state income taxes, tax-free IRA charitable distributions, child tax credit, qualified education expenses deduction, teacher expenses deduction, conservation easement deduction special rules and relief from cancellation of debt for principal residences.

- The tax preference for long-term capital gains and qualified dividends has been extended permanently for taxpayers below the 39.6% bracket.
  — The rate increases to 20% for taxpayers in the 39.6% bracket, but remains at 15% for most other taxpayers (and remains at 0% for the lowest tax bracket)

- Top Estate, Gift and Generation-Skipping Transfer Tax rates have been set at 40% for transfers after December 31, 2012.
  — Estate and Gift Tax exemption amounts remain unified and are set at an inflation-adjusted $5 million per person (estimated to be $5.25 million in 2013)
  — The annual exclusion gift amount increases to $14,000
  — Portability of a deceased spouse’s unused exemption has been made permanent

- Qualified dividend rates have been preserved at the following rates:
  — 0% for taxpayers in the 10% and 15% tax brackets; 15% for taxpayers in the 25% through 35% tax brackets; and 20% for taxpayers in the 39.6% tax bracket
  — Nonqualified dividends will continue to be taxed at the taxpayer’s ordinary income tax rate
• Taxpayers have until February 1, 2013 to make a direct transfer to a qualified charity from an individual retirement account (IRA) and have it be treated as a 2012 distribution. They may also make a cash contribution to a charity on or before February 1, 2013 and have it treated as a direct transfer from their retirement account, provided the taxpayer received a distribution from the account after November 30, 2012 and before January 1, 2013.

• Certain business tax provisions that expired at the end of 2011 have been extended through 2013, including the research credit, Section 179 expensing of up to $500,000, and 50% bonus depreciation.

Also impacting 2013 and beyond are a number of taxes not affected by the 2012 Act, including:

• The Medicare 3.8% surtax on net investment income of individuals, estates and trusts.

• A 0.9% increase in Medicare withholding on wages for married couples with wages or self-employment income in excess of $250,000; $200,000 for single taxpayers.

Starting in 2013, an increased threshold applies to the following:

• In order for medical expenses to be deductible, the amount of the medical expenses must first exceed a 10% of adjusted gross income (AGI) floor.

This information provides only highlights from the extensive American Taxpayer Relief Act of 2012. Other provisions and additional changes may affect your tax and estate planning strategies, or your investment portfolio. While U.S. Bank and its representatives do not provide tax or legal advice, we can partner with your tax and legal advisors to help develop appropriate plans to fit your unique situation. Please contact us if you have questions.