

Happy New Year everyone. It looks like Congress and the President finally decided to compromise and move forward on a preliminary fiscal plan in order to minimize the economic impact of going over the fiscal cliff. Below is a summary of some of the more important aspects of the law awaiting the President's signature:

H.R. 8 “The American Taxpayer Relief Act”:

- The income tax rate increases to 39.6% (up from 35%) for individuals making more than \$400,000 a year (\$450,000 for joint filers; \$425,000 for heads of household);
- The two-percentage-point reduction in payroll taxes for Old Age, Survivors and Disability Insurance (OASDI) tax, commonly known as the Social Security tax, **will be allowed to expire**;
- The higher exemption amounts for alternative minimum tax (AMT)—the so-called “patch”—are made permanent, resulting an estimated 30 million taxpayers escaping being subject to the AMT;
- Dividends and capital gains are taxed at 20% (up from 15%) for individuals making at least \$400,000 (\$450,000 for joint returns) plus don't forget the new 3.8% medicare tax on investments starting in 2013;
- The Personal Exemption Phaseout (PEP), which had previously been suspended, is reinstated with a starting threshold of \$300,000 for joint filers and a surviving spouse, \$275,000 for heads of household, \$250,000 for single filers, and \$150,000 (one-half of the otherwise applicable amount for joint filers) for married taxpayers filing separately. Under the phaseout, the total amount of exemptions that can be claimed by a taxpayer subject to the limitation is reduced by 2% for each \$2,500 (or portion thereof) by which the taxpayer's adjusted gross income (AGI) exceeds the applicable threshold;
- The “Pease” limitation on deductions, which had previously been suspended, is reinstated with a threshold of \$300,000 for joint filers and a surviving spouse, \$275,000 for heads of household, \$250,000 for single filers, and \$150,000 (one-half of the otherwise applicable amount for joint filers) for married taxpayers filing separately. Thus, for taxpayers subject to the “Pease” limitation, the total amount of their itemized deductions is reduced by 3% of the amount by which the taxpayer's AGI exceeds the threshold amount, with the reduction not to exceed 80% of the otherwise allowable itemized deductions;



Tax Updates

- For estate, gift, and generation-skipping transfer (GST) tax purposes, for individuals dying and gifts made after 2012, there is a \$5 million exemption (adjusted for inflation), and the top estate, gift and GST rate is permanently increased from 35% to 40%;
- Tax credits for businesses, including the [Code Sec. 41](#) research credit and the [Code Sec. 199](#) domestic production activities deduction, are generally extended through the end of 2013;
- A number of individual tax provisions have been retroactively extended through 2013. In addition, there is a five-year extension of credits that were enhanced as part of the stimulus, including the college tuition credit, the [Code Sec. 32](#) earned income tax credit, and the [Code Sec. 24](#) child tax credit;
- Various energy credits are also extended.

Other nontax provisions in the bill include a “doc fix,” which stops a 27% reduction in payments to Medicare doctors scheduled to go into effect. Spending cuts as offsets to accomplish this. Unemployment benefits, which were set to expire at the end of 2012, are extended for the long-term unemployed through the end of 2013.

Please feel free to call or e-mail me should you have any questions or need additional information on how these tax provisions will impact your tax positions for 2012 or 2013

This publication is prepared by Martinez & Associates, CPAs for our clients and friends. Please note that any tax advice contained in this publication is not intended or written to be used by, and cannot be used by, the recipient for the purpose of (i) avoiding penalties under the Internal Revenue Code, or applicable state or local tax law provisions, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. The information included is general in nature and abbreviated and is not intended to be considered tax advice. Anyone reading this information is advised to seek advice from our office or from his or her own tax professional regarding applicability of this information to his or her own circumstances.



Brilliant Deductions

Martinez & Associates
Certified Public Accountants & Business
Advisors

Tuskawilla Office Park
1100 Town Plaza Court
Winter Springs, FL 32708
Tel: (407) 834-0777
Fax: (407) 834-7470
E-mail: info@moacpa.com
www.moacpa.com

Information for Sound Decision Making