

THIS MONTH:

◇ Individual Provisions of the American Tax Relief Act

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Individual Tax Rates

Essentially, The Act is a permanent extension of the 2001/2003 “Bush” tax cuts for taxpayers at or below \$400,000 for single filers, \$425,000 for head of households, \$450,000 for married filing jointly, and \$225,000 for married filing separately keeping the rates at 10%, 15%, 25%, 28%, 33%, and 35%. Taxable income above these amounts will be taxed at 39.6%.

Phase-out of certain itemized deductions

Individuals with adjusted gross incomes (AGI) under \$250,000 for single filers, \$275,000 for head of household, \$300,000 for married filing joint, and \$150,000 for married filing separately will not be subject to phase-out of itemized deductions. These amounts are adjusted for inflation. Above these amounts, itemized deductions allowed will be reduced by the lesser of 1) 3% of excess AGI or 2) 80% of itemized deductions otherwise allowable. Medical expense, investment interest, non-business casualty losses and gambling losses are not subject to the phase-out.

Phase-out of personal exemptions

Individuals with adjusted gross incomes (AGI) under \$250,000 for single filers, \$275,000 for HOH, \$300,000 for MFJ, & \$150,000 for MFS will not be subject to phase-out of itemized deductions. These amounts are adjusted for inflation. Above these amounts, personal exemptions allowed will be reduced by 2% for each \$2,500 (or fraction of that amount) by which the AGI of a taxpayer (other than a married taxpayer filing separately) exceeded the threshold amount for the taxpayer. For married individuals filing separately, the applicable percentage was 2% for each \$1,250 (or fraction of that amount) by which the taxpayer's AGI exceeded the threshold amount. The applicable percentage couldn't exceed 100%



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Permanent Extensions

Other provisions from the Economic Growth and Tax Relief Reconciliation Act of 2001 that have been extended permanently after years of temporary extensions include:

- Child tax credit for \$1,000
- Adoption credit and adoption assistance programs up to \$10,000
- Dependent care credit for expense up to \$3,000 for one child and \$6,000 for two or more children (subject to phase-out)
- Allowance of credit for employer expenses for child care assistance
- Elimination of marriage penalty in standard deduction, tax rates & earned income credit
- Coverdell education savings account contributions up to \$2,000
- Exclusion for employer-provided educational assistance up to \$5,250
- Elimination of 60 mo. limit & increase in income limitation on student loan interest deduction
- Estate and GST tax exemption amount at \$5 million (adjusted for inflation)
- Increase in maximum estate and gift tax rate to 40% for taxable estates over \$1 million
- Election for surviving spouse to use unused estate tax exclusion amount provided the deceased spouse's executor timely files an estate tax return and makes the election
- Capital gains rates at 0% (below the 25% normal tax bracket), 15% (below 39.6% bracket) and 20% (39.6% bracket) including qualified dividend
- Alternative Minimum Tax permanent relief has been provided through an annual inflation adjustment



Provisions extended for five years through 2018

- American Opportunity Tax Credit
- Child Tax Credit refund ability provisions
- Increased Earned Income Credit provisions

Other Provisions extended

- Deduction of certain expenses for school teachers through 2013
- Exclusion of gross income from discharge of qualified principal residence indebtedness through 2013
- Mortgage insurance premiums treated as qualified residence interest through 2013
- Deduction of state and local general sales taxes through 2013
- Deduction for qualified tuition and related expenses through 2014 including retroactive for 2012
- Tax-free distributions from IRA plans for charitable purposes through 2013. Additionally, distributions during January 2013 are permitted to be treated as a 2012 distribution

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