Published on *The National Law Review* https://natlawreview.com

The American Taxpayer Relief Act of 2012 (“ATRA”) - Saved From The "Fiscal Cliff"

Article By:

Tax, Employee Benefits, Trusts and Estates

The **American Taxpayer Relief Act of 2012 (“ATRA”) was signed into law by President Obama on January 2, 2013**. ATRA is a large tax package that renewed tax breaks for individuals and businesses and avoided automatic spending cuts to a plethora of government programs. Here is a summary of the more salient provisions:

Tax Rates

Bush era tax rates were made permanent. However, there is a new 39.6 percent rate that will apply to earners based on income thresholds and filing status: $400,000 (single); $425,000 (head of household); $450,000 (joint or qualifying widow(er)); and $225,000 (married filing separately). These thresholds will be indexed for inflation after 2013.

Capital Gains and Qualified Dividend Rates

ATRA retains the 0 percent tax rate on long-term capital gains and qualified dividends if income falls below the 25 percent tax bracket; modifies the 15 percent tax rate to apply between the 25 percent and new 39.6 percent tax brackets; and adds a new 20 percent tax rate to those in the 39.6 percent tax bracket. In addition, those subject to the 20 percent tax rate will also be subject to the 3.8 percent surtax on investment income above $200,000 (filing single) and $250,000 (joint filers). So the top rate is actually 23.8 percent for those in the 39.6 percent tax bracket beginning in 2013.

Payroll Tax Reinstated

The 2 percent payroll tax cut was allowed to expire at the end of 2012.

Estate, Generation Skipping and Gift Tax

The 2011 exemptions level of $5,000,000 (indexed for inflation) for estate, generation skipping and gift taxes were made permanent. The exemption for 2013 is $5,250,000. However, the top tax rate was increased from 35 percent to 40 percent. The exemption portability rules were also made permanent.

AMT Relief

Alternative minimum tax ("AMT") relief was made permanent. The AMT exemption is set at $50,600 for unmarried taxpayers, $78,750 for joint filers, and $39,375 for married filing separately. These amounts are also indexed for inflation going forward.

Tax Extenders

The election to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes was extended through 2013, along with the $250 above the line deduction for certain teacher expenses and the research credit.

Cost Recovery

ATRA extends Code Section 179 elections and other bonus depreciation provisions.

Pension Provision

An election may be made available to plan participants to transfer amounts to designated ROTH accounts. Any such election will subject the transferred amounts that were contributed pre-tax to ordinary income tax rates.

© Copyright 2024 Armstrong Teasdale LLP. All rights reserved

National Law Review, Volumess III, Number 9

Source URL:https://natlawreview.com/article/american-taxpayer-relief-act-2012-atra-saved-fiscal-cliff