

# Investment Strategist™

## The American Taxpayer Relief Act of 2012: How Will It Affect You?

February 2013

As 2012 came to a close, a combination of extensive scheduled spending cuts and expiring tax breaks threatened to send the U.S. economy back into recession. However, on January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (the "Act"), and President Obama signed it into law the following day, allowing the U.S. to avert the so-called "Fiscal Cliff" – at least temporarily. The Act contains wide-ranging legislation that will impact a broad swath of taxpayers. Here is a look at some of its most significant provisions.

### Individual Tax Rates

Beginning in tax year 2013, a new tax rate of 39.6 percent has been added for individuals whose income exceeds \$400,000 (\$450,000 for married taxpayers filing a joint return). The other marginal rates – 10, 15, 25, 28, 33, and 35 percent – remain the same as in prior years.

Had the Bush-era tax rates been allowed to sunset, rates would have reverted to 2003 levels – 15, 28, 31, 36, and 39.6 percent.

### Capital Gains and Dividends

As with the individual income tax rates, the tax rates on capital gains and dividends remain unchanged except for those in the top income tax bracket. Taxpayers in the middle tax brackets will continue to pay 15 percent, while those in the two lowest tax brackets – 10 percent and 15 percent – will continue to be exempt from taxes on capital gains and dividends. Taxpayers in the new 39.6 percent tax bracket will now pay 20 percent.

Without the Act, the maximum tax rate on capital gains and dividends would have reverted to 20 percent across the board, with the exception of those in the 15 percent tax bracket, who would have been subject to a 10 percent rate.



2013 Individual Income Tax Rates			
Taxable Income Single	Taxable Income Joint	Ordinary Income	Capital Gains and Dividends
\$0 - \$8,925	\$0 - \$17,850	10%	0%
\$8,926 - \$36,250	\$17,851 - \$72,500	15%	0%
\$36,251 - \$87,850	\$72,501 - \$146,400	25%	15%
\$87,851 - \$183,250	\$146,401 - \$223,050	28%	15%
\$183,251 - \$398,350	\$223,051 - \$398,350	33%	15%
\$398,351 - \$400,000	\$398,351 - \$450,000	35%	15%
\$400,000+	\$450,000+	39.6%	20%

## The American Taxpayer Relief Act of 2012

### *Estate and Gift Tax*

The Act permanently provides for a maximum federal estate tax rate of 40 percent. Estates of decedents who die during 2013 have a federal estate tax exemption equivalent of \$5,250,000, up from a total of \$5,120,000 for estates of decedents who died in 2012. This amount is equal to the lifetime gift tax exemption, and both will be indexed for inflation each year. It is also worth noting that prior to and independent of the Act, the annual gift tax exclusion was raised from \$13,000 to \$14,000 on January 1, 2013.

While the new rate marks an increase from 2012's 35 percent rate, without the Act, the maximum federal estate tax rate had been scheduled to revert to 55 percent with an applicable exclusion amount of \$1 million.

In addition, the Act extends a number of generation-skipping tax-related provisions that were scheduled to expire at the end of 2012 and makes permanent "portability" between spouses. Under the estate tax's portability election, a surviving spouse's exemption amount is increased by the deceased spouse's unused exemption amount.

### *Alternative Minimum Tax*

Originally designed to ensure that upper-income Americans pay their fair share of taxes, the alternative minimum tax (AMT) has impacted a growing number of middle-income earners because it was never indexed for inflation. That changes under the Act. The AMT exemption amount for tax year 2013 increases to \$51,900 (\$80,800, for married couples filing jointly), with future amounts indexed for inflation. The 2012 exemption amount was \$50,600 (\$78,750 for married couples filing jointly).

AMT Exemptions			
	2011 Exemptions	2012 Exemptions	2013 Exemptions
Single or head of household	\$48,450	\$50,600	\$51,900
Married filing jointly	\$74,450	\$78,750	\$80,800
Married filing separately	\$37,225	\$39,375	\$40,400

### **Other Provisions**

Other important provisions contained in the Act include the following:

*Standard Deduction* – The standard deduction rises to \$6,100 (\$12,200 for married couples filing jointly), up from \$5,950 (\$11,900 for married couples filing jointly) for tax year 2012.

*Itemized Deductions* – The Act added a limitation for itemized deductions claimed on 2013 returns of individuals with incomes of \$250,000 or more (\$300,000 for married couples filing jointly).

*Personal Exemption* – The personal exemption rises to \$3,900, up from the 2012 exemption of \$3,800. However, beginning in 2013, the exemption is subject to a phase-out that begins with adjusted gross incomes of \$250,000 (\$300,000 for married couples filing jointly). It phases out completely at \$372,500 (\$422,500 for married couples filing jointly).

*Marriage Penalty Relief* – The Act extends all marriage penalty relief provided by the Bush-era tax cuts.

*Child Tax Credit* – The Act permanently extends the \$1,000 child tax credit.

*Dependent Care Credit* – The current 35 percent credit rate on dependent care is made permanent, along with the \$3,000 cap on expenses for one qualifying individual and \$6,000 on expenses for two or more qualifying individuals.

*Coverdell Education Savings Accounts* – The Act permanently extends the \$2,000 annual contribution limit for Coverdell Education Savings Accounts.

*Earned Income Credit* – Under the Act, the maximum earned income credit amount is \$6,044 for taxpayers filing jointly who have three or more qualifying children, up from a total of \$5,891 for tax year 2012.

*IRA Distributions to Charity* – The Act temporarily extends tax-free qualified charitable distributions up to \$100,000 from IRAs. This provision is scheduled to sunset on December 31, 2013. The Act allows distributions in January 2013 to count toward 2012.

In addition to the provisions listed on the previous page, the Act contains a variety of other terms that affect both individuals and businesses. For more information on these provisions and how they may affect you, consult your tax professional.

### Payroll Taxes Revert to Prior Levels

One item that was not addressed by the Act was the expiration of the payroll tax cut provided by The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which enacted a two percentage point payroll tax cut for all employees, reducing their Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid for 2011. The reduction in taxes was extended into 2012 but expired on January 1, 2013, causing the Social Security tax withholding rate to go back to 6.2 percent. You may have already noticed the difference in your paycheck. Also worth noting is that in 2013, the Social Security wage base limit increases to \$113,700.

### Contribution Limits on 401(k)s, Traditional IRAs, and Roth IRAs Set to Increase in 2013

Good news for retirement savers: the IRS has increased contribution limits for certain retirement plans for 2013.

First of all, in tax year 2013 the contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan will jump to \$17,500, up from \$17,000 in 2012. Employees age 50 and up who participate in these plans can kick in an extra \$5,500, unchanged from 2012.

The contribution limits for IRAs have increased as well. In 2013, the contribution limit for both traditional and Roth IRAs will be \$5,500 per individual, representing a slight increase from the 2012 limit of \$5,000. As in prior years, individuals age 50 and older can make an additional \$1,000 catch-up contribution.

In addition to increased contribution limits, 2013 also raises income limits for traditional IRA deductibility and Roth IRA eligibility. For more information on these changes, contact your Stifel Financial Advisor today.

<b>401(k) Contribution Limits</b>			
Tax Year	Contribution Limit	Catch-Up Contribution	Age 50 and Older Contribution Limit
2012	\$17,000	\$5,500	\$22,500
2013	\$17,500	\$5,500	\$23,000
<b>IRA Contribution Limits</b>			
Tax Year	Contribution Limit	Catch-Up Contribution	Age 50 and Older Contribution Limit
2012	\$5,000	\$1,000	\$6,000
2013	\$5,500	\$1,000	\$6,500

### 2012 IRA Contribution Funding Deadline

As a reminder, you still have until the tax return filing deadline – April 15, 2013 (not including extensions) – to make IRA contributions for 2012.

When contributing to an IRA, it is important to note that withdrawals prior to age 59 ½ may be subject to a 10% penalty by the IRS.

Stifel does not provide legal or tax advice. While this information is taken from sources deemed to be reliable, it is neither guaranteed nor a comprehensive discussion of the legislation or its potential impact. You should discuss your particular situation with your legal and tax advisors.

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