Highlights of H.R. 8
The American Taxpayer Relief Act of 2012

Summary Provided By Prudential Georgia Realty
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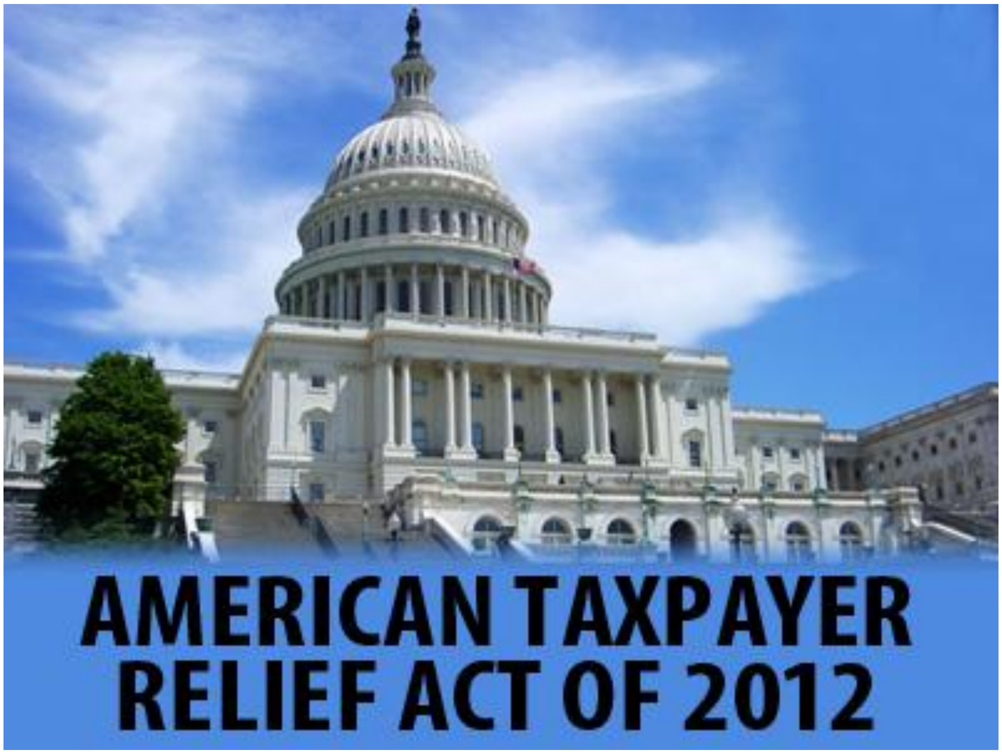

In the wee hours of the night, the Senate overwhelming passed H.R. 8, The American Taxpayer Relief Act of 2012. On the evening of New Year's Day, the House passed the Act intact and President Obama signed into law on January 3rd. The Act is 157 pages long and can be read in full by clicking here. Here are some highlights:

- Beginning in 2013, the highest individual tax rates increase on the wealthy (now defined as taxable incomes over $450,000 for married couples and $400,000 for singles).
- Tax rates will be fixed at the 2012 levels of 10%, 15%, 25%, 28%, 33% and the new rate of 39.6%.
- The sequester spending cuts are delayed until March 1, 2013.
- Unemployment benefits will be extended for an additional year.
- The estate and gift tax exemption is set at $5,000,000 as indexed for inflation and taxed at 40% (up from 35%).
- In 2013, the maximum tax rates on long-term capital gains and qualified dividends will increase from 15% to 20% for taxable incomes over $450,000 for married couples and $400,000 for singles. In addition, the new Obama Health Care Tax of 3.8% will apply to taxpayers with adjusted gross incomes of $200,000 for singles and 250,000 for married couples filing jointly.
- There are additional increases in tax rates on the wealthy again by phasing-out itemized deductions and personal tax exemptions in 2013 (for this purpose the wealthy are defined as taxable incomes over $300,000 for married couples and $250,000 for singles).

- The alternative minimum tax (AMT) was permanently fixed for 2012 and all future years by increasing and indexing the AMT exemption for inflation. This will avert approximately 30,000,000 taxpayers from being subject to AMT in 2012 and future years but remains a very complex vehicle that typically impacts taxable incomes over $150,000. The AMT limits many popular deductions and exemptions including home mortgage interest.
- The Act does not extend the 2% cut in the Social Security payroll tax that was in place for 2012.
- The estate and gift tax exemption will remain at $5,000,000 as indexed for inflation. The maximum estate and gift tax rate will increase from 35% to 40% and there are no provisions to do away with discounts, GRATs, and other estate planning strategies.
- There is a five year extension for various credits including: The American Opportunity Credit, the Child Tax Credit, and the Earned Income Credit.
- The COD (cancellation of indebtedness) provision for short sales for primary residences was extended through 2013. This is a big deal since many homeowners may have avoided short sale or mortgage principal reduction programs. This would have substantially increased the rate of foreclosures.
- The teacher “above the line” deduction for school supplies was extended for 2012 and 2013.
- The deduction for PMI mortgage premiums paid was extended through 2013.
- The deduction for sales and use taxes was extended for 2012 and 2013.
- Qualified tuition deductions were extended for 2012 and 2013.
- The Charitable IRA transfer of up to $100,000 for taxpayers 70.5 years of age and older, was extended for 2012 and 2013. Given the retroactive nature of this bill, taxpayers will have until February 1, 2013 to designate a charitable transfer and count it towards 2012 and any required minimum distribution rules thereof.
- The R&D tax credit was extended for 2012 and 2013 with new rules imposed on acquisitions of companies and the impact of qualifying R&D expenditures;
- For businesses, the 50% bonus depreciation was extended through 2014 which should increase capital investment and spending.
- Special definitions for Section 179 depreciation involving real estate and computer software were extended by the Act.
- The built in gains (BIG) tax period for S-Corporations will remain at 5 years through 2013.
- The 100% exclusion of gain on small business stock was extended through 2013.
- Home energy and vehicle credits were extended through 2013.
- Medicare physician payments were not cut and extended through 2013 with new rules set in place for 2014. The impact to doctors with the new rules will remain to be seen.
- The special 15 year straight line depreciation method for certain qualified leasehold improvements and restaurant property was extended through 2013.

The total amount of the revenue increase is estimated to be $620 Billion but the Act will also contribute an additional $4 Trillion to the deficit over the next 10 years according to the Congressional Budget Office. President Obama is calling for additional investments in infrastructure, education and green energy to be funded by additional tax revenues from businesses and individuals. Republicans are calling for more focus on spending cuts and ways to generate more revenues from growth in the economy. With the debt ceiling about to be exceeded again in the next 60 days, it appears we will have FISCAL CLIFF #2 coming to a theater near you around March 1, 2013. The next round of negotiations is expected to be more difficult and even more contentious. Stay tuned…