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FISCAL CLIFF NOTES

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CONGRESS TO THE RESCUE

In the very last moments of 2012, The American Taxpayer Relief Act was passed saving millions of taxpayers from a large tax hike. This bill extended the Bush-era tax cuts to most taxpayers. General details of the bill are listed below.

How will you be affected? Read inside.



THE AMERICAN TAXPAYER RELIEF ACT OF 2012

In a nutshell:

- The Bush-era individual and capital gains tax rates were extended to all taxpayers with income under \$400,000 (single), \$425,000 (head of household), and \$450,000 (married/joint).
- Beginning in 2013, itemized deductions and exemptions are phased out at incomes over \$250,000 (single), \$275,000 (head of household), and \$300,000 (married/joint).
- The Alternative Minimum Tax was permanently patched and indexed for the future.
- Revived for 2 more years were Energy Credits, the \$250 teachers classroom supply deduction, the mortgage insurance premium deduction, the sales tax deduction, the tuition deduction, tax-free distributions from IRAs for charity, exclusion from income of principal residence cancelled debt, and a slew of small business items.
- Extended for 5 years are the American Opportunity Tax Credit, the \$1,000 Child Tax Credit, and the enhanced Earned Income Credit.
- Permanently extended are marriage penalty relief, liberalized Child Care Credit rules, and the exclusion for employer-provided educational assistance.

THIS LAST-MINUTE TAX ACT WILL PUT A DELAY ON THE 2013 FILING SEASON.

THE IRS IS UNABLE TO ACCEPT ELECTRONICALLY FILED TAX RETURNS UNTIL JANUARY 30.

COMPLICATED FILINGS WILL SEE FURTHER DELAYS.

ARE YOU A WORKER?

You most likely have already noticed a cut in your take home pay beginning on January 1, 2013.

The Payroll tax cut that increased your paycheck in 2011 and 2012 was not mentioned in the tax bill.

Instead of extracting 4.2% from your paycheck for Social Security taxes, 6.2% will be taken this year. This gives you 2% less in every paycheck.

For example, if you earn \$50,000 per year, you will get \$1,000 less to spend on the needs of life.

Self employed workers will also pay 2% more on self-employment tax.

On a more positive note, the American Taxpayer Relief Act of 2012 reinstated the exclusion from income of employer-provided educational assistance.

The bill also granted an extension of parity for exclusion of employer-provided mass transit and parking benefits.



WHERE DOES YOUR INCOME LIE?

Is your income over \$400,000?

Taxpayers with incomes over \$400,000 (single), \$425,000 (head of household), and \$450,000 (married/joint) will be paying tax at a new 39.6% tax rate.

You will also be paying 20% tax on qualifying dividends and long term capital gains.

Congress obviously thinks you can afford to pay a little more.



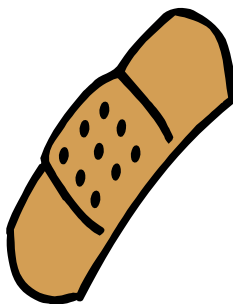
Is your income under the \$400,000... level?

If you make less than these amounts, you will still enjoy the same tax rates that you have been paying, indexed for inflation.

Your dividends and capital gains will be taxed at 15% if you are in the 25% or higher bracket and 0% if you are in the 15% or under bracket..

DO YOU USUALLY PAY AMT? (ALTERNATIVE MINIMUM TAX)

You probably will still pay AMT.



The AMT is still with us. This is just a patch.

Congress **permanently** patched the AMT by increasing the exemption amount and allowing personal nonrefundable credits to the full amount of tax.

Without the patch, 60 million additional households would have been subject to AMT in 2012.

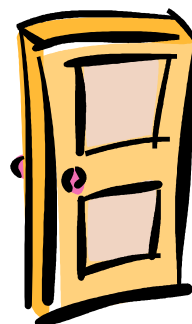
DID YOU MISS OUT ON THE ENERGY CREDITS IN 2011 OR BEFORE?

You have two more chances for a credit in 2012 and 2013.

If you have not used all of your lifetime \$500 Energy Credit, you may qualify for a 10% credit for qualifying energy improvements to your home.

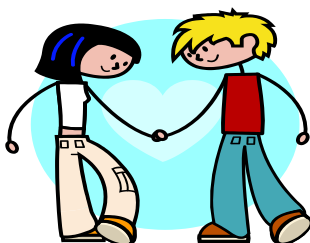
The credit for windows is capped at \$200, advanced main air circulating fans are \$50, qualified boilers are \$150, energy efficient building property is capped at \$300, and Energy Star windows and doors are 10%.

Energy Credits taken in previous years reduce the amount of credit available.



ARE YOU MARRIED?

The American Taxpayer Relief Act of 2012 granted permanent relief from the marriage penalty.



In other words, your standard deduction and tax brackets are exactly twice those of single.

DO YOU HAVE YOUNG CHILDREN?

Thanks to Congress, American families will be saved from the following 3 tax hikes:

- The Child Tax Credit for taxpayers with children under age 17 remains at \$1,000 per child for taxpayers with incomes under \$110,000 (married filing jointly) and \$75,000 (singles). This credit was scheduled to be reduced to \$500 but it has been extended another 5

years. Taxpayers who owe no tax (over 40% of us) will still be able to benefit from the refundability of this credit.

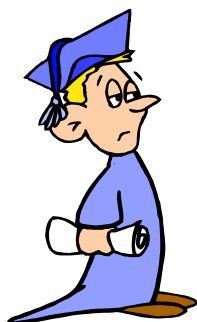
- For lower income families, the Earned Income Tax Credit was extended for families of three or more children for 5 years and married taxpayers will still get the same breaks as the unmarried.

- Expenses qualifying for the

Dependent Care Credit were scheduled to be reduced from \$3,000 per child to \$2,400. The \$3,000 limit was permanently extended.



ARE YOU PAYING FOR HIGHER EDUCATION?



If you paid for post-secondary tuition, fees, and required course materials for a student in the first 4 years of a degree program, you are still in luck (for

the next 5 years). The American Opportunity Tax Credit of up to \$2,500 per student is really a jewel for taxpayers with incomes under \$180,000 (married/joint) and \$90,000 (single).

Even if your tax is 0, the credit

is 40% refundable for most taxpayers.

For those students not qualifying for the American Opportunity Credit, the above the line deduction for tuition has been extended for two more years.

ARE YOU A HOMEOWNER?

Many taxpayers are concerned about the possible loss of their coveted mortgage interest deduction. You will be glad to know that this bill did not address that issue. In fact, the Act extended the following tax breaks:

- The deduction for mortgage insurance for qualifying taxpayers was revived for 2012 and 2013.
- The exclusion from income of principal residence cancelled debt was also extended for two years.



DO YOU OWN A BUSINESS?

Congress passed a slew of provisions extending business breaks through 2013. The most common of which are listed below:

- \$500,000 Sec 179 expensing
- The Research Tax Credit
- The Work Opportunity Tax Credit



- 15 year recovery on qualified leasehold improvements

Congress also extended the 50% bonus depreciation deduction for one more year. This provision is helpful to small businesses who want to invest in new equipment.

DO YOU LIVE IN A STATE WITH NO TAX OR DID YOU BUY A CAR?

You're lucky again. The Tax Act extended the deduction for sales tax instead of income tax on Schedule A for two more years including sales tax paid on vehicles, boats, and aircraft.

ARE YOU OUT OF WORK?

Good news! The American Tax Relief Act of 2012 extended the emergency unemployment compensation program.

ARE YOU A SCHOOL TEACHER?

Your \$250 deduction for classroom supplies was extended for two more years.

ARE YOU PAYING ON STUDENT LOANS?

The student loan interest deduction on older loans had expired, but Congress revived it for two more years.



THE FUTURE?

This tax bill is just a temporary fix. Extensive tax reform is in the planning stages.