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The American Taxpayer Relief Act of 2012

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President Obama signed the American Taxpayer Relief Act of 2012 (the"2012 Act") on January 2, 2013 which sets forth a stop-gap agreement with narrow tax law changes.

Estate Tax, Gift Tax and GST Provisions

The estate and gift tax provisions under the 2012 Act are best summarized by one of Yogi Berra's famous quotes……. "it's déjà vu all over again". The 2012 Act made "permanent" the 2012 laws, with only a few important changes. The $5,120,000 estate tax, gift tax and GST exemption was retained and will be inflation adjusted, which for 2013 means that the exemption will be $5,250,000, an increase of $130,000 over the 2012 exemption. However, the tax rate on estates, gifts and GST transfers above the exemption was increased to 40%, from the 35% rate in effect in 2012. Also the legislation made the portability rules permanent.

The 2012 Act also "permanently" eliminated the state death tax credit. For New Jersey residents this aspect of the new legislation should have little impact as New Jersey "decoupled" the New Jersey estate tax from the federal tax laws in 2001. However, for individuals who have ties to more than one state, the elimination of the state death tax credit could have a meaningful impact.

Planning to minimize New Jersey estate taxes and inheritance taxes remains paramount.

Keep in mind, due to inflation adjustments, the "annual exclusion amount" for gifts will increase from $13,000 to $14,000 in 2013.

Income Tax Provisions

For many individuals, the most important changes in the 2012 Act are those pertaining to marginal income tax rates, the AMT, the tax rates on dividends and capital gains and related income tax changes.

The top income tax bracket rises to 39.6% (from 35%) for single individuals with taxable income in excess of $400,000 and for married couples in excess of $450,000. For single individuals who have income of $250,000, and married couples with income of $300,000, there is a hidden tax increase as the value of personal exemptions and itemized deductions will be reduced. For example, a couple with $400,000 of income and $50,000 of itemized deductions in 2013, will see their allowed itemized deductions reduced by $3,000 to $47,000 ($100,000 x 3%).

The top income tax bracket for capital gains and dividends rises to 20% (from 15%) for individuals with taxable income in excess of $400,000 and for married couples in excess of $450,000.

The 3.8% Investment Income Tax on capital gains and passive income becomes effective in 2013. This surcharge is in addition to the tax rate increases for capital gains and dividends established by the 2012 Act.

Congress has attempted to permanently solve the AMT problem by indexing the AMT exemption amounts for inflation.

Finally, the exclusion from gross income for distributions made from IRA plans for contributions to charity has been extended for two years. In fact, the legislation allows individuals to make charitable transfers in January 2013 and treat them as if made in 2012.

Contact our Business Group if you should have any questions regarding this legislation.

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