

ALERT

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January 2, 2013 American Taxpayer Relief Act

Dear clients and friends,

On January 1, 2013, the House of Representatives passed H.R.8, the American Taxpayer Relief Act (the Act). The President is expected to sign the legislation. The Act averts many of the tax hikes that were scheduled to go into effect on January 1st. It also retains certain tax breaks that were scheduled to expire, but it also increases income taxes for high-income individuals and slightly increases estate tax rates. The following are some of the key provisions of the Act:

Individual Income tax rates. The Act keeps the existing tax rates intact for individuals with taxable income under \$400,000 (\$450,000 for married taxpayers, \$425,000 for heads of household). Income above these levels will now be taxed at a 39.6% rate.

Capital gains and dividend tax rates. The Act raises the top rate for dividends and capital gains from 15% to 20%.

Estate taxes. The Act would prevent steep increases in estate, gift and generation-skipping transfer (GST) tax that were slated to occur for individuals dying and gifts made after 2012 by permanently keeping the exemption level at \$5,000,000 (as indexed for inflation). However, the Act would also permanently increase the top estate, gift and GST rate from 35% to 40%.

Alternative Minimum Tax. The Act creates a permanent patch to the alternative minimum tax (AMT).

Limitations to itemized deductions. The Act reinstates the pre 2001 limitations on the personal exemption and itemized deductions for individual taxpayers exceeding 250,000 and couples exceeding 300,000 income thresholds.

Individual extenders. The Act extends a host of individual provisions, including the treatment of mortgage insurance premiums as qualified residence interest, deductions for State and local general sales taxes, and the above-the-line deduction for qualified tuition and related expenses. The two year payroll tax cut was allowed to expire.

Business tax extenders. Many key business tax breaks are extended including depreciation provisions, notably including bonus depreciation, and the research and work opportunity tax credits.

Like many tax matters, these rules are complex and we have only provided a brief overview of the issues. For more information, please contact your Green Hasson Janks advisor for further details at (310) 873-1600.

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