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Dear Valued Client,

Although Congress averted many of the consequences of a possible tumble over the fiscal cliff with last-minute action, you should be aware of the potential impact on your business of the American Taxpayer Relief Act of 2012. We encourage you to review the highlights of the new law below and call us if you have any concerns about how your tax situation will change as we prepare your returns for this filing season.

Several popular business tax provisions were set to expire at the end of 2012. For example, small business expensing under Internal Revenue Code Section 179 was increased retroactive to Jan. 1, 2012, and extended through 2013. The dollar limit that can be expensed in 2012 and 2013 is \$500,000 and there is a \$2 million investment limit. You also can make use of the 15-year recovery period for qualified leasehold improvements, retail improvements and restaurant property until the end of 2013.

Many other business tax benefits that had expired or were set to expire were extended through 2013, including:

- The 50% bonus depreciation for purchase of new equipment
- The research tax credit for businesses that increase their R&D spending
- The Work Opportunity Tax Credit for hiring veterans and other individuals who meet specific criteria
- The 100% exclusion for gains on a sale of small business stock
- Special tax incentives for businesses located in empowerment zones
- Rules on S corporations making charitable donations of property

Of course, small business owners will also be affected by many of the provisions of the law governing individuals. For example:

- Taxpayers will pay a new 39.6% rate on individual incomes of more than \$400,000 and on incomes of more than \$450,000 for married taxpayers filing jointly. All other existing rates remain the same. The income you receive from a partnership or S corporation will be subject to rates as high as 39.6%. Corporate income for C corporations remains at 35%, which means it may be worthwhile to evaluate a change in the form of your business to avoid the highest individual rate.
- The same individuals who are subject to the new 39.6% top rate on income face a 20% rate on capital gains and dividends, up from 15%.

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- The phase-out levels for personal exemptions and itemized deductions are raised to \$300,000 for married couples and surviving spouses and \$250,000 for individuals.
- After years of late-year alternative minimum tax “patches,” the new law permanently indexes the AMT to inflation.
- The law did *not* extend the 2% cut for the employees' portion of the Social Security payroll tax, which means it reverts to 6.2% on income up to \$113,700 in 2013.
- After years of uncertainty, the new law holds the estate and gift tax exclusion at \$5 million, indexed for inflation (\$5.12 million in 2012). The top tax rate jumped to 40% from 35% as of Jan. 1, 2013. Without this change, it would have soared to 55% and estates worth over \$1 million would be subject to that rate. The act also made permanent the estate tax portability election, which allows a surviving spouse to use a deceased spouse's unused exemption amount.
- Business owners struggling to pay their home mortgages — or whose home values have fallen below their purchase price — get another year of tax relief on any “indebtedness income” they may receive as a result of a loan modification or short sale.

Also, some taxpayers who have net investment income face a 3.8% surtax on categories of certain investment income, potentially increasing their top rate to 43.4%. This tax already was slated to go into effect as a result of health care reform.

These are just a few of the most important provisions of the new law. We can help you understand the effect that these and other changes will have on your tax situation.

In addition to preparing your return in a way that maximizes tax advantages for your business, we are available after tax season to advise you on strategies and planning decisions that will help minimize taxes and meet your financial goals. Planning is particularly important because the law preserved several popular provisions that are set to expire at the end of this year.

Please don't hesitate to contact us today at 859 | 331.7755 to schedule an appointment to begin discussing your options.

Sincerely,

The Mackey Advisors Team