SUMMARY OF TAX PROVISIONS IN
The American Taxpayer Relief Act of 2012

I. Permanent Extension of Tax Relief

Reductions in Individual Income Tax Rates

Permanently extend the 10% bracket. Under current law, the 10% individual income tax bracket expires at the end of 2012. Upon expiration, the lowest tax rate will be 15%. The bill extends the 10% individual income tax bracket for taxable years beginning after December 31, 2012. *This provision is estimated to cost* $442.641 billion over ten years.

Permanently extend the 25%, 28%, and 33% income tax rates for certain taxpayers. Under current law, the 25%, 28%, 33%, and 35% individual income tax brackets expire at the end of 2012. Upon expiration, the rates become 28%, 31%, 36%, and 39.6% respectively. The bill extends the 25%, 28%, 33% rates on income at or below $400,000 (individual filers), $425,000 (heads of households) and $450,000 (married filing jointly) for taxable years beginning after December 31, 2012. *This provision is estimated to cost* $319.711 billion over ten years.

Permanently repeal the Personal Exemption Phaseout for certain taxpayers. Personal exemptions allow a certain amount per person to be exempt from tax. Due to the Personal Exemption Phase-out ("PEP"), the exemptions are phased out for taxpayers with AGI above a certain level. The *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) repealed PEP for 2010. The *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* (TRUIRJCA) extended the repeal through 2012. The bill extends the repeal of PEP on income at or below $250,000 (individual filers), $275,000 (heads of households) and $300,000 (married filing jointly) for taxable years beginning after December 31, 2012. *The combined cost of this provision and the one described below is estimated to be* $10.514 billion over ten years.

Permanently repeal the itemized deduction limitation for certain taxpayers. Generally, taxpayers itemize deductions if the total deductions are more than the standard deduction amount. Since 1991, the amount of itemized deductions that a taxpayer may claim has been reduced, to the extent the taxpayer’s AGI is above a certain amount. This limitation is generally known as the “Pease limitation.” The EGTRRA repealed the Pease limitation on itemized deductions for 2010. The TRUIRJCA extended the repeal through 2012. The bill extends the repeal of the Pease limitation on income at or below $250,000 (individual filers), $275,000 (heads of households) and $300,000 (married filing jointly) for taxable years beginning after December 31, 2012.

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1 The Joint Committee on Taxation estimates the budgetary cost of tax provisions – reflecting both the revenue loss and outlay effects associated with those provisions – relative to current law. Where applicable, savings relative to current policy (extension of tax laws in effect during 2012) are noted in footnotes.

2 The provision raises $396.889 billion relative to current policy.

3 The provisions raise $152.186 billion relative to current policy.
The combined cost of this provision and the one described above is estimated to be $10.514 billion over ten years.\(^4\)

**Capital Gains and Dividends**

*Permanently extend the capital gains and dividend rates.* Under current law, the capital gains and dividend rates for taxpayers below the 25% bracket is equal to zero percent. For those in the 25% bracket and above, the capital gains and dividend rates are currently 15%. These rates expire at the end of 2012. Upon expiration, the rates for capital gains become 10% and 20%, respectively, and dividends are subject to the ordinary income rates. The bill extends the current capital gains and dividends rates on income at or below $400,000 (individual filers), $425,000 (heads of households) and $450,000 (married filing jointly) for taxable years beginning after December 31, 2012. For income in excess of $400,000 (individual filers), $425,000 (heads of households) and $450,000 (married filing jointly), the rate for both capital gains and dividends will be 20%.

*This provision is estimated to cost $289.920 billion over ten years.*\(^5\)

**Tax Relief for Families and Children**

*Permanently extend marriage penalty relief.* The bill extends the marriage penalty relief for the standard deduction, the 15% bracket, and the EITC for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $84.630 billion over ten years.*

*Permanently extend the expanded dependent care credit.* The dependent care credit allows a taxpayer a credit for an applicable percentage of child care expenses for children under 13 and disabled dependents. The EGTRRA increased the amount of eligible expenses from $2,400 for one child and $4,800 for two or more children to $3,000 and $6,000, respectively. The EGTRRA also increased the applicable percentage from 30% to 35%. The bill extends the changes to the dependent care credit made by EGTRRA for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $1.791 billion over ten years.*

*Permanently extend the increased adoption tax credit and the adoption assistance programs exclusion.* Taxpayers that adopt children can receive a tax credit for qualified adoption expenses. A taxpayer may also exclude from income adoption expenses paid by an employer. The EGTRRA increased the credit from $5,000 ($6,000 for a special needs child) to $10,000, and provided a $10,000 income exclusion for employer-assistance programs. The Patient Protection and Affordable Care Act of 2010 extended these benefits to 2011 and made the credit refundable. The bill extends for taxable years beginning after December 31, 2012, the increased adoption credit amount and the exclusion for employer-assistance programs as enacted in EGTRRA.

*This provision is estimated to cost $5.580 billion over ten years.*

\(^4\) The provisions raise $152.186 billion relative to current policy.

\(^5\) The provision raises $56.180 billion relative to current policy.
**Permanently extend the credit for employer expenses for child care assistance.** The EGTRRA provided employers with a credit of up to $150,000 for acquiring, constructing, rehabilitating or expanding property which is used for a child care facility. The bill extends this provision for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $209 million over ten years.*

**Permanently extend the 2001 modifications to the child tax credit.** Generally, taxpayers with income below certain threshold amounts may claim the child tax credit to reduce federal income tax for each qualifying child under the age of 17. The EGTRRA increased the credit from $500 to $1,000 and expanded refundability. The amount that may be claimed as a refund was 15% of earnings above $10,000. The bill extends this provision for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $354.493 billion over ten years.*

**Temporarily extend the 2009 modifications to the child tax credit.** The American Recovery and Reinvestment Act of 2009 (ARRA) provided that earnings above $3,000 would count towards refundability. The bill extends the ARRA child tax credit expansion for five additional years, through 2017.

*This provision is estimated to cost $50.518 billion over ten years.*

**Education Incentives**

**Permanently extend expanded Coverdell Accounts.** Coverdell Education Savings Accounts are tax-exempt savings accounts used to pay the higher education expenses of a designated beneficiary. The EGTRERA increased the annual contribution amount from $500 to $2,000 and expanded the definition of education expenses to include elementary and secondary school expenses. The bill extends the changes to Coverdell accounts for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $271 million over ten years.*

**Permanently extend the expanded exclusion for employer-provided educational assistance.** An employee may exclude from gross income up to $5,250 for income and employment tax purposes per year of employer-provided education assistance. Prior to 2001, this incentive was temporary and only applied to undergraduate courses. The EGTRRA expanded this provision to graduate education and extended the provision for undergraduate and graduate education. The bill extends the changes to this provision for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $11.477 billion over ten years.*

**Permanently extend the expanded student loan interest deduction.** Certain individuals who have paid interest on qualified education loans may claim an above-the-line deduction for such interest expenses up to $2,500. Prior to 2001, this benefit was only allowed for 60 months and phased-out for taxpayers with income between $40,000 and $55,000 ($60,000 and $75,000 for joint filers). The EGTRRA eliminated the 60-month rule and increased the income phase-out to $55,000 to $70,000 ($110,000 and $140,000 for joint filers). The bill extends the changes to this provision for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $9.676 billion over ten years.*
**Permanently extend the exclusion from income of amounts received under certain scholarship programs.** Scholarships for qualified tuition and related expenses are excludible from income. Qualified tuition reductions for certain education provided to employees are also excluded. Generally, this exclusion does not apply to qualified scholarships or tuition reductions that represent payment for teaching, research, or other services. The National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program provide education awards to participants on the condition that the participants perform certain services. The EGTRRA allowed the scholarship exclusion to apply to these programs. The bill extends the changes to this provision for taxable years beginning after December 31, 2012.

*This provision is estimated to cost $1.501 billion over ten years.*

**Temporarily extend the American Opportunity Tax Credit.** Created under the ARRA, the American Opportunity Tax Credit is available for up to $2,500 of the cost of tuition and related expenses paid during the taxable year. Under this tax credit, taxpayers receive a tax credit based on 100% of the first $2,000 of tuition and related expenses (including course materials) paid during the taxable year and 25% of the next $2,000 of tuition and related expenses paid during the taxable year. Forty percent of the credit is refundable. This tax credit is subject to a phase-out for taxpayers with adjusted gross income in excess of $80,000 ($160,000 for married couples filing jointly). The bill extends the American Opportunity Tax Credit for five additional years, through 2017.

*This provision is estimated to cost $67.280 billion over ten years.*

**II. Permanent Individual Alternative Minimum Tax (AMT) Relief**

**Permanent AMT patch.** Currently, a taxpayer receives an exemption of $33,750 (individuals) and $45,000 (married filing jointly) under the AMT. Current law also does not allow nonrefundable personal credits against the AMT. The bill increases the exemption amounts for 2012 to $50,600 (individuals) and $78,750 (married filing jointly) and indexes the exemption and phaseout amounts thereafter. The bill also allows the nonrefundable personal credits against the AMT. The bill is effective for taxable years beginning after December 31, 2011.

*This provision is estimated to cost $1,815.6 billion over ten years.*

**III. Permanent Estate Tax Relief**

**Permanent estate, gift and generation skipping transfer tax relief.** The EGTRRA phased-out the estate and generation-skipping transfer taxes so that they were fully repealed in 2010, and lowered the gift tax rate to 35 percent and increased the gift tax exemption to $1 million for 2010. In 2010, the TRUIRJCA set the exemption at $5 million per person with a top tax rate of 35 percent for the estate, gift, and generation skipping transfer taxes for two years, through 2012. The exemption amount was indexed beginning in 2012. The bill makes permanent the indexed TRUIRJCA exclusion amount and indexes that amount for inflation going forward, but sets the top tax rate to 40 percent for estates of decedents dying after December 31, 2012.
This provision is scored in combination with the two provisions below. Together these provisions are estimated to cost $396.068 billion over ten years.⁶

**Portability of unused exemption.** The TRUIRJCA allowed the executor of a deceased spouse’s estate to transfer any unused exemption to the surviving spouse for estates of decedents dying after December 31, 2010 and before December 31, 2012. The bill makes permanent this provision and is effective for estates for decedents dying after December 31, 2012.

**Reunification.** Prior to the EGTRRA, the estate and gift taxes were unified, creating a single graduated rate schedule for both. That single lifetime exemption could be used for gifts and/or bequests. The EGTRRA decoupled these systems. The TRUIRJCA reunified the estate and gift taxes. The bill permanently extends unification and is effective for gifts made after December 31, 2012.

**IV. Tax Extenders**

**Individual Provisions**

**Parity for exclusion from income for employer-provided mass transit and parking benefits.** This provision would extend through 2013 the increase in the monthly exclusion for employer-provided transit and vanpool benefits from $125 to $240, so that it would be the same as the exclusion for employer-provided parking benefits.

*This provision is estimated to cost $220 million over ten years.*

**Premiums for mortgage insurance deductible as interest that is qualified residence interest.** The provision extends the ability to deduct the cost of mortgage insurance on a qualified personal residence. The deduction is phased-out ratably by 10% for each $1,000 by which the taxpayer’s AGI exceeds $100,000. Thus, the deduction is unavailable for a taxpayer with an AGI in excess of $110,000. The bill extends this provision for two additional years, through 2013.

*This provision is estimated to cost $1.297 billion over ten years.*

**Deduction for state and local general sales taxes.** The bill extends for two years the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for State and local income taxes.

*This provision is estimated to cost $5.538 billion over ten years.*

**Business Provisions**

**Tax credit for research and experimentation expenses.** The bill extends for two years, through 2013, the research tax credit equal to 20 percent of the amount by which a taxpayer’s qualified research expenses for a taxable year exceed its base amount for that year and provides an alternative simplified credit of 14 percent. The bill also modifies rules for taxpayers under common control and rules for computing the credit when a portion of a trade or business changes hands.

⁶ These provisions save $19.132 billion relative to current policy.
This provision is estimated to cost $14.324 billion over ten years.

**New Markets Tax Credit.** Through the New Markets Tax Credit (NMTC) program, the federal government is able to leverage federal tax credits to encourage significant private investment in businesses in low-income communities. The program provides a 39 percent tax credit spread over 7 years. The bill extends for two years the new markets tax credit, permitting a maximum annual amount of qualified equity investments of $3.5 billion each year.

This provision is estimated to cost $1.794 billion over ten years.

**Employer wage credit for activated military reservists.** The bill extends for two years, through 2013, the provision that provides eligible small business employers with a credit against the employer’s income tax liability for a taxable year in an amount equal to 20 percent of the sum of differential wage payments to activated military reservists.

This provision is estimated to cost $7 million over ten years.

**Returning Heroes and Wounded Warriors Work Opportunity Tax Credits.** Currently businesses are allowed to claim a work opportunity tax credit (WOTC) for hiring qualified veterans in the following targeted groups and up to the following credit amounts:

- Veterans in a family receiving supplemental nutrition assistance: $2,400
- Short-term unemployed veterans: $2,400
- Service-related disabled veterans discharged from active duty within a year: $4,800
- Long-term unemployed veterans: $5,600
- Long-term unemployed service-related disabled veterans: $9,600

A credit against Social Security taxes is also available to tax-exempt employers. Transfers are made from general revenues to make the Social Security trust fund whole. The provision expires on December 31, 2012. The proposal would extend these credits for an additional year, though 2013.

This provision is estimated to cost $125 million over ten years.

**15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.** The bill extends for two years, through 2013, the temporary 15-year cost recovery period for certain leasehold, restaurant, and retail improvements, and new restaurant buildings, which are placed in service before January 1, 2014. The extension is effective for qualified property placed in service after December 31, 2011.

This provision is estimated to cost $3.717 billion over ten years.

**Treatment of certain dividends of regulated investment companies (RIC’s).** The bill extends a provision allowing a RIC, under certain circumstances, to designate all or a portion of a dividend as an “interest-related dividend,” by written notice mailed to its shareholders not later than 60 days after the close of its taxable year. In addition, an interest-related dividend received by a foreign person generally is exempt from U.S. gross-basis tax under sections 871(a), 881, 1441 and 1442 of the Code. The proposal extends the treatment of interest-related dividends and short-term capital gain dividends received from a RIC to taxable years of the RIC beginning before January 1, 2014.

This provision is estimated to cost $151 million over ten years.
**RIC qualified investment entity treatment under FIRPTA.** The bill extends the inclusion of a RIC within the definition of a “qualified investment entity” under section 897 of the Tax Code through December 31, 2013.

This provision is estimated to cost $60 million over ten years.

**Special rules for qualified small business stock.** Generally, non-corporate taxpayers may exclude 50 percent of the gain from the sale of certain small business stock acquired at original issue and held for more than five years. For stock acquired after February 17, 2009 and on or before September 27, 2010, the exclusion is increased to 75 percent. For stock acquired after September 27, 2010 and before January 1, 2012, the exclusion is 100 percent and the AMT preference item attributable for the sale is eliminated. Qualifying small business stock is from a C corporation whose gross assets do not exceed $50 million (including the proceeds received from the issuance of the stock) and who meets a specific active business requirement. The amount of gain eligible for the exclusion is limited to the greater of ten times the taxpayer’s basis in the stock or $10 million of gain from stock in that corporation. The provision extends the 100 percent exclusion of the gain from the sale of qualifying small business stock that is acquired before January 1, 2014 and held for more than five years. The bill also clarifies that in the case of stock acquired after February 17, 2009, and before January 1, 2014, the date of acquisition for purposes of determining the percentage exclusion is the date the holding period for the stock begins.

This provision is estimated to cost $954 million over ten years.

**Basis adjustment to stock of S corporations making charitable contributions of property.** The bill extends for two years the provision allowing S corporation shareholders to take into account their prorata share of charitable deductions even if such deductions would exceed such shareholder’s adjusted basis in the S corporation.

This provision is estimated to cost $225 million over ten years.

**Reduction in S corporation recognition period for built-in gains tax.** If a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for a certain period in order to avoid a tax on any built-in gains that existed at the time of the conversion. The American Recovery and Reinvestment Act reduced that period from 10 years to 7 years for sales of assets in 2009 and 2010. The Small Business Jobs Act reduced that period to 5 years for sales of assets in 2011. The bill extends the reduced 5-year holding period for sales occurring in 2012 and 2013. In addition, this bill clarifies rules for carryforwards and installment sales.

This provision is estimated to cost $256 million over ten years.

**Bonus depreciation.** Under current law, businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. For 2008 through 2010, Congress allowed businesses to take an additional depreciation deduction allowance equal to 50 percent of the cost of the depreciable property. The TRUIRJCA expanded this provision to allow 100 percent bonus depreciation for investments placed in service after September 8, 2010 and before 2012 and 50 percent bonus depreciation for investments placed in service during 2012. This provision would extend the current 50 percent expensing provision for qualifying property purchased and placed in service before January 1, 2014 (before January 1, 2015 for certain longer-lived and transportation assets) and also allow taxpayers to elect to accelerate some AMT credits in lieu of bonus depreciation.
This provision also decouples bonus deprecation from allocation of contract costs under the percentage of completion accounting method rules for assets with a depreciable life of seven years or less that are placed in service in 2013. For regulated utilities, the provision clarifies that it is a violation of the normalization rules to assume a bonus depreciation benefit for ratemaking purposes when a utility has elected not to take bonus depreciation.

*This provision is estimated to cost $4.956 billion over ten years.*

**Energy Provisions**

*Credit for certain nonbusiness energy property (25C).* The bill extends for two years, through 2013, the credit under Section 25C of the Code for energy-efficient improvements to existing homes, reinstating the credit as it existed before passage of the American Recovery and Reinvestment Act. Standards for property eligible under 25C are updated to reflect improvements in energy efficiency. The provision also updates the energy efficiency requirements from the 2003 International Energy Conservation Code to the 2006 International Energy Conservation Code.

*This provision is estimated to cost $2.446 billion over ten years.*

*Investment tax credit in lieu of production tax credit.* Under current law, facilities that produce electricity from solar facilities are eligible to take a thirty percent (30%) investment tax credit in the year that the facility is placed-in-service. Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit for electricity produced over a ten-year period. The investment tax credit is better for small and offshore wind facilities. The bill would allow facilities qualifying for the production tax credit to elect to take the investment tax credit in lieu of the production tax credit for facilities that begin construction by the end of 2013.

*This provision is estimated to cost $135 million over ten years.*

*Credit for construction of new energy efficient homes.* The bill extends for two years, through 2013, the credit for the construction of energy-efficient new homes that achieve a 30% or 50% reduction in heating and cooling energy consumption relative to a comparable dwelling constructed per the standards of the 2003 International Energy Conservation Code (including supplements).

*This provision is estimated to cost $154 million over ten years.*

*Credit for energy efficient appliances.* The bill extends for two years, through 2013, the tax credit for US-based manufacturers of energy-efficient clothes washers, dishwashers and refrigerators.

*This provision is estimated to cost $650 million over ten years.*