New Tax Provisions for 2012

With the ringing in of the New Year, several new tax provisions took effect. While the list of new items does not compare with the number of tax provisions that expired at the end of 2011, individuals should be aware of what has changed.

Payroll Tax Cut
The temporary extension of the 4.2% rate for the employee's social security portion of the payroll tax will expire Feb. 29, 2012. Without further legislative action, the rate will then revert to the usual 6.2%.

AMT Exemption
The alternative minimum tax or "AMT patch" amounts expire in 2012 and the AMT exemption reverts to its statutory amount: $45,000 for married individuals filing jointly, and $33,750 for unmarried individuals.

Expired 2011 Individual Tax Provisions

- Deductibility of state and local sales tax instead of state income taxes
- Deductibility of mortgage insurance premiums as interest
- The above-the-line deduction of up to $4,000 for qualified tuition and related expenses
- The tax-free treatment of charitable distributions from IRAs for individuals over age 70 ½
- The non-business energy property credit

Extended 2012 Individual Tax Provisions

- Marriage penalty relief (increased standard deduction and expanded 15% bracket for married taxpayers filing jointly)
- The $1,000 child tax credit amount
- The American opportunity tax credit
- The $2,000 higher contribution amount to Coverdell education savings accounts
- The enhanced rules for student loan deductions

Tax Rates
The 10%, 15%, 25%, 28%, 33% and 35% tax brackets were scheduled to sunset after 2010 so that in 2011 the 10% rate would disappear (with income in that bracket reverting to the 15% bracket) and the other rates would revert to 28%, 31%, 36% and 39.6%, respectively. These rates are scheduled to continue through 2012.

Capital Gains
In 2003, the capital gain tax rate was lowered to 15% (0% for taxpayers in the 10% and 15% ordinary income tax brackets). These rate changes also had been scheduled to expire after 2010 and will continue through 2012.

New Tax Provisions for 2012

Itemized Deductions and Personal Exemptions
The Tax Relief Act of 2010 also extended the repeal of the itemized deduction and personal exemption phase-out for two years through 2012.

Over-the-Counter Medications
Effective for 2011, medications obtained without a prescription (except for insulin) are no longer reimbursable from health savings accounts (HSAs), Archer medical savings accounts (MSAs), health flexible spending accounts (FSAs) or health reimbursement arrangements (HRAs).

Tax on HSA Distributions
Effective for 2011, the additional tax on distributions from an HSA or an Archer MSA that are not used for qualified medical expenses was increased to 20% of the disbursed amount. (Under prior law, the tax was 10% of the disbursed amount for HSAs and 15% for Archer MSAs.)

Estate Tax
The $13,000 annual gift exclusion is unchanged for 2012, although the estate and gift lifetime exclusion for decedents dying during 2012 goes up from $5 million to $5.12 million.