

HOW WILL TAXMAGEDDON AFFECT YOU?

Jun 20, 2012

In the event the U.S. Supreme Court strikes down the entire 2010 health care reform bill, individual and married taxpayers with income in excess of \$200,000 and \$250,000 respectively will dodge the 0.9% Medicare surtax on earned income and 3.8% Medicare surtax on most investment income scheduled to take effect January 1, 2013. But that's not the end of the scheduled tax increases for 2013.

Assuming Congress takes no action and the Bush-era tax cuts expire at the end of 2012, the individual tax rates for 2013 will be as follows:

	2012	2013
	35%	39.6%
	33%	36.0%
Ordinary Income Tax Rates	28%	31.0%
and Short-Term Capital		
Gains Rates	25%	28.0%
	15%	15%
	10%	15%
	15% (35% income tax bracket)	20% (39.6% income tax bracket)
	15% (33% income tax bracket)	20% (36% income tax bracket)
Long-Term Capital Gains	15% (28% income tax bracket)	20% (31% income tax bracket)
Rates	15% (25% income tax bracket)	20% (28% income tax bracket)
	0% (15% income tax bracket)	10% (15% income tax bracket)
	0% (10% income tax bracket)	
Dividend Rates	15%	Dividends will be taxed at ordinary income rates.
	0%	

In addition, the following individual income tax limitations/phase-outs are scheduled to be reinstated in 2013:

- The “Pease” limitations on certain itemized deductions for higher income taxpayers were temporarily repealed through 2012. The limitation reduces the total amount of certain otherwise allowable deductions by 3% of the amount by which the taxpayer’s adjusted gross income exceeds a specified inflation-indexed income threshold, but not by more than 80%. The income threshold for 2013 is projected to be \$177,550 for single taxpayers and married taxpayers filing jointly.
- Personal exemption phase-outs did not apply for 2010, 2011 and 2012. Under the phase-out, personal exemptions are reduced by 2% for each \$2,500 by which the taxpayer’s adjusted gross income exceeds a specified income threshold. The income threshold for 2012 is projected to be \$266,300 for married taxpayers filing jointly and \$177,550 for single taxpayers.
- For 2011 and 2012, the employee portion of Social Security (FICA taxes) was reduced to 4.2% instead of 6.2%. Starting 2013, the employee-portion of Social Security will revert back to the full 6.2%.

The marriage penalty will also return in 2013 when the standard deduction for married taxpayers will cease to be calculated as 200% of the standard deduction amount for single taxpayers and revert to approximately 167% of the standard deduction amount for single taxpayers.

While the resolution of the constitutionality of health care reform will be decided this month, any Congressional action to extend the Bush-era tax cuts or provide other relief is unlikely to occur before December 2012 and can occur as late as February 2013.

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