Americans

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As the clock continues to tick down to the December 31 deadline on the "fiscal cliff," the buzz continues to be about how Americans' wallets may be affected by the potential tax law changes. The "fiscal cliff" refers to a group of tax provisions, cuts and deductions that have already expired or are set to on December 31, 2012.

If not renewed by Congress, the expiring items could cost households an average of $3,500 in higher taxes next year. Whether you have a mortgage, are putting kids through college or just sold an investment, you could be financially impacted. The Illinois CPA Society suggests a few to take specific note of:

- **Payroll Tax Holiday Could Disappear** – In place for the past two years, this tax break, which was always meant to be temporary, helped keep an average of $1,000 per year in consumers' pockets by decreasing the amount of tax that came out of paychecks.If it's allowed to expire at the end of the year, workers could see a 2 percent tax increase from 4.2% to 6.2% in their Social Security withholdings on the first $113,700 in wages, which would mean $2,274 less take-home pay for someone making at least this amount.
- **Alternative Minimum Tax (AMT) Might Kick In** – Over 32 million families may find themselves subject to AMT payments, up from 4 million last year, if Congress doesn't act. AMT, which is essentially an extra tax people have to pay on top of the regular income tax, was originally meant to keep people with very high incomes from using special tax benefits to pay little or no tax. However, it now applies to millions of average-incomed taxpayers because the applicable income levels were never adjusted for inflation. With legislation exempting these taxpayers from

paying AMT in 2010 and 2011 set to expire, millions of Americans could be paying

for this credit, you must be the parent or legal guardian of a child under 17 who you claim as a dependent on your tax return. This standard deduction is meant to reduce your federal income tax and helps to ease the costs children may incur over the course of the year.

- **Bracket Rates Could Tighten** – Both single and joint-filers could see tax bracket rates increase in 2013, no matter where your Adjusted Gross Income (AGI) falls on the schedule. For example, if your income places you in a 10% rate bracket in 2012, the same income would put you in a position to be taxed at 15% in 2013. Married filers will also see the return of the "marriage penalty," which narrows brackets for married couples and means that they may find themselves in higher rate brackets at lower incomes. All of these changes could mean that both single and married filers will pay more in 2013.
- **Capital Gains Tax May Increase** – A capital gain is any profit you make when selling an asset, including stock, bonds or real estate, and may also be referred to as investment income. If allowed to increase at the end of 2012, the rate at which these gains are taxed will jump to 20 percent from 15 percent for most taxpayers.
- **Earned Income Tax Credit May Disappear** – This credit is a benefit for taxpayers who work and have low to moderate wages. If it's allowed to expire by Congress, there may be no replacement for the credit that gives up to $5,750 to workers who earn $50,000 or less and meet other eligibility requirements like age, parenthood and citizenship.
- **American Opportunity Tax Credit May Decrease** – If this education-related credit expires, the alternative would be the Hope Credit, which has narrower eligibility requirements for what tuition amount and purchases qualify. Under the current American Opportunity Credit, a broader range of taxpayers qualify for a credit up to $2,500 for the cost of up to four years of post-secondary education and required course materials.

Now is a good time to for Americans to become more aware of potential changes and

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