raised questions and created some confusion for taxpayers, but it hasn't sent many of these folks over the edge.

Feb. 26, 2013

Congressional action at the start of 2013 to avert the so-called "fiscal cliff" has raised questions and created some confusion for taxpayers, but it hasn't sent many of these folks over the edge.

That's the assessment of some Northeast Ohio tax advisers surveyed about the impact of the American Taxpayer Relief Act of 2012.

Approved by Congress Jan. 1, the act extends most of the tax cuts from the President George W. Bush era for individuals making less than $400,000 and married couples earning less than $450,000.

The legislation helped to neutralize a combination of across-the-board tax increases and spending cuts that lawmakers said would have plunged America over a proverbial "fiscal cliff."

While fiscal cliff stories saturated the news media in late December and early January, tax advisers such as Certified Public Accountant Beth D'Arcy have needed to remind some clients of how changes or extensions from the law will affect their 2012 tax returns.

A number of tax breaks that expired at the end of 2011 were extended retroactively on Jan. 2 when President Barack Obama signed the tax package, said D'Arcy, owner of Hupp Tax Service in Willowick, Ohio.

As a result, these tax breaks are once again fair game for 2012 tax returns.

One such provision reinstated the ability to deduct the cost of mortgage insurance on

In addition, some mortgage companies decided not to reprogram their computers to include mortgage insurance.

“It didn’t occur to a lot of taxpayers that mortgage insurance was once again deductible, and they missed it,” D’Arcy said, noting that people in that situation would need to file an amended income tax return.

Aside from tax returns, the legislation also lightened the wallets of many American workers because it does not extend a 2 percent reduction in Social Security payroll taxes, D’Arcy said.

As a result, the 2013 payroll tax rate for worker contributions has increased from 4.2 percent back to 6.2 percent.

“Some people are commenting that they’ve noticed how much it’s cost them in their pay,” D’Arcy said.

The 2 percent increase in the payroll tax will cost a worker earning $50,000 a year about $1,000 annually, or $19 a week.

The American Taxpayer Relief Act of 2012 also includes a provision that caught the attention of people who are in a position to pass along sizable amounts of wealth to others.

The legislation made permanent the $5 million exemption level for estate and gift taxes, with annual adjustments for inflation, said Certified Public Accountant Vince Granito, partner with the Gallovic Granito & Co., a full-service accounting firm on Mentor Avenue in Mentor.

Estate and gift taxes are used to tax large transfers of wealth between individuals. Estate taxes are imposed on transfers made after one’s death, while gift taxes are applied to transfers made during an individual’s lifetime.

Thanks to the legislation, people can continue to pass on $5 million — which is

which started in 1969 to target wealthy Americans who were paying little or no taxes by taking advantage of deductions.

However, the AMT eventually impacted more middle-class taxpayers because it wasn't indexed for inflation.

"As each year went on, more taxpayers fell into the AMT and had to pay additional taxes over their normal taxes," Granito said.

The legislation increased exemption amounts for 2012 to $50,600 for individuals and $78,750 for those who are married and filing jointly. Also with the AMT now being indexed, it ensures that middle class taxpayers won't be hit by the tax unless their income rises at a faster pace than inflation.

The next looming financial crisis for Congress is Friday's deadline for over $85 billion in automatic spending cuts, known in Washington as a "sequester." But at this point, how the fiscal cliff saga altered America's tax landscape seems to be a fading memory, Granito said.

"You don't hear so much about it anymore, and I'm not getting as many phone calls about it," he said.

———————————

Payroll Taxes

(NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.