CPA Practice Advisor

Talja Sparkman • Dec. 11, 2012

There continues to be a lot of talk about the "fiscal cliff" and what it could mean for taxpayers. The fiscal cliff specifically refers to a group of tax provisions, cuts and deductions that are expired or will expire on December 31, 2012, unless Congress renews them. If Congress does not renew these items, it could raise taxes for households by an average of $3,500 next year.

In efforts to help American taxpayers understand the impact the fiscal cliff could have on them, the Illinois CPA Society has released the following explanations:

Payroll Tax Holiday – For the past two years, this temporary tax break decreased the

certain tax benefits to pay little or no tax. However, since the applicable income levels were never adjusted for inflation, it now applies to millions of average-income taxpayers and could result in more taxes paid for those affected.

Mortgage Interest Deduction Could Face Elimination – This deduction, which allows homeowners who itemize their returns to deduct the interest paid on their mortgages, could disappear if Congress doesn't act. Currently, taxpayers are allowed to deduct interest on qualified debt of up to $1.1 million paid for primary homes, second homes and vacation residences – with limitations that vary per individual situation.

Child Tax Credit – If the provision for the Child Tax Credit ends, the credit may be reduced to $500 from $1,000. This credit is for the parent or legal guardian of a child under the age of 17 who they claim as a dependent on their tax return and is meant to offset some of the costs incurred over the course of the year for children.

Bracket Rates – Tax bracket rates could increase for single and joint-filers, regardless of Adjusted Gross Income. The "marriage penalty" is also set to return which would narrow the brackets for married couples and place them in higher rate brackets at lower incomes.

Capital Gains Tax – The rate at which capital gains are taxed could increase from 15 percent to 20 percent for taxpayers. Capital gain, or investment income, refers to the profit made from selling assets, such as stock, bonds and real estate.

Earned Income Tax Credit – The Earned Income Tax Credit gives up to $5,570 to workers who earn $50,000 or less and meet other eligibility requirements like age, parenthood and citizenship.

American Opportunity Tax Credit – This credit gives up to $2,500 to cover the cost

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