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Now that just about everyone has wrapped up 2012, it is time to start thinking about 2013.

New for 2013

• 3.8% net investment income tax: A new tax on individuals beginning in 2013 equal to the lesser of 3.8% of the taxpayer's net investment income or the excess (if any) of the taxpayer's modified adjusted gross income over a threshold amount. The tax on estates and trusts equals 3.8% of the lesser of the undistributed net investment income for the tax year or the excess (if any) of the taxpayer's adjusted gross income over the dollar amount at which the highest tax bracket begins. The threshold amount is $250,000 for taxpayers filing joint returns, $125,000 for married taxpayers filing separately, and $200,000 for all other taxpayers. Net investment income includes gross income from interest, dividends, annuities, royalties and rents (other than from a trade or business), income from passive activities or from trading in financial instruments or commodities. However, net investment income does not include distributions from retirement plans. The tax does not apply to nonresident aliens.

• Increased threshold for medical expense deduction: Beginning in 2013, the itemized deduction for medical expenses is available only to the extent that the medical expenses exceed 10% (stays 7.5% for a taxpayer or the taxpayer's spouse has attained age 65 before the close of the tax year) of the taxpayer's adjusted gross income.

• Increased income tax rates: For 2013, there is a permanent extension of the 10%, 15%, 25%, 28%, 33% and 35% tax brackets on taxable income at or below $400,000 (individual filers), $425,000 (heads of households), $450,000 (married filing jointly and surviving spouses), and $225,000 (married filing separately). For taxpayers above the threshold amounts, which will be adjusted for inflation, the rate is 39.6%.

• Increased capital gains rates: The capital gains rate increases to 20% in 2013 for taxpayers in the 39.6% tax bracket. Qualifying dividends continue to be taxed like capital gains.

• 0.9% Medicare payroll tax for higher income taxpayers:Beginning in 2013, the hospital insurance tax on wages and self-employment income in excess of $200,000 ($250,000 for a

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joint return) is increased by 0.9%. These amounts are not indexed for inflation. The deduction for one-half of self-employment taxes does not apply to the additional tax.

• Phaseouts of itemized deductions and personal exemptions: The overall limitation on itemized deductions for taxpayers with AGIs above a threshold amount apply. The phaseout for personal exemptions for higher income taxpayers also applies in 2013 for taxpayers above a certain threshold.

Expiring in 2013

• Research credit: The tax credit for research and experimentation expenses.

• Charitable contributions from IRA accounts: The ability to distribute up to $100,000 tax free to charity from an IRA maintained for an individual whose has reached age 701/2.

• Discharge of indebtedness on principal residence excluded from gross income of individuals: The exclusion from taxable income of debt forgiven in a foreclosure proceeding or write-down of principal on a mortgage.

• Premiums for mortgage insurance deductible as interest that is qualified residence interest: Itemized deduction for the cost of mortgage insurance on a qualified personal residence.

• Deduction for state sales taxes: The election to deduct as an itemized deduction state and local sales taxes instead of state and local income taxes.

• Educator expense deduction: The $250 above the line deduction for qualifying educators for expenses paid for books and supplies used in the classroom.

• Increased first-year asset expensing: For 2013, the amount eligible for asset expensing is $500,000. Beginning in 2014, the amount is reduced to $25,000.

• Tuition expenses: The above-the-line deduction for qualified tuition and related expenses.

• 50% bonus depreciation: The additional first-year depreciation for 50% of basis of qualified property.

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• Nonbusiness energy property credit: A 10% credit (up to $500, less if any credit was taken in a previous year) is available if you make certain energy efficient improvements to your home. Such improvements include high-efficiency heating and air conditioning systems, water heaters, windows (limited to $200), skylights, doors, insulation and roofs. The improvements must be made to an existing principal residence. A manufacturer's certificate must accompany the qualifying property.

Expired in 2012

• D.C. First-Time Homebuyer Credit: Purchases made before January 1, 2012, qualify for the $5,000 D.C. first-time homebuyer credit.

• 100% bonus depreciation: The additional first-year depreciation for 100% of basis of qualified property.

Five-Year Extension Through 2017

• Refundable portion of child tax credit: The earned income formula for the determination of the refundable child credit applies to 15% of the taxpayer's earned income in excess of $3,000. This allows more earned income to qualify in order to determine how much of the credit is refundable. Beginning in 2018, the amount will be considerably higher.

• Education credit: The American Opportunity Credit replaced the Hope Education Credit for 2009 through 2017 only. The benefits of the credit are: (1) required course materials, such as books qualify; (2) the credit is increased to up to $2,500; (3) income level phasesouts are higher; (4) forty percent of the credit is refundable.

• Higher earned income tax credit: The temporary increase in the EITC percentage from 40% to 45% for families with three or more qualifying children ends in 2017. Additionally, the marriage penalty relief, through an increased threshold phaseout amount for married couples filing joint returns, also expires.

Permanently Extended

• Child tax credit dollar amount: The $1,000 per qualifying child credit amount.

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• Permanent AMT relief: For 2012, the AMT exemption amounts were $78,750 for married filing jointly, $39,375 for married filing separately, and $50,600 for singles and heads of household. For 2013, the exemption amounts are adjusted for inflation: $80,800 for married filing jointly, $40,400 for married filing separately, and $51,900 for singles and heads of households.

• Nonrefundable personal credits offsetting AMT: Rule that nonrefundable personal credits offset a taxpayer's alternative minimum tax.

• Lower income tax rates: The rates of 10%, 15%, 25%, 28%, 33%, and 35%. New 39.6% rate imposed, see above.

• Reduced long-term capital gains rates: The 15% capital gains rate (0% for taxpayers below the 15% tax bracket) applies for taxpayers below the top tax rate.

• Estate tax: Increase in estate and gift tax exemption to $5,000,000 (as indexed for inflation). For 2012, $5,120,000; for 2013, $5,250,000.

While there are other minor changes that have taken place from 2012 to 2013, the above list represents tax changes that most likely will impact your 2013 taxes.

Please do not hesitate to contact me if you have any concerns about how any of the tax law changes would affect you.

Sincerely,

Mario V. Lucibello, CPA