

FARM Library

Financial and Risk Management Database

Improving farm management skills one topic at a time

January 2013

American Taxpayer Relief Act of 2012- Part 3

Miscellaneous Items

There were several small items included in the bill, too. Some that pertain most to farming operations are:

Non-Business Energy Credit

The non-business energy credit was put back in place for 2012 and also for 2013. This allows for a credit for replacing windows, doors, etc. with higher efficiency models. There remains a lifetime maximum credit of \$500. In most cases, dealers of these items will know which qualifies for the credit but there are websites available to list qualifying property. They may need to be updated since this credit was supposed to have expired in 2011.

S-Corp Recognition Period

It doesn't affect a large number of individuals, but the reduction of the look back period is important to whom it applies. If you have an s-corporation that was previously a c-corporation, there has been a 10 year waiting period before you can sell the assets that were in the corporation without paying the "BIG tax". The American Taxpayer Relief Act of 2012 reduces that to 5 years for assets sold in 2012 and 2013. The trick is that means it affect s-corporations that were converted from c-corporations prior to 2008. Conversions in 2012 or 2013 are still, at this time, subject to the 10 year wait period.

American Opportunity Credit

The American Opportunity Credit has been extended through 2017. The credit is a maximum of \$2,500 for qualified tuition & fees, books, supplies & equipment. Up to 40% of it may be refundable if there is not a large enough income tax liability to offset. This credit covers the first four years of undergraduate work for a student who is enrolled at least half-time in a degree program. The credit may be claim by whoever claims the student's dependency. In other words, if the student is a dependent on the parent's return, they parents get the credit regardless of who pays the expenses for school. This has usually been the best education credit to claim although others are still available. This bill also extended the above the line deduction for Tuition and Fees. This may be a better choice for some taxpayers.

Tax-Free Distributions from IRA to Charities

Another expired provision that was revived through the American Taxpayer Relief Act of 2012 was the ability to transfer funds, up to \$100,000, directly from your IRA to a qualified charity. You must be 70 ½ years old to qualify, but it allows for a reduction in taxable income for a

donation to charity without using itemized deductions. The funds from the IRA must transfer directly to the charity (you can't have the money issued to you and you give them money to the charity). Since they made it retroactive to the beginning of 2012, some special provisions were put into place to be able to use it. If you made a distribution in December of 2012, you can now write a check in that amount to a qualified charity and have it count. You must do this before February 1 st, 2013. You can also have your investment company make a distribution directly to a qualified charity by February 1st, 2013 and have it count as a 2012 contribution. These two options are only allowed during the month of January and won't apply after that date.

Expiration of the Payroll Tax Holiday

While it was not part of the American Taxpayer Relief Act of 2012, there is an important expiration that anyone who has employees need to be made aware of. For the past two years, we have had a Payroll Tax Holiday that reduced the amount of Social Security tax to be withheld from paychecks to be 4.2% instead of 6.2%. This, combined with the 1.45% of Medicare tax, changed the FICA tax withholding from the traditional 7.65% to 5.65%. Starting with paychecks on January 1st, 2013, the withholding amount needs to return to 7.65%. If you did not make this adjustment, you have until the end of March to correct your mistake. Under withholding will cause for penalties and interest to be assessed, so this is not something you want to ignore for an entire year.

The self-employment tax that had been reduced 2% to 13.3% will once again return to the full 15.3% for the calendar year 2013.