

### **What did the American Taxpayer Relief Act of 2012 do?**

The American Taxpayer Relief Act of 2012 made permanent most of the tax cuts enacted between 2001 and 2010 and extended other temporary tax provisions for between one and five years.

Numerous tax cuts enacted between 2001 and 2010 were scheduled to expire after 2012, part of the “fiscal cliff” that threatened to cut short nascent recovery from the Great Recession. The expirations involved four tax acts:<sup>1</sup>

- The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) phased in tax cuts for most taxpayers, but scheduled all of the cuts to expire after 2010 to avoid conflict with Senate rules (Joint Committee on Taxation 2001).
- The Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated the phase-in of some of EGTRRA’s provisions, but retained their expiration dates (Joint Committee on Taxation 2003).
- The American Recovery and Reinvestment Tax Act of 2009 (Division B, Title I of the American Recovery and Reinvestment Act, or ARRA) provided a number of temporary tax cuts designed to stimulate the economy, all of which were to sunset by the end of 2010 (Altshuler et al. 2009).
- The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended most provisions of those three acts through 2012 (Urban-Brookings Tax Policy Center 2010).

The Tax Policy Center’s analysis of the scheduled expirations found that failure to extend them would have raised taxes by more than \$500 billion in 2013—an average of almost \$3,500 per household. Roughly 90 percent of Americans would have seen their tax bills rise (Williams et al. 2012).

Congress passed the American Taxpayer Relief Act of 2012 (ATRA) early on January 1, 2013, to prevent most of the sun-setting tax cuts from expiring. Most 2001 and 2003 income tax cuts were made permanent for all but the highest-income taxpayers. Three

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<sup>1</sup> Another tax law, the Temporary Payroll Tax Cut Continuation Act of 2011, extended through 2012 a cut in employees’ share of the payroll tax funding Social Security, from 6.2 percent to 4.2 percent. ATRA did not extend that provision.

ARRA provisions were extended through 2017, while permanent changes to the estate tax and the alternative minimum tax reduced the number of people affected and indexed those provisions for inflation.

## TAX PROVISIONS MADE PERMANENT

### *Income Tax Provisions*

- *Tax Rates:* Maintains the basic marginal tax rate structure of 10, 15, 25, 28, 33, and 35 percent for taxable income under \$400,000 (\$450,000 for married taxpayers filing jointly); the thresholds are indexed for inflation after 2013. Taxpayers with taxable income above the thresholds face a 39.6 percent marginal tax rate.
- *Pease and PEP:* The limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP) applies only to taxpayers with adjusted gross incomes of \$250,000 or more (\$300,000 for married taxpayers filing jointly); the thresholds are indexed for inflation after 2013.
- *Child Credits:* The child tax credit (CTC) equals \$1,000 per child and is refundable up to 15 percent of earnings above \$10,000 (indexed for inflation after 2001). Another ATRA provision temporarily reduced the refundability threshold to \$3,000. The child and dependent tax care credit rate begins at 35 percent on eligible expenses up to \$3,000 per child (to a maximum of \$6,000) and phases down to 20 percent between AGIs of \$15,000 and \$43,000.
- *Marriage Penalty:* The standard deduction and the 10 percent and 15 percent brackets for joint filers equal twice those for single filers.<sup>2</sup>
- *Education Tax:* Maintains higher annual contribution limits for Coverdell education savings accounts and higher phaseout ranges for the student loan interest deduction.
- *Capital Gains and Dividends:* Retains 15 percent tax rates on long-term capital gains and qualified dividends (0 percent for those who would otherwise be in the bottom two tax brackets) for taxpayers in all but the top income tax bracket; sets a 20 percent rate for those in the top bracket.

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<sup>2</sup> ATRA also temporarily extended the higher earned income tax credit phaseout threshold for joint filers.

- *Alternative Minimum Tax (AMT)*: Sets the 2012 AMT exemption at \$50,600 (\$78,750 for married taxpayers filing jointly) and indexes the exemption amount, the exemption phaseout threshold, and the future tax brackets for inflation.

### ***Estate and Gift Taxes***

ATRA sets a \$5 million effective estate and gift tax exemption (indexed for inflation from 2011) and a top estate tax rate of 40 percent. A surviving spouse may claim any exemption not previously used by the deceased, a feature termed “portability.”

## **EXTENSION OF TEMPORARY TAX PROVISIONS**

### ***Tax Extenders***

Congress regularly renews a few dozen temporary tax provisions, known as extenders, for one or two years at a time. ATRA extended that group of tax provisions through 2013. Most extenders had expired at the beginning of 2012; their ATRA extensions were retroactive, making them effective for 2012.

### ***Extension through 2017 of Certain 2009 Tax Cuts***

- The American opportunity tax credit, which replaced the HOPE education credit in 2009.
- The CTC is refundable up to 15 percent of earnings above \$3,000 (not indexed for inflation), which is reduced from earnings above \$10,000 (indexed for inflation from 2001).
- The earned income tax credit threshold for couples filing jointly is set at \$5,000 (indexed from 2008) above the phaseout for single filers. The phase-in rate for families with three or more children is raised to 45 percent.

## **FURTHER READING**

Rosanne Altshuler, Leonard E. Burman, Howard Gleckman, Dan Halperin, Benjamin H. Harris, Elaine Maag, Kim Rueben, Eric Toder, and Robertson Williams. 2009. [“Tax Stimulus Report Card: Conference Bill.”](#) Washington, DC: Urban-Brookings Tax Policy Center. [American Recovery and Reinvestment Tax Act of 2009](#), Pub. L. No. 111-5, 123 Stat. 306 (2009).

[American Taxpayer Relief Act of 2012](#), Pub. L. No. 112-240, 126 Stat. 2313 (2012).

[Economic Growth and Tax Relief Reconciliation Act of 2001](#), Pub. L. 107-16, 115 Stat. 38 (2001).

[Jobs and Growth Tax Relief Reconciliation Act of 2003](#), Pub. L. 108-27, 117 Stat. 752 (2003).

Joint Committee on Taxation. 2001. [“Summary of Provisions Contained in the Conference Agreement for H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001.”](#) Washington, DC: Joint Committee on Taxation.

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[Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010](#), H.R. 4853, 111th Cong. (2010).

[Temporary Payroll Tax Cut Continuation Act of 2011](#), Pub. L. 112-78, 125 Stat. 1280 (2011).

Urban-Brookings Tax Policy Center. [“Tax Policy Center Analysis of the American Taxpayer Relief Act \(ATRA\)”](#) (especially distribution and marginal tax rate tables). Accessed October 27, 2015.

Urban-Brookings Tax Policy Center. 2010. [“Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010.”](#) Accessed October 27, 2015.

Williams, Robertson, Eric Toder, Donald Marron, and Hang Nguyen. 2012. [“Toppling Off the Fiscal Cliff: Whose Taxes Rise and How Much?”](#) Washington, DC: Urban-Brookings Tax Policy Center.