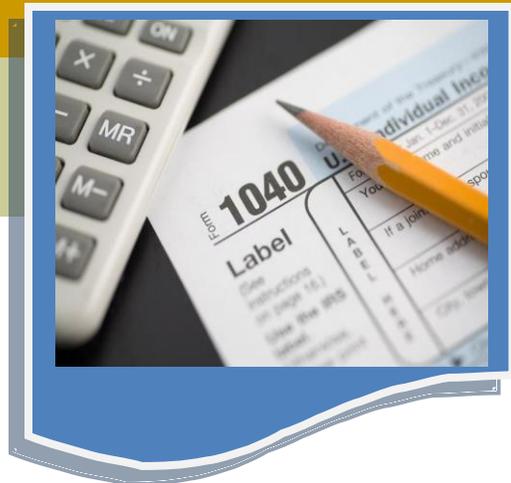


# Taxes



## What's New For 2012?

January 1, 2012 begins the second year of the two-year compromise tax legislation signed by the President on December 17, 2010. The Tax Relief, Unemployment Insurance reauthorization, and Job Creation Act of 2010 (the "Act") extended the "Bush" tax rates for individuals, temporarily modified the estate tax provisions, and extended certain deductions and credits through calendar year 2012. It also included a temporary employee payroll tax cut for 2011, and patched the Alternative Minimum Tax (AMT) through 2011. All provisions are set to expire on 12/31/12 putting the tax payer in same position as in December, 2010.

The Act for the most part extended the current tax regime through 12/31/12, but some provisions are only applicable in 2011 and have expired for 2012. A short summary of the major provisions and issues affecting service members and their families are as follows:

**Marginal Tax Rates:** The marginal rates applicable to a member's taxable income will remain: 10%, 15%, 25%, 28%, 33%, and 35% (after 12/31/12, the rates become: 15%, 28%, 36%, and 39.6%).

**Capital gain/Dividend:** Capital gains and dividends will be taxed at 0% for those members below the 25% bracket and 15% for those in the 25% bracket or higher (after 12/31/2012, the rates for capital gains become 10% and 20 % respectively and dividends will be taxed as ordinary income).

**Relief from Marriage Penalty:** The standard deduction for a married filing jointly couple will remain double that of individuals. The 15% bracket for married filing jointly couple will also remain double that of individuals. Both provisions will remain through calendar year 2012.

**Personal exemption and itemized deduction** Personal exemption phase-out and itemized deduction limitation will remain repealed through calendar year 2012. The Personal exemption amount for 2012 is \$3,800 per eligible person.

**Estate Tax** Under the 2010 Tax Relief Act, the maximum federal estate tax rate will be 35% with a \$5 million exclusion amount through calendar year 2012. It had been set to revert back to the pre-2001 rate of 55% with a \$1 million exclusion amount. This reversion will still occur, absent future legislation, beginning in January 1, 2013.

**AMT Patch:** The AMT exemption amount for calendar year 2011 is increased to \$74,450 (married filing jointly), \$48,450 (unmarried individuals), and \$37,225 (married filing separately).

**Credits that continue through 2012:** The child tax credit, earned income tax credit (EITC), and American opportunity tax credit are all extended through calendar year 2012.

### What is modified in 2012?

**Payroll Tax cut:** For 2011, the tax rate for social security tax was reduced to 4.2% from 6.2% on basic pay under \$106,800. For 2012, this reduction is extended through February 29, 2012 for basic pay under \$110,100.

**Transit Subsidy Exclusion** Effective January 1, 2012, the maximum excludable amount of transit subsidy benefit is reduced to \$125 per month. The higher \$230 per month exclusion expired 12/31/11 and the former rate was restored.

**Thrift Savings Plan (TSP).** The maximum yearly deferral amount increases to \$17,000 for 2012, up \$500 from 2011. Introduction of "**Roth**" TSP option allowing members to contribute from after tax income and take tax free qualified withdrawals is expected in the summer of 2012.

### What is not extended for 2012?

The educator expense deduction of up to \$250 expired in 2011; tuition and fees deduction for qualified higher education expenses expired in 2011; and there is presently no AMT Patch for tax year 2012.

### 2011 Filing Season Deadline to Remember

**April 17, 2012:** The deadline to file and pay taxes for tax year 2011 is April 17, 2012 because the 15<sup>th</sup> falls on a Sunday, and the 16<sup>th</sup> falls on Emancipation Day in Washington D.C.

**June 15, 2012:** Automatic 2-month extension to file and pay for members serving outside the United States. Interest on owed taxes accrues from April 17, 2012.

**October 15, 2012:** a 6-month to file but not to pay any tax owed is available by filing a Form 4868.

### Combat Zone Tax Exclusion for 2012

Internal Revenue Code Section 112 allows a member to exclude pay for active service the entire month in which the member performs service in combat zone, direct support area, or qualified hazardous duty area. The maximum monthly exclusion amount for officers for 2012 is \$7,834.50.

For additional information pertaining to tax issues affecting members of the Armed Forces, please see IRS Publication 3 (Armed Forces' Tax Guide 2010), available at: <http://www.irs.gov/pub/irs-pdf/p3.pdf>