CEDAM
COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION OF MICHIGAN

# 2013 Fiscal Cliff Deal

Late Tuesday night, the House approved a bill to avert the fiscal cliff, staving off widespread tax increases and deep spending cuts. The bill has been sent to President Obama and he is expected to sign it. Here are some key components of the agreement:

- Tax rates will permanently rise to Clinton-era levels for families with income above $450,000 and individuals above $400,000. All income below the threshold will be permanently taxed at Bush-era rates. That means for households above those thresholds, the top rate will rise to 39.6% up from 35% in 2012.
- The tax on capital gains and dividends will be permanently set at 20% for those with income above the $450,000/$400,000 threshold. It will remain at 15% for everyone else.
- The LIHTC floor rate will be 9% and will sunset in two years.
- The new markets tax credit will be extended for $3.5 billion per year for two years.
- Sequestration will be delayed for two months. Half of the delay will be offset by discretionary cuts, split between defense and non-defense. The other half will be offset by revenue raised by the voluntary transfer of traditional IRAs to Roth IRAs, which would tax retirement savings when they are moved over.
- The 2009 expansion of the Earned Income Tax Credit (EITC), Child Tax Credit, and the American Opportunity Tax Credit will be extended for five years.
- The Alternative Minimum Tax will be permanently patched to avoid raising taxes on the middle-class.
- Itemized deductions will be capped for individuals making $250,000 and for married couples making $300,000.
- The full package of temporary business tax breaks will be extended for another year
- Federal unemployment insurance will be extended for another year benefitting those unemployed for longer than 26 weeks.
- A nine-month farm bill fix will be attached to the deal.
- The law that expired at the end of 2011and allows for the deduction of mortgage insurance premiums was extended to apply to fiscal years 2012 and 2013. The law dictates that eligible borrowers who itemize their federal tax returns and have an adjusted gross income (AGI) of less than $100,000 per year can deduct 100% of their annual mortgage insurance premiums.
- The Mortgage Forgiveness Debt Relief Act of 2007 was extended for another year; meaning homeowners who experience a debt reduction through mortgage principal forgiveness or a short sale are exempt from being taxed on the forgiven amount.

A chart from the Joint Committee on Taxation detailing the estimated revenue effects of all of the revenue provisions contained in the bill can be found here.