THE AMERICAN TAXPAYER RELIEF ACT OF 2012

I. NONCORPORATE INCOME TAX RATES

A. Individual Tax Rates - Under the TRA after December 31, 2012, the income of individual taxpayers is subject to the following marginal tax rates: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. The highest tax rate of 39.6% will apply to singles with taxable income in excess of $400,000, heads of households with taxable income in excess of $425,000, $450,000 for married-filing-jointly and surviving spouses, and taxable income in excess of $225,000, for marrieds filing separately.

B. Marriage Penalty Relief - Under Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), tax relief was provided for married taxpayers filing separately by phasing in an increase in the size of the 15% tax bracket equal to twice the corresponding bracket for single taxpayers. Inflation adjusted rules were also provided. This so-called "marriage penalty relief" was to expire at the end of 2012. The TRA makes it permanent.

C. Reduced Rate for "Kiddie Tax" - For 2012, the "kiddie tax" for parents who elected to report the unearned income of their children on their tax return was equal to the sum of (1) the tax on the parent's taxable income after taking into account the child's gross income over $1,900, plus (2) 10% of the lesser of (a) $950 ($1,000 for 2013), or (b) the excess of the child's income over $950 ($1,000 for 2013). The 10% rate was to rise to the pre- EGTRRA rate of 15% for 2013 – The TRA makes the 10% rate permanent.

D. Some Withholding Rates Impacted

The TRA impacts the following rates of withholding:

- *Backup withholding rate on reportable payments*—rate remains at 28% (was to increase to 31%).
- *Minimum withholding rates on supplemental wages under flat rate method* — the optional flat rate for payments totaling $1 million or less for a calendar year remains at 25% (was to increase to 28%) - the mandatory flat rate for payments in excess of $1 million is set at 39.6% (up from 35% in 2012).

- *Voluntary withholding rates on specified federal payments*—the rates remain at 7%, 10%, 15%, or 25% (instead of increasing to 7%, 15%, 28%, or 31%).
- *Voluntary withholding on unemployment benefits*— the rate remains at 10% (was to increase to 15%).
- *Withholding on gambling winnings*—the rate remains at 25% (was to increase to 28%).
- *Withholding on Indian casino profits distributed to tribal members*—the rate remains sets at 31%.

E. Estate and Trust Income Tax Rates

The TRA sets the income tax rates for estate and trusts at 15%, 25%, 28%, 33%, and 39.6% for income over $11,950.

II. QUALIFIED DIVIDENDS, CAPITAL GAINS AND LOSSES

A. Capital Gains Rate

The TRA increases the top rate which applies net long-term capital gain and qualified dividends for high income taxpayers to 20%. The TRA also retains the 0% tax rate, modifies the 15% rate, and adds the 20% rate. Beginning in 2013, the rate will be 0% if income falls below the 25% tax bracket ($72,500 for married taxpayers filing jointly); 15% if income falls at or above the 25% tax bracket, but below the new 39.6% rate and 20% if income falls in the 39.6% tax bracket ($450,000 for married taxpayers).

The 3.8% surtax on investment-type income and gains for tax years beginning after 2012, added by the Patient Protection Act is in addition to these rates.

B. Accumulated Earnings Tax and Personal Holding Company Rate

The Accumulated Earnings Tax and the Personal Holding Company Tax are both increased from 15% to 20% for tax years beginning after December 31, 2012.

C. Long-term Capital Loss Treatment/Extraordinary Dividends

When an individual, trust or estate receives qualified dividend treatment from one or more extraordinary dividends with respect to a particular stock, any subsequent loss realized on the sale or exchange of that share of stock is treated as long-term capital loss in an amount equal to the amount of extraordinary dividends.

This provision set to expire for tax years beginning after December 31, 2012, has been made permanent by the TRA.

D. Pass through of "Qualified Dividend Income" Made Permanent - Under the prior law, set to expire for tax years beginning after December 31, 2012, qualified dividend received by a partnership, common trust fund, Regulated Investment Company, or REIT, "passed through" retaining its character as qualified dividend in the hands of the partner, trust beneficiary, or shareholder. This provision has been made permanent by the TRA.

E. Election to Include Qualified Dividends in Investment Income - The deduction for investment interest expense is limited to a taxpayer's net investment income. Under the prior law a taxpayer could elect to treat qualified dividends as investment income. If the election was made, the qualified dividends were not eligible to be taxed at long term capital gains rates.

This provision set to expire for tax years beginning after December 31, 2012, has been made permanent by the TRA.

F. Gain Exclusion of "Qualified Business Stock" - Under the prior law, non-corporate taxpayers may exclude 100% of the gain realized on the sale of "qualified small business stock" acquired between Sept. 28, 2010 and Dec. 31, 2011, and held for more than five years The excluded portion of the gain also was not treated as a tax preference item for AMT purposes. For stock acquired before and after those dates, the exclusion, instead of being a 100% exclusion, is a partial exclusion, allowed in varying amounts. For stock acquired before or after those dates, the excluded percentage is 50%, 75% for any QSBS acquired after Feb. 17, 2009 and before Sept. 28, 2010, and treated as a tax preference item for AMT purposes.

The TRA restores retroactively and extends the 100% exclusion for QSBS for two years by changing the date *before* which eligible QSBS must be acquired from Jan. 1, 2012 to Jan. 1, 2014. Note, this makes the 100% exclusion available retroactively for tax year 2012.

G. Inclusion of Qualified Dividend Income in Prohibition on IRD Double Benefit - An individual taxpayer who receives and recognizes "income in respect of a decedent" is entitled to a deduction for the estate and Generation Skipping Tax attributable to the IRD. If the IRD includes capital gain or qualified dividends, the amount subject to the lower capital gains rates is offset by the amount of the IRD deduction.

The inclusion of qualified dividend income was scheduled to expire, i.e. sunset, for tax years beginning after Dec. 31, 2010. The 2010 Tax Relief Act extended the inclusion of qualified dividend income for tax years beginning before Jan. 1, 2013.

H. Qualified Dividend Income Treatment for Ordinary Income on Disposition of Code Sec. 306 Stock - The gain realized on the sale or exchange of Code Sec. 306 Stock is treated as ordinary income to the extent the fair market value on the date of distribution would have been a dividend had the corporation distributed cash instead of stock. Under the prior law, that gain may also be treated as a qualified dividend.

The provisions treating qualified dividend income as part of adjusted net capital gain were also scheduled to expire on Dec. 31, 2012. The TRA makes permanent the treatment of gains on the disposition of Code Sec. 306 stock as qualified dividend income.

III. INDIVIDUALS DEDUCTIONS AND OTHER PROVISIONS

A. Personal Exemption Phaseout - The TRA restores the personal exemption phaseout ("PEP") for tax years beginning after December 31, 2012. Under the prior law, the exemption amount of a taxpayer was reduced or "phased out" to the extent a taxpayer's adjusted gross income exceeded a certain threshold amount.

Under the TRA, threshold amounts for tax years beginning in 2013 are for joint filers or surviving spouses - $300,000, $275,000 for head of households; $250,000, for singles; half of the joint filer threshold for married filing separately. These amounts will be adjusted for inflation after 2013.

B. Overall Limitation on Itemized Deductions - For tax years beginning after 2013, the TRA sets the phase-out for itemized deductions at the same threshold amounts set for the PEP $300,000, $275,000 for head of households; $250,000, for singles; half of the joint filer threshold for married filing separately. These amounts will be adjusted for inflation after 2013.

C. Election to Claim Itemized Deduction for State/Local Taxes - Under the prior law, taxpayer's could elect to take an itemized deduction for state and local general sales taxes, in lieu of, an itemized deduction for state and local income taxes. This provision expired in 2011. The TRA extends this provision for tax years 2012 and 2013.

D. Standard Deduction Marriage Penalty Relief - In order to mitigate the so-called marriage penalty, the prior law allowed a standard deduction for married taxpayers filing jointly equal in amount to 200% of the dollar amount for single taxpayers; the standard deduction for married taxpayers filing separately which was made equal to the standard deduction for single taxpayers.

These provisions are extended to tax years beginning after December 31, 2012.

E. Interest Deduction for Mortgage Insurance Premiums is Extended - Prior to 2012, premiums paid or accrued for qualified mortgage insurance premiums in connection with acquisition indebtedness was deductible, subject to a phase out. Under prior law, the premiums had to either be (1) amounts paid or accrued after December 31, 2011, or (2) properly allocable to any period after December 31, 2011. The TRA extends this provision to amounts paid or accrued after December 31, 2011, and before January 1, 2014.

F. Exclusion for Debt Discharge Income from Home Mortgage Forgiveness - Under the prior law, forgiveness of "Qualified principal residence indebtedness" up to $2 million was excluded from income. The basis of the principal residence was reduced but not below zero, by an amount equal to the excluded income.

This provision now applies to income discharged before January 1, 2014.

G. Parity Extended for Employer-provided Mass Transit and Parking Benefits - For 2011, an exclusion from income is allowed up to $230 a month for employer provided as a qualified transportation fringe benefit. Under prior law the same amount could be provided for employer-provided parking. The TRA continues this parity for 2012 and 2013 tax years.

**H. Up-to-$250 above-the-line Deduction for Teachers -** Under prior law, for tax years 2004 through 2011- grade teachers, instructors, counselors, principals, or aides in any elementary or secondary grade school, kinder garden through 12th grade —are allowed an above-the-line deduction of up to $250 for out-of-pocket expenses paid in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment including related software and services, other equipment, and supplementary materials used in the classroom. The TRA extends this deduction for tax years 2012, and 2013.

I. The Adoption Assistance Exclusion Made Permanent - Subject to a dollar limit in 2012 of $12,170, and an income phase out range between

$182,520 to $222,520, as adjusted for inflation, employees can exclude from gross income the qualified adoption expenses paid or reimbursed by an employer under an employer-provided adoption assistance program. This provision was set to expire in 2012. The TRA makes the Adoption Assistance Exclusion permanent.

J. Tax Refunds Won't Effect Eligibility for Federal Programs- The TRA makes permanent tax provisions which preclude tax refunds from being taken into account for a period of twelve months from receipt in determining eligibility for federal or federally assisted programs.

IV. ALTERNATIVE MINIMUM TAX

A. AMT Exemption Amount Increased - Under the TRA, the AMT Exemptions are set at $78,750 for married couples filing jointly and surviving spouses, $50,600 for single taxpayers, and $39,375, for married filing separately.

B. AMT Capital Gains Rates Set - Under the AMT, maximum tax rates on capital gain also apply. Under the TRA the 0%, 15%, and 20% which apply to capital gains and qualified dividends apply for AMT purposes as well.

C. Offset for Non-Refundable Credits - The TRA permits AMT to be offset by nonrefundable personal tax credits on a permanent basis.

D. Child Care Credit Offset - Under prior law the offset against AMT for the Child Care Credit was to sunset for tax years beginning after December 31, 2012. The TRA repeals the sunset provision and makes the offset permanent.

E. AMT Preference for Excluded Gain on Qualified Small Business Stock - The 7% AMT Preference for Excluded Gain on Qualified Small Business Stock is permanently extended by the TRA.

V. ESTATE/TRANSFER TAX

Under the prior law –

- The estate, gift, and GST exemption would be reverted to $1 million;
- The maximum estate and gift tax rate would have been 55% on transfers in excess of $3 million; and
- Portability of the estate tax exclusion between spouses would not have applied.

Under the TRA, these provisions are repealed -

- This includes the increased and indexed estate, gift and GST tax exemption of $5 million ($5,250,000 in 2013, as indexed for inflation);
- Top tax rate increased to 40%;
- Portability made permanent.

VI. INDIVIDUAL TAX CREDITS

A. Child Tax Credit Amount and Expanded Refundability - TRA makes permanent the Child Care Tax Credit, of $1,000 per child CTC. Through 2017, the CTC is refundable to the extent of 15% of the taxpayer's income in excess of $3,000 (rather than $10,000 under the prior law).

B. Dependent Care Credit - Under the prior law, a dependent child care credit of 35% of eligible expenses up to $3,000; reduced, but not below 20%, by one percentage point for each $2,000 (or fraction thereof) of adjusted gross income. The TRA makes this provision, set to expire in 2012, permanent.

C. Adoption Credit Rules - For tax years beginning after December 31, 2012, the TRA resets the Adoption Credit at a maximum per-child credit of $10,000 (adjusted for inflation), and made permanent. The income phase is set at $150,000. The credit is no longer refundable.

E. EIC Simplification - Under prior law, certain aspects of the calculation of the Earned Income Credit, including the definition of "earned income", the relationship test, and the tie breaking rule were simplified. These provisions were set to sunset for tax years beginning after December 31, 2012. The TRA makes the simplification provisions permanent.

F. EIC Phase-Out - Prior law increased the EIC phase-out threshold amount for joint filers equal to $3,000, is permanently extended.

G. EIC for Families with Three or More Qualifying Children - Prior law extended the EIC at a rate of 45% for three or more qualifying children for tax year 2013 through 2017.

VII. DEPRECIATION AND EXPENSING

A. Code 179 Expensing - The TRA extends the Increased 2010 and 2011 $500,000 Code Sec. 179 dollar limitation and $2,000,000 investment phase-out threshold, and the treatment of qualified real property as Code Sec. 179 property, to 2012 and 2013.

B. First –Year Depreciation Cap for Cars - Under prior law, passenger cars which are "qualified property" as defined in Code Sec. 168(k)(2), qualify for an $8,000 increase in the first-year depreciation limit if placed in service before December 31, 2012. TRA extends the placed in service deadline to December 31, 2013.

C. Revocation of Code Sec. 179 Election without IRS Consent - Under prior law, a Code Sec 179 Election could only be revoked without IRS consent for a tax year beginning after 2002, and *before 2013*. The TRA changes that to *before 2014*.

D. Bonus Depreciation for Qualified Property - The TRA extends bonus depreciation and AMT depreciation relief for qualified property placed in service through Dec. 31, 2013.

E. Trading Bonus and Accelerated Depreciation - The TRA changes the placed-in-service deadline for "qualified property" to Dec. 31, 2013 - December 14, 2014 for aircraft and long-production-period property, and the progress expenditure rule for eligible qualified property to provide that long-production-period property can qualify for the Dec. 31, 2013 placed-in-service deadline to the extent of adjusted basis attributable to manufacture, construction or production before *Jan. 1, 2014*.

F. 15-year MACRS Depreciation - 15-year MACRS depreciation for certain building improvements and restaurants is extended to apply to property placed in service before Jan. 1, 2014

G. Disregard of Certain Bonus Depreciation - Disregard of certain bonus depreciation in applying the percentage of completion method is extended for an additional time period.

H. Other Provisions

1. Expensing rules for qualified film and television productions are retroactively extended for two years to productions beginning before Jan. 1, 2014.

2. 7-year recovery period for motorsports entertainment complexes extended to facilities placed in service through 2013.

3. Depreciation tax breaks for Indian reservation property are extended to property placed in service through 2013.

4. Election to expense cost of qualified advanced mine safety equipment property is extended two years to property placed in service through 2013.

5. MACRS elections must be taken into account under normalization accounting for public utility property.

VIII. BUSINESS CREDITS AND DEDUCTIONS

A. Research Credit - The Research Credit is retroactively extended, with modifications, to apply to amounts paid or incurred before Jan. 1, 2014.

B. The Work Opportunity Credit - The Work Opportunity Credit is retroactively extended to apply to all individuals who begin work for an employer through Dec. 31, 2013.

C. Built in Gains Period - Shortened S Corp built-in gains holding period extended for 2012 and 2013 and application of built-in gains tax clarified.

D. Child Care Credit - The Employer-provided child care credit is extended permanently.

E. Other Provisions

1. Differential wage payment credit is retroactively restored and extended to apply to payments made before Jan. 1, 2014.

2. Mine rescue team training credit is retroactively restored and extended to tax years beginning before Jan. 1, 2014.

3. Temporary minimum low income housing credit rate of 9% applies to new non-federally subsidized buildings with respect to housing credit dollar amount allocations made before Jan. 1, 2014.

4. Indian employment credit for wages paid to qualified Native Americans is extended through Dec. 31, 2013.

5. Railroad track maintenance credit for qualified expenditures is extended to include qualified expenditures paid or incurred during tax years beginning in 2012 and 2013.

6. Allowance of Code Sec. 199 deduction for Puerto Rico activities is retroactively extended two years to taxpayer's first eight tax years beginning after 2005.

IX EDUCATION PROVISIONS

A. The American Opportunity Credit - The American Opportunity Tax Credit (the “AOTC”) is extended five years, through 2017.

B. The Qualified Tuition Deduction - The Qualified Tuition Deduction is retroactively extended through 2013

C. Student Loan Deduction - Prior law eliminated the 60-month limit for interest paid on a qualified education loan and increased the phase out range ($40,000 to $55,000 for taxpayers other than joint filers, $60,000 to $75,000 for married filing jointly) to student loan deduction rules are made permanent. The TRA extends the availability of the deduction for two years 2012 and 2013.

D. Coverdall ESAs - Increased $2,000 contribution limit for Coverdall Education Savings Accounts, made permanent.

E. Employer Provided Educational Assistance - Exclusion for employer-provided educational assistance, and restoration of the exclusion for graduate-level courses, made permanent.

F. Income Exclusion Awards - Income exclusion for awards under the National Health Service Corps and Armed Forces Health Professions programs, made permanent.

X. CHARITABLE CONTRIBUTIONS

A. Tax Free IRA Distributions - The provisions allowing tax-free IRA distributions of up to $100,000 if donated to charity, is retroactively extended through 2013.

B. Qualified Conservation Easements - Special rules are retroactively extended for qualified conservation easements contributed by individuals (including ranchers and farmers) before 2014.

C. Food Inventory Contributions - Above-basis deduction rules are retroactively extended for charitable contributions of food inventory made through 2013.

D. S Corporation's Charitable Contribution of Property - TRA extends the provisions which reduce the basis of the stock of S corporations for charitable contributions made in 2012 and 2013.

XI. ROTH ROLLOVERS AND CONVERSIONS

Under the prior law, a participant in an "applicable retirement plan" which includes a "qualified Roth contribution program" could roll over from the portion of the plan that was *not* a designated Roth account, to the designated Roth account maintained under the plan for the benefit of the individual to whom the distribution was made. The TRA now allows a participant in an applicable retirement plan that includes a qualified Roth contribution program to make transfers to Roth Accounts at any time without restrictions. The transfer is treated as an in-plan Roth rollover, which was contributed in a qualified rollover contribution to the designated Roth account.

XII. TAX EXEMPT BONDS AND DEVELOPMENT INCENTIVES

New Markets Tax Credit is extended through calendar year 2013

XIII. ENERGY PROVISIONS

1. Energy efficient appliance credit is extended for certain appliances manufactured in 2012 or 2013.

2. New energy efficient home credit for eligible contractors is retroactively restored and extended through Dec. 31, 2013.

3. Construction standards for the qualified new energy efficient home credit are modified.

4. Nonbusiness energy property credit is reinstated and extended through 2013.

5. Credits with respect to facilities producing energy from certain renewable resources are extended and modified.

6. Credit for 2-or 3-wheeled plug-in electric vehicles is retroactively extended to apply to vehicles acquired before Jan. 1, 2014.

7. Period of credit for Indian coal produced by taxpayer at Indian coal facilities extended to eight-year period beginning Jan. 1, 2006.

8. Non-hydrogen QAFV refueling property credit is retroactively restored and extended to property placed in service before Jan. 1, 2014.

9. Income and excise tax credits/refunds for biodiesel and renewable diesel are extended retroactively through 2013.

10. Alternative fuels and alternative fuel mixture excise tax credit, and alternative fuels excise tax refund rules, are retroactively extended through 2013.

11. Definition of municipal solid waste does not include paper that is commonly recycled and segregated from other solid waste.

12. Definition of qualified property for purposes of the election to take a 30% energy credit instead of the electricity production credit is retroactively clarified.

13. Bonus depreciation and AMT depreciation relief for certain biofuel plant property is extended one year through Dec. 31, 2013 and expanded.

14. Gain deferral election on qualifying electric transmission transactions is retroactively restored and extended to dispositions before Jan. 1, 2014.

15. Cellulosic biofuel producer credit is retroactively restored and extended through Dec. 31, 2013.

16. Algae is treated as a qualified feedstock for purposes of the cellulose biofuel producer credit.