

IEC Analysis on American Taxpayer Relief Act (ATRA) of 2012

January 2012



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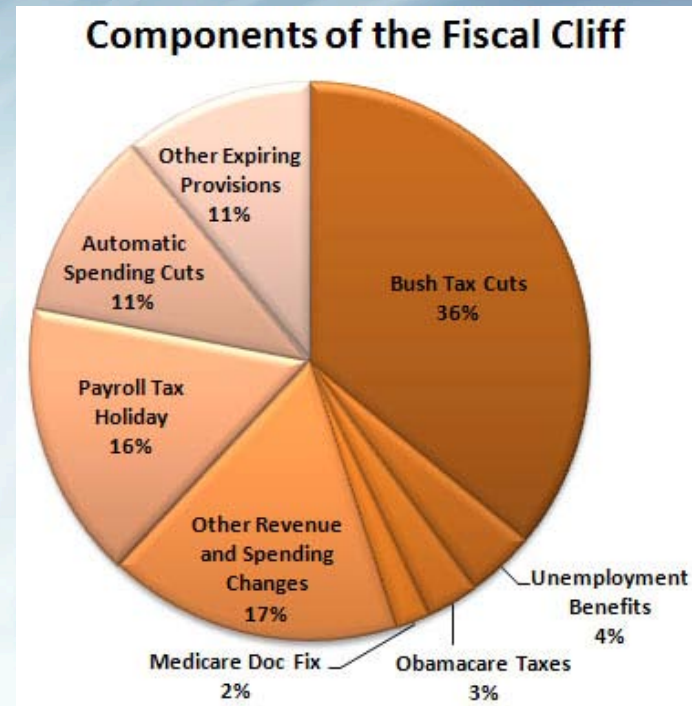
U.S. Fiscal Cliff Crisis

Congress gave itself a self-imposed deadline of December 31, 2012, to solve the U.S. deficit problem.

Fiscal Cliff:

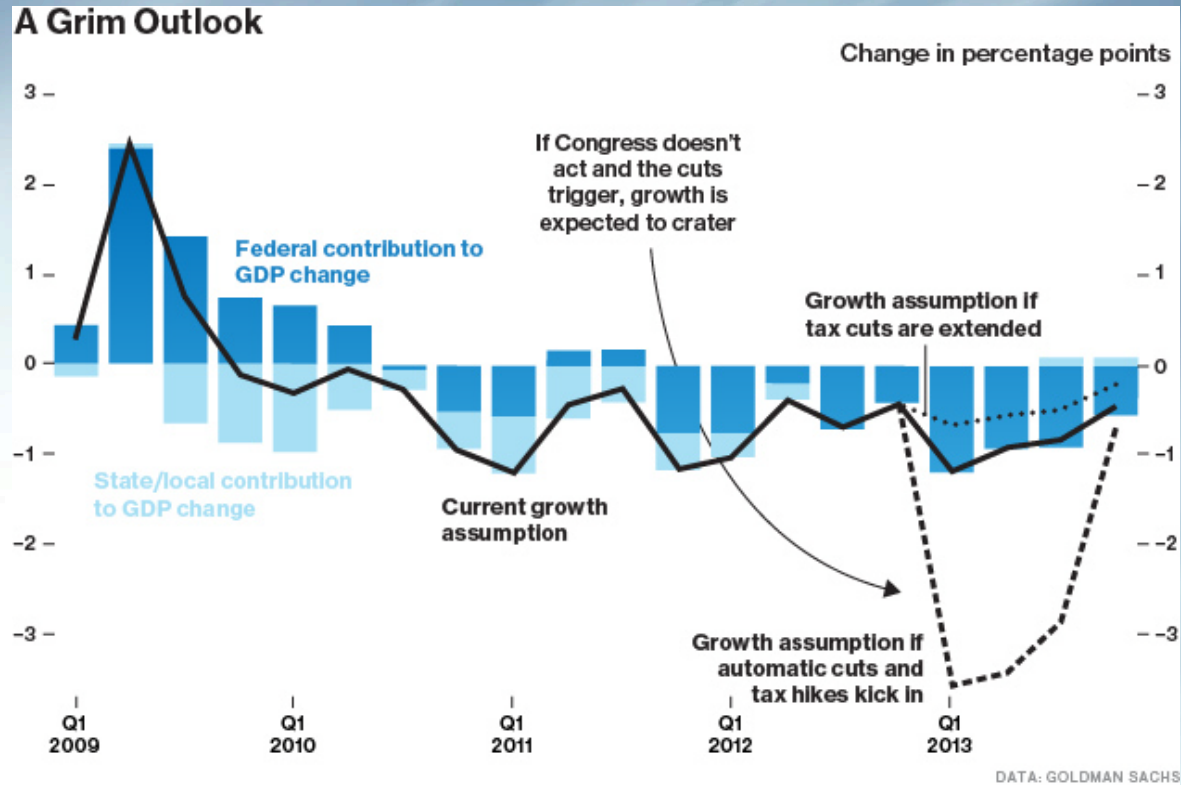
\$400 Billion (Tax Increases)
+ \$200 Billion (Spending Cuts)

\$600 Billion = 4% of GDP



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Crushing Effects of Crisis on U.S. Economy



Source: Bloomberg BusinessWeek May 2012



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Crisis Averted . . . For Now

American Taxpayer Relief Act (ATRA) of 2012

Passed Democratically Held Senate: 89-8

49 Democrats (and Democratic-caucusing Independents) and 40 Republicans voted in favor
3 Democrats and 5 Republicans voted against

Passed Republican Held House: 257-167

85 Republicans and 172 Democrats voted in favor
151 Republicans and 16 Democrats voted against

Signed By President on January 2, 2013



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What did the Fiscal Cliff Deal Do?

Income Taxes

- Makes Permanent or Extends Most of Bush-Era (2001/2003) Tax Rates
 - Retains 10, 25, 28, 33% brackets for individual income of less than \$400,000 and married filing jointly income of less than \$450,000
 - Restores 39.6% Clinton-era bracket for income above those amounts
- Restores limits on itemized deductions and personal exemptions for adjusted gross income of more than \$250,000 for individuals and \$300,000 for couples.



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What did the Fiscal Cliff Deal Do?

Income Taxes

- Permanently creates alternative minimum tax (AMT)
 - Ends the need for annual “patch”
 - Sets exemption amounts of \$50,600 for individuals and \$78,750 for joint returns (up from \$33,750 individual and \$45,000 joint in 2011)
 - AMT now indexed for future inflation



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What did the Fiscal Cliff Deal Do?

Estate Taxes

- Maintains the 2012 inflation-adjusted exemption of \$5.12 million per spouse
- Increases top tax rate to 40%, now indexed to inflation, up from 35%



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What did the Fiscal Cliff Deal Do?

Capital Gains and Dividend Taxes

- Sets maximum 15% base rate for those with income less than \$400,000 for individuals, \$450,000 for couples
- Establishes a new 20% base rate for those with income above those levels
- Retains 3.8% tax on investment income as required by 2010 health-care law



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What did the Fiscal Cliff Deal Do?

Other Tax Provisions

- Law renews several provisions lapsed in 2012 and extends them through 2013:
 - Deduction of state and local sales taxes
 - Deduction for tuition expenses
 - Tax-free IRA distributions for charity
 - Deduction for mortgage insurance
 - Parity for employer-provided transit and parking benefits
- Law also renews some business-related provisions for 2012 and extends them for 2013:
 - Research credit, with modifications
 - Production tax credit for wind power
 - Active financing exception
 - Work opportunity tax credit
 - Depreciation rules for leasehold, retail, and restaurants
 - Section 179 business expensing



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What the Fiscal Cliff Deal Did Not Do

- Did not address the country's long-term fiscal issues
- Did not address complexity of U.S. tax code and corporate tax reform
- Did not address the nation's debt ceiling
 - The nation has already reached its \$16 trillion borrowing limit, and the Treasury Department has said it will use “extraordinary measures” to avert default as long as it can— likely into February.
- Did not extend the payroll-tax holiday
 - A temporary, two-percentage-point cut to the payroll tax expired at midnight on December 31, 2012, and was not renewed
- Did not address Medicaid/Medicare/Social Security Reform
 - The deal did not include any major reforms to entitlements



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Outlook for Business

- Majority of businesses permanently spared a tax increase on their income and their estates
- Congressional tax committees and the President may feel more comfortable pursuing a comprehensive tax reform

Where there is agreement:

- Statutory overall tax rate reduction
- Some potential reduction in business tax credits

Where there is disagreement:

- Full complement of credit reductions necessary
 - Taxation of foreign source income
- Business tax reform is expensive
 - Every 1 percentage point reduction in the marginal rate requires \$125 billion in reduction of tax preferences over 10 years



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Outlook for Construction

- Economists predict deal now encourages many businesses to go ahead with projects held in reserves, some predict a “double-digit” increase in construction spending in the next few months
- Construction firms that rely on federal funding will dodge the 9% cut in defense spending, and 8% reduction for non-defense spending, but only until March
- The fiscal cliff statute does extend popular business-related tax incentives, including 50% bonus depreciation and the Section 179D expensing of capital purchases



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Energy Sector Impact

Included:

- The new market tax credit, which several renewable energy projects have used, is extended through 2013
- Tax incentives for individuals to purchase energy efficient appliances, energy efficient new homes and electric vehicles and for plug-in stations for electric vehicles is extended
- Section 179D allows a deduction of up to \$1.80 per square foot for energy-efficient components such as lighting, HVAC and the building envelope is extended
 - Section 179D also enables small businesses to accelerate depreciation up to \$250,000 on the cost of machinery, equipment, vehicles, furniture and other qualifying property

Not included:

- Solar failed to obtain a comparable “begin construction” change for the 30% investment tax credit expiring end of 2016
- Income from renewable energy projects was not added to the definition of “qualified income” for master limited partnerships, which are publicly traded companies that are not subject to corporate income tax



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What Now?

Short Term- 1st Quarter 2013

- **Feb. 28:** Debt limit increase likely needed
 - Current \$16 trillion ceiling reached Dec. 31
 - Treasury has said “extraordinary measures” can be taken for two months
 - Republicans may demand dollar-for-dollar deficit reduction for an increase
- **Mar. 1:** Delay in spending cuts set to expire
- **Mar. 27:** Continuing resolution keeping government functioning expires
 - New law needed to continue government funding
 - Government shutdown possible if no resolution



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What Will Happen Next?

Long Term- 2nd Quarter 2013 to Jan. 2014

- **Sept. 30: Beginning of fiscal 2014**
 - Appropriations bills must be completed
 - Another Continuing Resolution could be used to provide funding
- **Jan. 1, 2014: Tax cuts and the *Affordable Care Act***
 - Several one-year tax extenders lapse, although action could slip to 2014
 - Several health-care law initiatives are to launch in 2014 - is relief or extension needed?
 - Unemployment extension runs out
- **No fixed deadline**
 - Tax or entitlement reform



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What Can You Do?

- The 113th Congress will have to act fast, with the nation's financial health hanging in the balance
- IEC will continue to work hard as the premier advocate for merit shop and electrical systems contractors
- ***Attend the 2013 IEC National Legislative Conference May 6-8, 2013, in Washington, D.C.***



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