



Tax Matters

connecting and informing employees

OFFICE OF INCOME TAXATION
COMMUNICATIONS & TRAINING BRANCH

Winter 2013

Fiscal Cliff Averted (For Now)

On Jan. 1, 2013, Congress passed the American Taxpayer Relief Act of 2012, averting the fiscal cliff. The Act allows the Bush-era tax rates to sunset after 2012 for individuals with income over \$400,000 and families with incomes over \$450,000; permanently patches the alternative minimum tax (AMT); revives many now-expired tax extenders, including the research tax credit and the American Opportunity Tax Credit; and provides for a maximum estate tax of 40 percent with a \$5 million exclusion. In addition to an extension for most taxpayers of the lower individual income and capital gains tax rates, marriage penalty relief, and more than 50 other tax benefits popularly referred to as the “Bush Tax Cuts,” the legislation makes over 100 changes to the Internal Revenue Code.

The highlights of the changes in the American Taxpayer Relief Act of 2012 include:

Tax Rates

For 2013 and beyond, the lower Bush-era income tax rates for all are permanent, except for taxpayers with taxable income above \$400,000 (\$450,000 for married taxpayers, \$425,000 for heads of households). Income above these levels will be taxed at a 39.6 percent rate.

The 10, 15, 25, 28 and 33 percent marginal rates remain the same after 2012, as does the 35 percent rate for income between

the top of the 33 percent rate (projected to be at \$398,350 for most taxpayers) and the \$400,000/\$450,000 threshold at which the 39.6 percent bracket now begins.

The fiscal cliff agreement also uses the same \$400,000/\$450,000 taxable income threshold to apply a higher capital gains and dividend rate of 20 percent, up from 15 percent.

The 35 percent income bracket ranges for 2013, therefore, are:

- \$398,350 - \$400,000 for single filers
- \$398,350 - \$425,000 for heads of household
- \$398,350 - \$450,000 for joint filers, surviving spouses
- \$199,175 - \$225,000 for married filing separately

The American Taxpayer Relief Act’s effect on:

Retirement Savings

Generally, participants with 401(k) plans and similar plans are allowed to roll over funds to designated Roth accounts in the same plan subject to certain qualifying events or age restrictions. The Act lifts most restrictions, and now allows participants in 401(k) plans with in-plan Roth conversion features to make transfers to a Roth account at anytime. Congress made this change because conversion is a taxable event and will raise revenue.

State and Local Sales Tax Deduction

The Act extends through 2013 the election to claim an itemized deduction for state and local general sales taxes in lieu of state and local income taxes.

Child Tax Credit

It extends permanently the \$1,000 child tax credit. Certain enhancements to the credit under Bush-era legislation and subsequent legislation are also made permanent.

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Earned Income Credit

The Act makes permanent or extends through 2017 enhancements to the earned income credit (EIC) in Bush-era and subsequent legislation. These enhancements include (not an exhaustive list) a simplified definition of earned income, reform of the relationship test and modification of the tie-breaking rule. The IRS also has additional authority with respect to mathematical errors.

Other Child-Related Tax Relief

Adoption Credit/Assistance

It extends permanently Bush-era enhancements to the adoption credit and the income exclusion for employer-paid or reimbursed adoption expenses up to \$10,000 (indexed for inflation) both for nonspecial needs adoptions and special needs adoptions.

Child and Dependent Care Credit

The Act extends permanently Bush-era enhancements to the child and dependent care credit. The current 35 percent credit rate is made permanent along with the \$3,000 cap on expenses for one qualifying individual.

Employer-Provided Child Care Credit

It extends permanently the Bush-era credit for employer-provided child care facilities and services.

American Opportunity Tax Credit

The Act extends through 2017 the American Opportunity Tax Credit (AOTC). The AOTC is an enhanced, but temporary, version of the permanent HOPE education tax credit.

Other Education Incentives

It makes permanent or extends a number of enhancements to tax incentives designed to promote education. Many of these enhancements were made in Bush-era legislation, extended by subsequent legislation and are scheduled to expire after 2012. Some enhancements, notably the AOTC, had been made in President Obama's first term.

Deduction for Qualified Tuition and Related Expenses

The Act extends the above-the-line deduction for qualified tuition and related expenses until Dec. 31, 2013. It also extends the deduction retroactively for the 2012 tax year.

Student Loan Interest Deduction

It permanently suspends the 60-month rule for the \$2,500 above-the-line student loan interest deduction. The Act also expands the modified adjusted gross income range for phaseout of the deduction permanently and repeals the restriction that makes voluntary payments of interest nondeductible permanently.

Coverdell Education Savings Accounts

The Act extends permanently Bush-era enhancements to Coverdell education savings accounts (Coverdell ESAs). These enhancements include a \$2,000 maximum contribution amount and treatment of elementary and secondary school expenses as well as post-secondary expenses as qualified expenditures.

Conclusion

Due to the complexity of the changes in this legislation, it is impossible to cover every aspect in this article. During the month of February, the Communications and Training Branch will be presenting our annual Income Tax Update School. During that school, there will be in-depth coverage of the American Taxpayer Relief Act of 2012. You are encouraged to attend this school if it is approved by your management.

To reserve your seat, please contact Renée Gregory at ShirleyR.Gregory@ky.gov

**That some achieve success,
is proof to all that others can
achieve it as well. —Abraham Lincoln**



CSI

communicating significant information

Changes Affecting Your Credit Report

Credit bureaus are taking new sources of income, bill paying into consideration.

The world of credit reporting is constantly changing. You've really got to stay on top of this if you want to maintain a strong credit rating.

Unfortunately, many of us fail to keep abreast of important economic, legal or industry changes that can have a direct impact on our credit health. A survey from the National Foundation for Credit Counseling found that most Americans don't bother to check their credit reports at all even though federal law gives adults in the United States the right to get those reports free of charge each year from AnnualCreditReport.com.

Here are four recent changes that affect your credit reports and score.

1. Your rental history is now included in your credit reports

For decades, the only housing payments that were tracked by credit bureaus were mortgage payments. Lenders would report whether you paid your mortgage on time and that payments such as monthly rent are also being factored in.

The credit reporting giant Experian even has a unit called Experian Rent Bureau. It keeps tabs on how well renters are handling their housing obligations. Experian includes residential rental payment information and rental history

on its credit reports... a change that could impact millions of renters nationwide.

So the lesson here is: Pay the rent on time.

2. Your payday loans are being tracked

Speaking of nontraditional items, did you know that the credit industry is also now examining payday loans?

In 2012, FICO, creator of the widely used FICO credit score, rolled out a new credit score in combination with a company called CoreLogic—the Mortgage Score Powered by CoreLogic. This score takes into account far more data than traditional FICO scores. It's based in large part on transactions that had historically been under the credit radar, such as payday loans, debt settlements and rent-to-own agreements.

Advocates say including this information helps people who have no bank accounts or have "thin" credit files, by allowing them to demonstrate responsible behavior and build credit. But consumer advocates worry that the broadening of real information contained in credit reports could create problems for low- and middle-income Americans. For instance, if a consumer has a legitimate dispute with a retailer or landlord and withholds payment, the person could nevertheless be reported to the credit bureaus and branded as fiscally irresponsible.

3. The credit industry is becoming better regulated

Some changes that will affect you greatly don't apply to you directly, but rather to the credit reporting industry. One of those changes became effective September 30, 2012.

Since then, dozens of credit reporting firms—including the "Big 3," Equifax, Experian and TransUnion—have been monitored by the newly established federal watchdog agency, the Consumer Financial Protection Bureau (CFPB).

The CFPB can now monitor their business practices, conduct onsite examinations and write new rules concerning how they operate.

The idea is to make sure that agencies that hold so much sway over Americans' financial lives are treating consumers fairly. Some experts expect that the CFPB will demand changes that will make mistakes on your credit easier to fix.

4. You may have trouble getting a card on your own

If you've recently retired, gone through a divorce or been widowed, and applied for credit on your own, you may have been rejected because of "insufficient income."

That's because in October 2011, a provision of the Credit Card Act took

effect making it tougher for nonworking spouses, ex-spouses or widows and people with limited incomes to qualify for credit on their own.

Under the law, credit card firms are prohibited from basing credit decisions on a person's overall household income. Instead, they must evaluate only the individual applying. So if you can't show enough of your own income, you may not be able to get a new credit card or even a higher credit limit on an existing card.

The new rule was supposed to reduce risk in the marketplace and help insure that only truly "qualified" people obtain cards—not, say, student who didn't even

have jobs. But the law has wound up causing hundreds of thousands of people to be deemed unworthy of credit. It has hurt older Americans, widows, stay-at-home parents and spouses of all ages. It's an unfortunate catch-22 of the system that having no credit history is often deemed just as bad as having a history that's bad. So this section of the Card Act has been revisited. Testifying in September 2012 before the House Financial Services committee. CFPB Director Richard Corday said his agency would use its rule-making authority to correct what he called "clearly an unintended consequence."

The fix should happen in early 2013.

We are what we repeatedly do. Excellence therefore is not an act but a habit. —Aristotle



FYI

for your information

Five Reasons to Buy a Home Now

Based on home prices, mortgage rates, and soaring rents there has never been a better time in real estate history to purchase a home. Here are five major reasons purchasers should consider buying.

Supply is Shrinking

With inventory declining in many regions, finding a home of your dreams may become more difficult going forward. There are buyers in more and more markets surprised that there is no longer a large assortment of houses to choose from. The best homes in the best locations sell first. Don't miss the opportunity to get that 'once-in-a-lifetime' buy.

Price increases Are on the Horizon

Prices were expected to bounce along the bottom this winter. However, many

pricing indices (examples: CoreLogic, FHFA, LPS, Case Shiller) are reporting that prices are continuing to rise.

Rents are Skyrocketing

Rents historically increase by 3.2 percent on an annual basis. A study issued earlier this year projects rent increases of 4 percent for the next two years. Trulia recently reported the rents this year have actually shot up by 5.4 percent.



Interest Rates are Projected to Rise

The Mortgage Bankers Association has projected that the 30-year interest rate will be 4.4 percent by the end of 2013. That is an increase of approximately one full point over current rates.

Buy Low, Sell High

We would all agree that, when investing, we want to buy at the lowest price possible and hope to sell at the highest price. Housing can create family wealth as long as we follow this simple principal. Today, real estate is selling 'low'. It's time to buy.

The 10 Healthiest Metros for Housing in 2013

1. Houston, TX
2. San Francisco, CA
3. Bethesda-Rockville-Frederick, MD
4. San Antonio, TX
5. Austin, TX
6. Seattle, WA
7. Omaha, NE-IA
8. Peabody, MA
9. Fort Worth, TX
10. Louisville, KY-IN





WorkWise

Top 8 Fun Stress Relievers

There are many great stress relievers out there, but it's not always easy to stick with them. However, the fun stress relievers do seem to be easier to practice on a regular basis--you look forward to them! So for those of us who like a little fun with our stress relief, this is a compiled list of fun stress relievers, along with explanations of their other benefits as well. Enjoy!

1. Stress Relieving Games

<http://stress.about.com/od/funandgames/tp/games.htm>

Playing games--whether with a group of adults you enjoy, or with children--can be



a great form of stress relief. Games have a way of keeping us in the present moment, with a light-hearted focus, and laughter

that comes easily. I recommend creating a game night with friends you enjoy, and letting your inner child come out to play on a regular basis. If you are a parent, really enjoy your time with your children. Whatever you do throughout the day, it can become more fun with a playful attitude, and this can melt away stress.

2. Stress Relieving Books

<http://stress.about.com/od/books/>

Nothing takes your mind off of stress like a good book. And these stress relieving books can provide just the right distraction and escape from stress, as well as teaching you something new you can use to relieve stress. With a book, you can also take as much or as little time as

you have available for stress relief.

3. Laughter

<http://stress.about.com/od/stresshealth/a/laughter.htm>

A good laugh can be a great stress reliever: it releases endorphins and other healthy hormones, takes your mind off of stress, and can even provide a decent physical workout if you really get going. It also leaves you in a more positive frame of mind, and can bond you to those with whom you share a good laugh. Learn more about laughter as a stress reliever, and see how you can incorporate more humor into your life.

4. Gardening

<http://stress.about.com/od/generaltechniques/a/gardening.htm>

Planting a garden (or even tending to a houseplant) can be a great way to reconnect with nature, beautify your space, and enjoy other stress relieving benefits. Learn more about the stress relief benefits of gardening, and see if this is the stress reliever for you!



5. Drawing

<http://stress.about.com/od/funandgames/a/learningtodraw.htm>

Rediscovering your artistic side with anything from doodling to serious sketching can be a good stress reliever for several reasons: it's a good distraction, it helps you express and process emotions, and it leaves you with something beautiful to enjoy when you're finished. Learn more about the stress relief benefits

of drawing and how to incorporate them into your life.

6. Music

http://stress.about.com/od/tensionamer/a/music_therapy.htm

Music is a great stress reliever for many reasons, and it can also improve health to the point that it's being used in hospitals to promote health! As a stress reliever, it provides distraction, inspiration, can speed you up or calm you down, and more. And you can use it during your commute, while exercising, or at any time as you go about your daily activities. Learn more about the benefits of music, and find out how to incorporate it into your life to relieve stress.

7. Sports

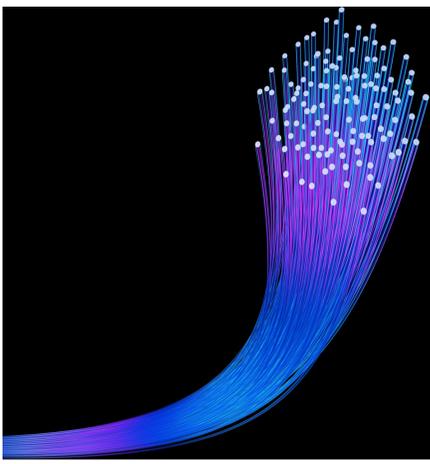
<http://stress.about.com/od/programsandpractices/a/exercise.htm>

Enjoying sports, from karate to mountain biking to tennis and more, can be a fun way to get exercise and relieve stress, providing endorphins, a social outlet, a way to release frustration, and more, and leave you healthier and happier in the end. Find ideas on what types of stress relieving activities to try in this section.

8. Mini-Vacations

http://stress.about.com/od/lowstresslifestyle/a/mini_vacations.htm

Vacations are a wonderfully fun and sadly under-used stress relief resource. If you find yourself longing for a vacation but don't have the time or the funds to go on the trip you deserve, you can still treat yourself to a stress relieving mini vacation and get similar stress relieving benefits without expending as much!



Secrets to a Super-Happy Winter—Don't let the winter blahs get you down

Freezing temps? Check. Gray skies? Check. Crabby, mood? Check again. But not for long! Your outlook doesn't have to be gloomy.

“There are simple things you can do to stay positive.” “It’s important to keep your mood up because it can help you avoid everything from gaining extra pounds to feeling lethargic.” Try these techniques to stay sunny all winter long -- no trip to the Bahamas required!



Winterize your workout

Winterize your workout It can be tough to muster the motivation to make it to the gym when the temperature is below zero. But “exercise can boost your mood, and you need that lift even more during the winter. Give yourself some incentive. Jot down an exercise schedule at the beginning of the week, varying the type of sweat fest to keep it interesting; then reward yourself with a small treat, like a mani-pedi, when you stick to it. And consider braving the elements: Research shows that exercising outside can lift your spirits, but if the weather won't

cooperate, keep a go-to exercise DVD on hand.

Eat your way upbeat

Try to resist the call of fatty, sugary comfort fare. Highly refined carbs and sugar can wreak havoc on your blood sugar level, which can leave you feeling cranky. Some comfort foods, however, can double as healthy pick-me-ups, especially if they contain mood-boosting nutrients like omega-3 fatty acids, good carbohydrates (think whole grains and vegetables), protein, and B vitamins. Have oatmeal for breakfast, because it contains fiber-rich whole grains that increase serotonin, a feel-good chemical in your brain, and it steadies your blood sugar level. For dinner, toss omega-3-rich salmon with whole-wheat pasta.

Get your group on

Bears may hibernate, but we humans weren't meant to hide away in our dens all winter. In fact, socializing is a very powerful way to boost your mood.



Instead of holing up in your house until spring, set aside some time each day for a “buddy moment,” whether that’s grabbing a quick lunch with a co-worker or meeting your sister, establishing “get together” routines also helps. Start a wine-tasting club, or invite friends over for a dance-w o r k o u t party.



Relish winter's pleasures

Hot toddies! Warm woolen mittens! Ice-skating! Taking the time to savor the most amazing things about this season can make you more content. When you enjoy rather than dread what’s around you, your optimistic thoughts will start trumping your negative ones. Next time your mind starts to drift toward your numb toes and nose, refocus on the positive -- you’ll be able to sip tea in front of a crackling fire as soon as you get home.

Anticipate a great escape

There’s not a whole lot to look forward to after all the holiday hubbub. (Presidents Day? C’mon!) So start hatching a scheme to skip town now. Planning a trip -- or even just thinking about one in the future -- can make you happier.

If you can spare the time and cash for a getaway, book one ASAP. If not, start researching a late-spring or summer expedition, because even thinking about it will be magic for your mood. Stay on top of flight deals on airfarewatchdog.com, and sign up for private sale travel sites like www.vacationist.com and www.jetsetter.com for insider prices.

Dress for the weather

Sure, stuffing yourself into a down parka can make you feel and look, like the abominable snowman. But staying warm is a surprising secret to feeling merry. Winter's cold can make you feel sluggish because of the increased energy demand on your body. For the easiest spirit-lifter, bundle up; don't leave home without your scarf, gloves, and hat.

See the light

Your body produces vitamin D -- which has been shown to help regulate mood -- when your skin is exposed to UVB light. But in the winter, the sun's rays aren't strong enough in the northern half of the United States to power vitamin D production. Ask your doc for a simple blood test to see if you're deficient, and talk to her or him about taking a supplement.

Sunlight increases levels of serotonin and also works to suppress melatonin, a chemical that makes you drowsy. Be sure to pop outside whenever you do spot some rays. Being exposed to sunlight helps keep away "the winter blues."



Spring Forward:

Spring Forward: The clocks are set ahead one hour during Spring Forward. In 2013, this occurs on **Sunday, March 10**.

Daylight Savings Time, or DST, begins on the second Sunday of March and ends on the first Sunday of November. In March, clocks are moved forward one hour from 2 am standard time to 3 am DST, and in November, clocks are moved back one hour from 2 am DST to 1 am standard time. The phrase "spring forward, fall back" is a helpful reminder of these time changes.

Men's best successes come after their disappointments.

—Henry Ward Beecher

WELCOME ABOARD!



Miscellaneous Tax

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Sales and Use Tax

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Felicia Evans

Amy Mullins

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