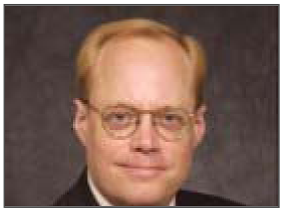

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THE TAX LAWYER

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It Passed: Five Things Everyone Should Know About The Fiscal Cliff Tax Deal

U.S. President Barack Obama makes a statement alongside U.S. Vice President Joseph R. Biden (L) in the White House Briefing Room following passage by the House of tax legislation on January 1, 2013 in Washington, DC. The House and Senate have now both passed the legislation, averting the so-called fiscal cliff. (Image credit: Getty Images via @daylife)

You were probably hoping not to watch so much CNN and other minute-by-minute accounts of the fiscal cliff over the last 4 days. Sometimes it almost seemed wrong to watch it, like watching an accident. And whether you are Republican, Democrat or something else, you were probably not pleased with some aspects of what you saw, heard and read.

If Otto von Bismark hadn’t already uttered his signature warning to turn away from watching laws and sausages being made, someone surely would have said it this New Year’s. But since the House voted and went along with the Senate, you need to know a few points about your taxes:

Payroll Tax. This may be the biggest practical impact of the deal, even though it actually didn’t impact it at all. It should have, though. As of January 1, 2013, your payroll tax is up 2% because the payroll tax cut you got used to in 2011 and 2012 is now gone. This impacts employees, not employers, and you’ll feel it in your first paycheck this month.

The employee's share of Social Security leaps from 4.2% up to 6.2% so employees will get smaller net paychecks throughout 2013. A $50,000 a year worker pays an extra $1,000. If you earn more than the wage base of $113,700 in 2013, you will pay almost $2,500 more.

Should you adjust your tax withholding with a new Form W-4? You could, but probably shouldn't. Income tax and non-deductible Social Security taxes are not the same thing. Just get used to a smaller check. For new tables, see IRS Provides Guidance on Withholding in 2013.

AMT. You may not care about this but you should. Alternative Minimum Tax is complex and often seems arbitrary. Fortunately, the amendments to the AMT are retroactive to the beginning of 2012. If you didn't pay AMT in 2010 or 2011, perhaps you will escape it in 2012, too. A more permanent fix means the AMT will not be as important in 2014 either. Still, be worried about this one and run your numbers. See AMT Will Hit 100M People, Warns IRS Commissioner.

Ordinary Rates. If you make less than $400,000 and file single or less than $450,000 on a joint return, your top ordinary rate is still 35% just like in past years. Above that it climbs to 39.6%.

Capital Gain. If you make $200,000 or less individually or $250,000 or less on a joint return, your long term capital gain rate remains 15%. If you make more than that, though, you ***also*** pay a 3.8% "investment" tax on your gain to fund Obamacare. If you make more than $400,000 singly or $450,000 on a joint return, your rate is 20% plus the 3.8% tax.

Phase Outs. These tax increases–the phase outs of personal exemptions and itemized deductions–are hard to spot, much less to quantify. The Bush era tax cuts suspended them but they are back for 2013. You can claim your personal exemptions and itemized deductions, but they are cut back under a formula triggered above $250,000 in personal income or $300,000 for joint filers.

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