



American Institute of CPAs' Fiscal Cliff Series:

Individual Income Tax Rates

DESCRIPTION

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) reduced the individual federal income tax rates for all taxpayers. The rates were further reduced in 2003 by the Jobs and Growth Tax Relief Reconciliation Act and then extended in 2010 by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act. These rates will expire on January 1, 2013, unless Congress and the White House again agree to extend them.

WHAT WILL HAPPEN IF WE GO OVER THE FISCAL CLIFF?

EGTRRA reduced the federal income tax rates for the top four tax brackets and created a new 10 percent bracket for the first dollars of taxable income. If legislation is not enacted by January 1, 2013, the scheduled rates for individuals* will be:

Taxable Income	Existing Rate	Expired Rate
\$0 - \$8,900	10%	15%
\$8,901 - \$36,150	15%	15%
\$36,151 - 87,550	25%	28%
\$87,551 - \$182,600	28%	31%
\$182,601 - \$397,000	33%	36%
\$397,001 and above	35%	39.6%

WHO WILL BE AFFECTED IF WE GO OVER THE FISCAL CLIFF?

All taxpayers will be subject to higher taxes if the current rates are not extended. This will create administrative difficulties for employers who may not have adequate time to prepare for the revised withholding rates that will apply if the changes are put in place at the last minute.

CAN THIS BE DEALT WITH AFTER JANUARY 1, 2013?

Yes. However, changing tax rates once the taxable year begins creates significant administrative burdens. Withholding tables must be revised and the amount deducted per paycheck changes.

AICPA COMMENT

“As Congress and the Administration make decisions regarding the existing tax rates, they will need to factor in the need of employers to have sufficient time to prepare for the changes in withholding.”

~~Edward S. Karl, CPA, Vice President – Taxation, AICPA

AICPA RESOURCES

“Navigating the Fiscal Cliff? AICPA Can Help”

<http://www.aicpa.org/InterestAreas/Tax/Resources/Pages/tax-fiscal-cliff.aspx>

*Source for scheduled rates: Tax Policy Center, “Toppling Off the Fiscal Cliff: Whose Taxes Rise and How Much?” October 1, 2012.

<http://www.taxpolicycenter.org/UploadedPDF/412666-toppling-off-the-fiscal-cliff.pdf>

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