

TAXTOPICS

A publication of the Nevada Taxpayers Association, serving the citizens of Nevada since 1922.

ISSUE 5-12

ELECTRONIC EDITION

DECEMBER 2012

Where Do We Go From Here?

Now that the election is over, we can all (except for possibly the media outlets) celebrate the end of the barrage of political ads. And, until the new Congress and Nevada Legislature convene we can wonder . . . Can the partisanship and rancor of this election cycle be buried? Can the public expect to see a modicum of civility and common sense from all elected officials? Is it too much to hope that our holiday blessings will include thanks for camaraderie and statesmanship, by elected officials and other political types? After all, there are some serious issues to be addressed for 2013, both at a federal and state level that will require burying the hatchet and forging workable compromises.

On a Federal Level . . .

The most pressing issue right now is the “fiscal cliff.” The term “fiscal cliff” was coined by Ben Bernake, chairman of the Federal Reserve. It is the perfect storm of expiring tax cuts, looming mandatory spending cuts known as “sequestrations,” and in addition the expectation that the U.S. debt ceiling will be hit. As of this publication talks were proceeding with the lame-duck Congress about dealing with the expiration of tax cuts and sequestration. Hopefully, by the time January 1 rolls around, taxpayers will know just what the impact on their wallets will be, and all will know what the impacts of the cuts will mean to individuals, to the states and to local governments.

In addition to the potential tax increases shown in table 2, there are other impacts to taxpayers if Congress does nothing. Among those impacts are numerous deductions and credits that will be gone or reduced, ranging from Section 127 educational assistance plans, to home energy credits, to debt forgiveness on the short sale of foreclosure of a primary residence, etc. Additionally, the 2010 “patch” for the Alternate Minimum Tax (AMT) that covered the 2010 and 2011 tax years, expired for the 2012 tax year. The AMT was never indexed to inflation when passed in 1969. To account for the lack of indexing, Congress has resorted to a temporary (one to two years) “patch” to adjust the level of income upward. Without the enactment of a patch, the Tax Foundation estimates that a potential of 20 million taxpayers will be subject to the AMT.

Finally, and of special concern to Nevadans, is the sales tax deduction that would be lost to filers in states that do

not have an income tax (Nevada and seven other states) unless the deduction is reauthorized by Congress.

Added to these potential tax impacts will be the taxes that become effective January 2013 contained in the Patient Portability and Affordable Health Care Act (a.k.a. Obamacare).

To get through the maze of these federal tax issues, we have compiled two tables which summarize the impacts of the tax increases that will be effective starting January 2013. The first table is of the major tax cuts that will expire on December 31 absent Congressional action.

The second table is a summary of the tax and penalty impacts of the Health Care Act. As neither the Treasury Department nor the IRS has entered into rulemaking on the tax provisions contained within the Act, there may be varying interpretations as to exactly what comprises investment income, etc.

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Ballot Question Results

The passage of the statewide question was due to the voters in Clark and Washoe Counties. In the remaining 15 counties the question failed badly. Of the eight local tax questions, which appeared, The six for tax increases were overwhelmingly defeated. The two tax questions that did pass, one in Mineral County and the other in Storey County asked for a continuance of an existing property tax levy not an increase. The remaining local questions all passed.

VOTING INFORMATION	STATEWIDE QUESTION	YES	%	NO	%
STATE Active Voters: 1,258,409 Votes Cast: 1,016,664 - 80.77%	#1 Call of Special Session by Legislators	511,282	53.9	436,065	46.03
COUNTY	LOCAL QUESTIONS	YES	%	NO	%
CARSON CITY Active Voters: 11,955 Votes Cast: 10,285 - 86.0%	#1 - Knowledge and Discovery Center Library: Sales Tax Increase	7,274	31.77	15,622	68.23
CLARK COUNTY Active Voters: 2,413 Votes Cast: 692,262 - 81.2%	# 2 - School District Capital Projects: Property Tax Increase Henderson	226,786	34.41	432,286	65.59
	#1- Libraries: Property Tax Increase	53,007	45.08	64,566	54.92
LYON COUNTY Active Voters: 29,083 Votes Cast: 21,501 - 73.9%	<u>No. Lyon Fire Protection District</u> Emergency Medical Services: Property Tax Increase	2,720	39.04	4,248	60.96
MINERAL COUNTY Active Voters: 2646 Votes Cast: 2,040 - 77.09%	Sr. Citizens Programs: Property Tax Continuance	1,373	68.96	618	31.04
NYE COUNTY Active Voters: 25,546 Votes Cast: 17,589 - 68.84%	RTC #1 - Fuel Tax Increase: Advisory #1 Discontinue Pahrump Town Board	3,832 7,294	22.6 50.8	13,125 7,063	77.4 49.2
STOREY Active Voters: 2618 Votes Cast: 2,322 - 87.54%	School District Bond Roll-over	1,235	55.33	997	44.67
WASHOE Active Voters: 241,213 Votes Cast: 188,244 - 78.03%	# WC-1 - 2012 Public Safety Automatic Aid: Advisory Question # WC 2 2012 Public Services Funding Advisory Reno	145,505 71,759	81.39 40.38	33,261 105,958	18.61 59.62
	#1 - City Council Ward Voting Advisory	66,208	75.96	20,954	24.04

Source: Secretary of State "Silverstate, Election Night Results."

On a federal level, continued from page 1

Other taxes contained in the Act, were effective in 2011. They include a tanning bed tax; a tax on innovator drug companies; a tax hike on a type of bio-fuel known as “Black Liquor”; and an increase from 10% to 20% in the penalty for early withdrawal from Health Saving Accounts (HSA) for nonmedical purposes.

Another provision, which is not directly a tax, but will be used to determine employer and employee health care coverage, is the requirement for employers who filed more than 250 W-2 forms in the prior year to report the value of employees’ health insurance on W-2 forms, effective January 2012.

If you haven’t already been bombarded with information about the effects of the fiscal cliff, there are numerous articles available; information is just a click away by searching the Internet.

For an interactive calculator, from the Tax Foundation, that will let you determine the potential impacts of the fiscal cliff and what, if any, cost impact the Health Care Act will have on you or your family, go to

<http://interactive.taxfoundation.org/About/>

and pick your choice from “Calculators.”

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Tax Cuts Expiring December 31, 2012

Table 1

Tax	Current Rate	Effective January 2013 (without Congressional action)
INCOME TAX RATE BRACKETS	10%	---
	15%	15%
	25%	28%
	28%	31%
	33%	36%
	35%	39.6%
CAPITOL GAINS TAX (MAXIMUM)	15%	20%
TAX ON DIVIDENDS (MAXIMUM)	15%	39.6%
OTHER UNEARNED INCOME	35%	39.6%
CHILD TAX CREDIT (The credit is no longer refundable)	\$1,000.	\$500.
ESTATE TAX	35% on estates over \$5.12 million	A sliding scale from 41% on estates over \$1 million to 55% on estates over \$3 million.
SOCIAL SECURITY TAX: EMPLOYEE PORTION. (Employers remain at 6.2%)	4.2%	6.2%
MARRIAGE PENALTY	2 x single filer amount	1.67% x single filer amount

The information contained in this table should not be use for tax or financial planning purposes. Consult with a tax professional for any information you require or for tax planning.

Health Care Taxes - Public Law 111-148

Table 2

Tax	Description	Effective
SURTAX ON INVESTMENT INCOME Investment income, for the purposes of the surtax includes: gross income from dividend, interest, annuities, royalties, net rents and capital gains and passive income from partnerships and sub-chapter S corporations.	3.8 % <i>on the lesser of</i> investment income or the taxpayers in income in excess of: \$200,000 for a single filer, or \$250,000 if filing jointly	January 2013
MEDICARE PAYROLL TAX (Employer/Employee, currently - 1.45%) (Self-Employed, currently 2.9%)	An additional 0.9% for single and self-employed filers, if the excess is over \$200,000 An additional 0.9% for married and self-employed filers, if the excess is more than \$250,000	January 2013
EXCISE TAX ON MEDICAL DEVICE MANUFACTURERS	2.3% on total sales (Exempts items that retail for under \$100.)	January 2013
THRESHOLD FOR MEDICAL DEDUCTIONS	Increased to 10% (currently 7.5%)	January 2013
FLEXIBLE SPENDING ACCOUNT (FSA)	Imposes a cap of \$2,500 (currently unlimited)	January 2013
MEDICARE PART D EXPENSE	Deduction eliminated	January 2013
EMPLOYER MANDATE PENALTY TAX (Applies to all employers with 50 or more employees.)	An additional \$2000 nondeductible tax for all full-time employees if at least one employee qualifies for health tax credit and employer does not offer coverage. The tax penalty rises to \$3,000, if any employee receives health care through an exchange. A penalty, per employee, is also imposed for requiring a waiting period prior to enrollment of \$400 per employees for a 30-60 day wait and \$600 for 60 days or longer.	January 2014
INCOME SURTAX: INDIVIDUAL MANDATE (Applies to anyone who does not purchase a "Qualifying" health care plan.)	The higher of: 1% Adjusted Gross Income (AGI), or \$95.00 for 1 adult; \$190.00 for 2 adults; \$285 for 3+ adults	January 2014
	The higher of 2% AGI, or \$325 for 1 adult; \$650 for 2 adults; \$975 for 3+ adults	January 2015
	The higher of 2.5% AGI, or \$695 for 1 adult; \$1390 for 2 adults; \$2085 for 3+ adults	January 2016
TAX ON "CADILLAC" HEALTH PLANS (This provision is indexed for inflation.)	40% on plans over \$10,200 single & \$27,000 family; for higher threshold incomes, early retirees and high-risk professions (\$11,500 and \$29,400 respectively).	January 2018

Sources: Various reports from the Congressional Budget Office, the Tax Foundation and The Henry J. Kaiser Family Foundation were used to develop tables 1 and 2.

A special thanks to board member David Turner of Turner, Loy & Co. for his input on the tax impacts and tables.

On a federal level, continued from page 3

If you are interested in obtaining more information about the fiscal cliff, sequestration, the U.S. debt ceiling, the Health Care Act/Obamacare of Public Law 111-148, an Internet search using any of those terms will provide you with at least a year's worth of reading material.

Issues at the State Level . . .

Almost all actions through the first part of 2013 will be driven by the legislative process, from approval of the Governor's executive budget to requests for more spending or less spending, or changes to the tax structure from the various constituencies that benefit or are negatively affected by the requests. First and foremost on most radar screens will be the executive budget, which will be finalized based on the forecast delivered by the Economic Forum.

The jobs of forecasting revenue and budget preparation are much more difficult this time around due to all the unknowns associated with how Congress will address the fiscal cliff, particularly with regards to the expenditure side of that equation. It is doubtful that cuts to federal programs such as Medicaid, education or defense that impact the states will be known before the Governor has to submit his budget.

In addition, this will be the first session that the new budget format will be rolled out. During the last session, a hybrid budget form was created blending the current cost to continue budget with the beginnings of a priority-based spending budget.

Other major expenditure issues, besides those identified above, will include continuing education reforms, public employee benefit reforms and the expansion of Medicaid.

On the tax side of the fiscal equation, debate is expected on continuing the taxes that were due to sunset on June 30, 2013. Earlier this year, the Governor said he would extend the sunsets for the upcoming biennium.

Another potential tax debate will depend on how and when the Supreme Court rules regarding the validity of the margin tax initiative petition. If the Supreme Court upholds Judge Wilson's ruling, there is no doubt that the unions will again try to make their case for a tax on business.

Of the 600 plus bill drafts requested to date, many are issues that have become perennial such as: Home Owner Associations (HOAs), construction defects, school reforms and water.

NTA Briefs

Thank you

As 2012 draws to a close and before we settle into the holiday season, on behalf of the Association's board of directors we would like to extend appreciation to you for your continued support, and remind you that renewal invoices will be sent this month.

Governor honored

Governor Bryan Sandoval was honored as one of the seven Top Public Officials for 2012 by Governing Magazine. To read the story click on:

<http://www.governing.com/poy/poy-brian-sandoval.html>

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If you receive our publications via U.S. mail, and do not receive our **electronic only** publication *NTA ebrief*, please call (702/457-8442) or email us (info@nevadataxpayers.org). Also, if any of your contact information has changed please let us know. That includes the name of the person that should receive this publication, address, phone number and email address.

Save the date

Please plan to join us for NTA's 91st General Membership Meeting and biennial Legislative Dinner on February 28, 2013 in Carson City at the Carson Nugget. Invitations will be mailed in January. Sponsorships are available. Please contact the Las Vegas office for more information.

Coming soon

The next issue of *Tax Topics* will contain a list of all legislators and committee assignments and schedules. In addition there will be information on the tax issues expected to come before the 2013 legislature.



Wishing you a
Holiday Season
and
New Year
filled with
Peace
Joy
Prosperity

TAX TOPICS

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NEVADA TAXPAYERS ASSOCIATION
www.nevadatxpayers.org

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