Dear Client,

Among the tax increases in the recently enacted 2012 American Taxpayer Relief Act are provisions that impose, or in some cases reinstate, caps on tax breaks for top earners. The new rules reinstate the personal exemption phase-out (PEP) and so-called Pease limit on itemized deductions - named after its author, former Ohio Democratic representative Don Pease . Both were created in 1990 in an effort to generate more government revenue without raising the marginal tax rates but were phased out by 2010. Now they are back. Here's how they work:

PEP limitations to apply to "high earners." Taxpayers claim exemptions for themselves, their spouses and their dependents. Last year, each exemption was worth $3,800. Under the new law, for tax years beginning after 2012, the Personal Exemption Phaseout (PEP), which had previously been suspended, is reinstated with a starting threshold for those making $300,000 for joint filers and a surviving spouse; $275,000 for heads of household; $250,000 for single filers; and $150,000 (one-half of the otherwise applicable amounts for joint filers) for married taxpayers filing separately. Under the phaseout, the total amount of exemptions that can be claimed by a taxpayer subject to the limitation is reduced by 2% for each $2,500 (or portion thereof) by which the taxpayer's AGI exceeds the applicable threshold. These dollar amounts are inflation-adjusted for tax years after 2013.

Pease limitations to apply to "high earners." For tax years beginning after 2012, the "Pease" limitation on itemized deductions, such as the ones taken for mortgage interest, charitable giving and state and local taxes paid, and which had previously been suspended, is reinstated with a starting threshold for those making $300,000 for joint filers and a surviving spouse; $275,000 for heads of household; $250,000 for single filers; and $150,000 (one-half of the otherwise applicable amounts for joint filers) for married taxpayers filing separately. Thus, for taxpayers subject to the "Pease" limitation, the total amount of their itemized deductions is reduced by 3% of the amount by which the taxpayer's adjusted gross income (AGI) exceeds the threshold amount, with the reduction not to exceed 80% of the otherwise allowable itemized deductions. These dollar amounts are inflation-adjusted for tax years after 2013.

I hope this information is helpful. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call..

Very truly yours,

Cohen & Grieb, P.A.