The 2012 Form 1040 and its related forms and schedules contain many changes. Some of these changes just reflect inflation adjustments while others reflect changes to the law that were made by the American Taxpayer Relief Act of 2012 (2012 Taxpayer Relief Act). Several of the changes result from provisions in the Internal Revenue Code that had expired on December 31, 2011 but were extended by the 2012 Taxpayer Relief Act and now apply to the 2012 tax year. The key changes are discussed below and will update your Federal Tax Course – A Guide for the Tax Practitioner so subscribers can prepare the 2012 Federal income return with confidence in light of recent tax legislation that was enacted after the book was published:

**Form 1040—U.S. Individual Income Tax Return**

Line 15. IRA distributions and Line 16. Pensions and annuities. A taxpayer who converted or rolled over an amount to a Roth IRA in 2010 and chose to report the taxable amount on the 2011 and 2012 returns must report the amount that is taxable on the 2012 return on line 15b (for conversions from IRAs) or 16b (for rollovers from qualified retirement plans).

A taxpayer who rolled over an amount from a 401(k) or 403(b) plan to a designated Roth account in 2010 and did not elect to report the taxable amount on his or her 2010 return, should have reported half of it on the 2011 return and should report the rest of the 2012 return.

Line 23. Educator expenses. The above-the-line deduction for eligible educators for up to $250 of qualified expenses paid during the year is extended to tax years beginning in 2012 and 2013. If two eligible educators are married and file a joint return, they may deduct up to $250 in qualified expenses they each incur, for a maximum deduction of $500. An eligible teacher is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide who worked in a school for at least 900 hours during a school year. Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. Excluded are expenses for home schooling or for nonathletic supplies for courses in health of physical education.

Line 26. Moving expenses. The 2012 standard mileage rate for moving expenses is 23¢ per mile.

Line 32. IRA deduction. A taxpayer may be able to claim an IRA deduction if he was covered by a retirement plan and his 2012 modified AGI is less than $68,000 ($112,000 if married filing jointly or qualifying widow(er)). If the taxpayer's spouse was covered by a retirement plan, but the taxpayer was not, he may be able to take an IRA deduction if his 2012 modified AGI is less than $183,000.

Line 34. Tuition and fees deduction. The above-the-line deduction for higher education qualified tuition and related expenses which had expired on December 31, 2011 was extended two years by 2012 TAXPAYER RELIEF ACT for expenses paid before January 1, 2014. Taxpayers claiming the higher education tuition and fees deduction must attach Form 8917, Tuition and Fees Deduction. Qualified tuition and related expenses include tuition and fees required for the enrollment or attendance of the taxpayer, the taxpayer’s spouse, or any dependent of the taxpayer, at an eligible educational institution for courses of instruction. Special rules apply for individuals claimed as dependents by another taxpayer, married individuals filing separately, and nonresident aliens. Generally, any accredited public, nonprofit, or proprietary post-secondary institution is an eligible educational institution. The amount of the tuition and fees deduction is limited by the taxpayer’s AGI. Taxpayers with AGI that does not exceed $65,000 ($130,000 in the case of married taxpayers filing joint returns) are entitled to a maximum deduction of $4,000, and taxpayers with AGI that does not exceed $80,000 ($160,000 in the case of married taxpayers filing joint returns) are entitled to a maximum deduction of $2,000. Taxpayers with AGI above these thresholds are not entitled to claim the deduction.

Line 40. Itemized deductions or standard deduction. For 2012, the standard deduction is $5,950 for single filers and for married persons filing separately, $11,900 for joint filers and qualifying widow(er)s, and $8,700 for heads of household. Under 2012 Taxpayer Relief Act, the phaseout of itemized deductions for higher income individuals was permanently reinstated beginning in 2013. Therefore in 2012, taxpayers may claim the full amount of their allowable itemized deductions without consideration of the amount of their AGI.

Line 42. Exemptions. The amount taxpayers may deduct for each personal exemption in 2012 is $3,800. The 2012 Taxpayer Relief Act reinstated the phase-out of personal and dependency exemptions for higher income individuals beginning in 2013. Therefore in 2012, taxpayers will still be able to deduct their exemptions in full regardless of their AGI.

Line 45. Alternative minimum tax. In 2012, the AMT exemption amounts were increased by 2012 Taxpayer Relief Act to:

- $78,750 for married taxpayers filing jointly and surviving spouses, less 25 percent of AMTI exceeding $150,000 (zero exemption when AMTI is $465,000);
- $50,600 for unmarried individuals, less 25 percent of AMTI exceeding $112,500 (zero exemption when AMTI is $314,900);
- $39,375 for married taxpayers filing separately, less 25 percent of AMTI exceeding $75,000 when AMTI is $232,500;
- $40,000 (unchanged) for corporations; and
- $22,500 (unchanged) for estates or trusts.
Line 52. Residential energy credits. The 2012 Taxpayer Relief Act retroactively extended the nonbusiness energy property credit two years through 2013. The lifetime credit limit remains at $500 and no more than $200 of the credit amount can be attributed to exterior windows and skylights. Taxpayers should use Form 5695, Residential Energy Credits to compute their residential energy credits which include the nonbusiness energy property credit and the residential energy efficient property credit which is not scheduled to expire until after 2016 and was not addressed by 2012 Taxpayer Relief Act. The amount of the credit is entered on line 52.

Line 53 – Other credits. Taxpayer may claim credits on line 53 for a number of credits which were extended by 2012 Taxpayer Relief Act to apply to 2012.

- As part of the general business credit which is computed on Form 3800 an eligible contractor may claim a tax credit of $1,000 or $2,000 for the construction or manufacture of a new energy efficient home that meets the qualifying criteria. An "eligible contractor" is a person who constructed a qualified new energy efficient home or, with respect to a manufactured home, the producer of that home. The applicable amount of the credit depends on the energy savings realized by the home. The maximum credit is $2,000 for homes and manufactured homes that meet rigorous energy-saving requirements; alternatively, manufactured homes that meet a less demanding test may qualify for a $1,000 credit. The taxpayer's basis in the property is reduced by the amount of any new energy efficient home credit allowed with respect to that property. In order to be considered a qualified new energy efficient home, a qualified new energy efficient home must receive a written certification that describes its energy-saving features including the energy efficient building envelope components used in its construction and energy efficient heating or cooling equipment that has been installed. In addition, the dwelling must be located in the United States, must be purchased or acquired by a person from the eligible contractor for use as a residence during the tax year, and must be acquired before January 1, 2014 (prior to amendment was January 1, 2013).

- Also part of the general business credit is the energy efficient appliance credit for manufacturers which was retroactively extended for certain highly efficient dishwashers, clothes washers and refrigerators that were manufactured in 2012. A credit in the amount of $50 or $75 may be claimed for qualifying dishwashers depending on their energy efficiency and $225 for certain highly efficient clothes washers and either $150 or $200 for qualifying highly efficient refrigerators depending on their energy consumption.

- Also part of the general business credit is the alternative fuel vehicle refueling property credit which was extended by AFTR to apply to refueling property placed in service through December 31, 2013 (prior to amendment was December 31, 2011). The alternative fuel vehicle refueling property credit is claimed on Form 8911, Alternative Fuel Vehicle Refueling Property Credit.

- The 2012 Taxpayer Relief Act extended the plug-in electric drive motor vehicle credit to cover 2- and 3-wheeled plug-in electric vehicles acquired during 2012. The credit is equal to the applicable amount with respect to each new qualified 2- or 3-wheeled plug-in electric drive vehicle. The applicable amount is equal to the lesser of: (1) 10 percent of the cost of the qualified 2- or 3-wheeled plug-in electric drive vehicle; or (2) $2,500. In order for a vehicle to qualify as a 2- or 3-wheeled plug-in electric drive vehicle, the vehicle must have 2 or 3 wheels, be made by a manufacturer, and be acquired for use or lease by the taxpayer and not resale. The original use of the vehicle must begin with the taxpayer. In addition, the vehicle must: (1) have a gross vehicle weight rating of less than 14,000 pounds; (2) be primarily manufactured for use on public streets, roads, and highways; (3) be able to achieve a speed of at least 45 miles an hour; (4) be propelled to a significant extent by an electric motor drawing electricity from a battery having a capacity of at least 2.5 kilowatt hours that can be recharged from an external source; and (5) be acquired after December 31, 2011, and before January 1, 2014.

- Line 53. Adoption credit. Also claimed on line 53 is the adoption credit. In 2012, the maximum adoption credit is $12,650 per eligible child for both non-special needs adoptions and special needs adoptions. However, the 2012 Taxpayer Relief Act provided that the adoption credit would no longer refundable. Therefore, Form 1040, Line 71, box b is shown as "Reserved." The income limit for the adoption credit is based on modified adjusted gross income (MAGI). For 2012, MAGI phase out begins at $189,710 and ends at $229,710. The adoption credit is computed on Form 8839.

Line 65. Additional child tax credit. For 2012, the IRS has instructed taxpayers claiming the additional child tax credit to use Schedule 8812, Child Tax Credit, to calculate their additional child tax credit and attach the schedule to their return. Form 8812 is no longer in use.

Line 67. First-time homebuyer credit. Since the American Taxpayer Relief Act of 2012 did not extend the Code Sec. 36 first-time homebuyer credit is unavailable in 2012. Therefore, Form 1040, Line 67 is shown as "Reserved.”

Identity protection personal identification number (IP PIN). A taxpayer who received an IP PIN from the IRS for 2012 should enter the IP PIN on their return on page 2 in the Sign Here portion of Form 1040.

**Form 1040 - Schedule A, Itemized Deductions**

Line 1. Medical and dental expenses. For 2012, the standard mileage rate for use of a motor vehicle to obtain medical care is 23 cents-per-mile.

Line 21. Unreimbursed employee expenses. The 2012 standard mileage rate for business travel is 55.5¢ per mile.

Line 5. State and local taxes. The election to claim an itemized deduction for state and local general sales taxes in lieu of state and local income taxes was extended two years by 2012 Taxpayer Relief Act and therefore may be claimed in 2012 and 2013. The election to state and local
general sales taxes is available to all individual taxpayers, although it is primarily designed to benefit taxpayers in states without state and local income taxes.

Line 13. Mortgage insurance premiums. Taxpayers may deduct qualified mortgage insurance premiums paid or accrued in 2012, or are properly allocable to any period on or before December 31, 2013 on line 13 of Schedule A. Prior to the amendment by the 2012 Taxpayer Relief Act, the provision did not apply to premiums paid or accrued after December 31, 2011.

Line 21. Unreimbursed employee expenses. For 2012, the standard mileage rate for use of a vehicle is 55.5 cents-per-mile for business miles driven. The business standard mileage rate for 2013 is 56.5 cents-per-mile.

Form 1040 - Schedule B, Interest and Ordinary Dividends

Line 3. Excludable interest on series EE and I U.S. savings bonds. For 2012, the phase-out of the exclusion for education related savings bond interest begins at modified AGI above $72,850 for single individuals and $109,250 for married couples filing a joint return.

Form 1040 - Schedule C, Profit or Loss from Business

Line 9. Car and truck expenses. For 2012, the standard mileage rate for use of a vehicle is 55.5 cents-per-mile for business miles driven.

Form 1040 - Form 4562, Depreciation and Amortization

The American Taxpayer Relief Act of 2012 increased the Code Sec. 179 dollar and investment limits to $500,000 and $2 million, respectively, in 2012 and 2013. In addition, the qualified real property allowance, computer software deduction and election revocation rule were extended through 2013. Therefore, on the 2012 return, a taxpayer can (1) claim an Code Sec. 179 expense deduction for off-the-shelf computer software that he or she placed in service in 2013; (2) revoke an Code Sec. 179 expense election without IRS consent; (3) elect to treat up to $250,000 of qualified real property as Code Sec. 179 property. Qualified real property generally consists of qualified leasehold improvements, qualified retail improvement property, and qualified restaurant property.

Additional depreciation allowance. The 50-percent bonus depreciation allowance was extended by the 2012 Taxpayer Relief Act one additional year to apply to qualifying property acquired by a taxpayer after December 31, 2007, and before January 1, 2014 (or pursuant to a written binding contract entered into after December 31, 2007, and before January 1, 2014), and placed in service before January 1, 2014 (or before January 1, 2015, in the case of property with a longer production period and certain noncommercial aircraft).

Listed property. The first-year depreciation limit on luxury automobiles first placed in service in 2012 for business and investment purposes if bonus depreciation is claimed is $11,160 for passenger automobiles and $11,360 for trucks and vans. If bonus depreciation is not claimed, the first year cap is $3,160 for passenger automobiles and $3,360 for trucks and vans.

Form 1040 - Schedule D, Capital Gains and Losses

Form 8949. For 2012, Form 8949, Sales and Other Dispositions of Capital Assets, which is used to report sales and exchanges of capital assets, has its own separate instructions. The Form 8949 instructions are no longer included in the Schedule D instructions.

Basis on Form 1099-B. The complex stock basis and character reporting rules under Code Sec. 6045(g) apply to shares in a regulated investment company (RIC, i.e., a mutual fund), or stock acquired in connection with a dividend reinvestment plan (DRP), if acquired after 2011.

Excluded gain on sale of small business stock. The 100-percent exclusion of gain from the sale or exchange of qualified small business stock by a noncorporate taxpayer was extended two years by the AFTR. Therefore, the 100-percent exclusion now applies to qualified small business stock that is acquired after September 27, 2010, and held for more than five years. As a result of this extension, none of the excluded gain on such stock will be considered an AMT preference, and the rules that apply to empowerment zone businesses including the rule which normally grants an enhanced 60-percent exclusion of gain, will not apply to such stock.

Form 1040 - Schedule E, Supplemental Income and Loss

Standard mileage rate. The standard mileage rate for miles driven in connection with the taxpayer's rental activities is 55.5¢ per mile.

Information reporting requirements. Lines A and B, which address required filing of Forms 1099 in 2012, are in Part I of Schedule E. In the Instructions for Schedule E, the IRS instructed taxpayers that they only need to answer the questions on lines A and B if they are completing Part I.

No separate payment card reporting requirements. Gross receipts received via payment card (credit and debit cards) and third-party network payments are not separately reported on Schedule E.