

# HILLBERG NEWSLETTER

## **INCOME TAX, ACCOUNTING, CONSULTING AND BUSINESS ADVISORY SERVICES**

**JANUARY 2012**

**William Behrens, CPA ABV**

### **TAX CHANGES FOR 2012**

**TWO MONTH EXTENSION OF PAYROLL TAX CUT** – The new law extends the 4.2% social security tax on wages through February 29, 2012. Without this extension, the employee tax rate would have gone to 6.2% on the first \$110,100 of wages earned in 2012. The law also extends benefits for the long-term unemployed for two months. Finally, the law calls for a House-Senate conference committee to negotiate an agreement that would extend the payroll tax cut through the end of 2012, extend unemployment benefits, and prevent cuts in payments to Medicare doctors.

**SECTION 179** – An expense deduction is provided for taxpayers (other than estates, trusts or certain noncorporate lessors) who elect to treat the cost of qualifying property (new or used) as an expense rather than a capital expenditure. For 2012 the maximum deduction decreases to \$139,000 from \$500,000. There is a phase-out reducing the deduction dollar for dollar by the cost of qualified property placed in service during the year over \$560,000 for 2012.

**BONUS DEPRECIATION** – Bonus depreciation is allowed for qualifying new MACRS property (generally a recovery period of 20 years or less) acquired and placed in service during 2012 at the rate of 50%. This is down from 100% the prior year.

**ESTATE TAX** - The top rate remains at 35%, and the exemption amount increases to \$5,120,000.

**ANNUAL GIFT TAX EXCLUSION** – The exclusion remains at \$13,000.

**HSA CONTRIBUTIONS** - The limit increases to \$3,100 for individuals and to \$6,250 for families. An additional \$1,000 may be contributed by those 55 or older.

**NANNY TAX (DOMESTIC WORKERS)** – Employers must withhold and pay FICA taxes on the wages of their household workers in 2012 if cash wages total more than \$1,800.

**401(k)** - The maximum salary deferral increases to \$17,000 (\$22,500 for 50 and older).

**ADOPTION TAX CREDIT** - Decreases to \$12,650 for adoption of an eligible child.

ISSUANCE OF 1099's – Every person engaged in a trade or business, including a partnership and a nonprofit organization, must file information returns for each calendar year for certain payments of \$600 or more made during such year in the course of the payor's trade or business by February 28, 2012. This requirement does not apply to persons who received rental income from real estate who are not otherwise engaged in the trade or business of renting property.

STANDARD MILEAGE RATE – The business mileage rate remains at 55.5¢ a mile. The rate for medical and moving mileage decreases to 23¢ a mile while the rate for charitable driving remains at 14¢ a mile.

TRANSPORTATION FRINGE BENEFIT - Qualified transportation fringe benefits provided by an employer to an employee may be excluded from the employee's gross income. Employees may exclude employer provided transit passes or van pooling costs up to \$125 per month and may exclude up to \$240 per month for qualified parking.

KIDDIE TAX – Ordinarily a child's tax liability is computed in the same manner as any taxpayer taking into account the limits on the personal exemption and standard deduction. However, certain children with investment income may be subject to tax on that income at the parent's top marginal rate. This kiddie tax applies if the child is required to file a tax return, does not file a joint return, has investment income of more than \$1,900 in 2012, either parent of the child is alive at year end, the child is under 18, or under 19 and does not provide more than half of their support with earned income, or is under 24 and is a full time student who does not provide more than half their support.

#### OTHER ITEMS EXPIRING:

- Deductibility of state and local sales tax instead of state income taxes
- The deduction of up to \$250 for certain elementary and secondary school teacher expenses.
- Deductibility of mortgage insurance premiums as interest.
- The above the line deduction of up to \$4,000 for qualified tuition and related expense.
- The tax-free treatment of charitable distributions from IRAs.
- The nonbusiness energy property credit.
- The 100% exclusion of gain from the sale of certain small business stock under section 1202(a).
- Reduced S corporation recognition period of 5 years for built-in gains tax expire.

Of course this article assumes no further tax legislation is passed during 2012 which is retroactive to January 1, 2012.