

Issued: January 11, 2012

Key Federal Tax Figures for 2012

We are pleased to provide our annually updated Key Federal Tax Figures summary. We trust this will be a helpful reference tool. Please see the last page for the 2012 Annual Key Federal Tax Figures.

Continuation of Reduced Payroll Tax

Congressional action and inaction on payroll tax changes have left substantial uncertainty about the continuation of the 2% reduced employee FICA rate and SECA rate. The chart amounts will remain in effect at least through February 29, 2012. See below for more details.

Inflation Adjustments for 2012

The big news for 2012 tax figures is the inflation adjustments. Several amounts increased after a few years of little or no change. Important examples include:

- Foreign Earned Income Exclusion increased from \$92,900 (2011) to \$99,100 (2012)
- Retirement plan contributions limits all increased (see chart for specific amounts)
- Per Diem amounts increased
- Quid Pro Quo exception amounts increased.

Automobile mileage rates increased July 1, 2011; the rates applicable after July 1, 2011 remain in effect for 2012.

Please contact us at info@capincrouse.com if you have any questions.

About CapinCrouse LLP

With more than 700 non-profit organizations and 1,500 tax clients, CapinCrouse is the country's leading accounting and advisory firm primarily serving the Christian not-for-profit community.

Since 1972, CapinCrouse has been serving not-for-profit entities including megachurches, institutions of higher education and secondary schools, and international missions agencies by providing a full range of audit, review, tax, and advisory services.

CapinCrouse is dedicated to helping our clients operate with financial integrity so that they can dedicate themselves to fulfilling their mission.

Payroll Tax Cut “Temporarily” Extended

Employers instructed on how to implement new rate

On December 23, Congress passed, and President Obama signed into law, H.R. 3765, the “Temporary Payroll Tax Cut Continuation Act of 2011” (the TTCA, P.L. 112-78). The tax provisions of the TTCA consist of a two-month temporary extension of the payroll tax cut that’s in place for 2011, plus a parallel extension of a lower Self-Employment Contributions Act (SECA) tax rate on self-employment income. In a related news release, IRS also provided guidance to employers on how and when to implement the new rate.

Background

The Federal Insurance Contributions Act (FICA) imposes two taxes on employers, employees, and self-employed workers---one for Old Age, Survivors and Disability Insurance (OASDI; commonly known as the Social Security tax), and the other for Hospital Insurance (HI; commonly known as the Medicare tax).

Before passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Relief Act), the FICA tax rate for employees and employers was 7.65% each---6.2% for OASDI and 1.45% for HI. Under the SECA tax, self-employment income of self-employed taxpayers was subject to a tax of 15.3%---12.4% for OASDI and 2.9% for HI. There is a maximum amount of compensation subject to the OASDI tax (the wage base), but no maximum for HI. (The wage base is \$106,800 for 2011 and \$110,100 for 2012.) Similar rules apply under the Railroad Retirement Tax Act (RRTA).

Under pre-2010 Tax Relief Act law, for computing the income tax of an individual, an above-the-line deduction is allowed equal to 50% of the amount of the SECA tax imposed on the individual’s self-employment income for the tax year.

Temporary tax cut for 2011

For remuneration received during 2011, the 2010 Tax Relief Act reduced the employee OASDI tax rate under the FICA tax by two percentage points to 4.2%. Similarly, for self-employment income for tax years beginning in 2011, the Act reduced the OASDI tax rate under the SECA tax by two percentage points to 10.4%. As a result, for 2011, employees pay only 4.2% Social Security tax on wages up to \$106,800 and self-employed individuals pay only 10.4% Social Security self-employment taxes on self-employment income up to \$106,800.

New law

Under the new TTCA, the reduced employee OASDI tax rate of 4.2% under the FICA tax, and the equivalent employee portion of the RRTA tax, is extended to apply to covered wages paid in the first two months of 2012.

The TTCA also provides for a recapture of any benefit a taxpayer may have received from the reduction in the OASDI tax rate, and the equivalent employee portion of the RRTA tax, for remuneration received during the first two months of 2012 in excess of \$18,350 (i.e., two-twelfths of the 2012 wage base of \$110,100). The recapture is accomplished by a tax equal to 2% of the amount of wages (and railroad compensation) received during the first two months of 2012 that exceed \$18,350.

The House Ways & Means Committee on December 22 indicated that the recapture provision would apply only if the temporary payroll tax cut ends on Feb. 29, 2012. A House-Senate Conference will convene soon to consider extending the temporary payroll tax cut for the remainder of 2012.

For tax years beginning in 2012, the TTCA provides that the OASDI rate for a self-employed individual remains at 10.4%, for self-employment income of up to \$18,350 (reduced by wages subject to the lower OASDI rate for 2012).

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Related rules for 2011 concerning coordination of a self-employed individual's deductions in determining net earnings from self-employment and income tax also apply for 2012, except that the income tax deduction allowed for the OASDI portion of SECA tax paid for tax years beginning in 2012 is computed at the rate of 59.6% of the OASDI tax paid on self-employment income of up to \$18,350. For self-employment income in excess of this amount, the deduction is equal to half of the OASDI portion of the SECA tax paid.

The Joint Committee on Taxation explanation of the TTCA says that the 59.6% used for the first \$18,350 of self-employment income is necessary to continue to allow the self-employed taxpayer to deduct the full amount of the employer portion of SECA taxes. The employer OASDI tax rate remains at 6.2%, while the employee portion falls to a 4.2% rate for the first \$18,350 of self-employment income. Thus, the employer share of total OASDI taxes is 6.2% divided by 10.4%, or 59.6% of the OASDI portion of SECA taxes, for the first \$18,350 of self-employment income.

Guidance to employers

IRS instructed employers to implement the new payroll tax rate as soon as possible in 2012, but not later than Jan. 31, 2012. If there is any Social Security tax over-withheld during January, employers should make an offsetting adjustment in workers' pay as soon as possible, but not later than Mar. 31, 2012.

Further guidance will be issued by IRS as necessary to implement the provisions of the two-month extension, including the issuance of revised employment tax forms and instructions and information for employees who may be subject to the new recapture provision. For most employers, the quarterly employment tax return for the quarter ending Mar. 31, 2012, is due Apr. 30, 2012.

Effective date

The above TTCA changes are effective for remuneration received during the months of January and February in 2012 and for self-employment income for tax years beginning in 2012.

Please contact our tax team for more specific information or to answer any questions you may have.

KEY FEDERAL TAX FIGURES

Updated 1.27.12

		In 2011 and Returns for 2011	In 2012 and Returns for 2012
PERSONAL TAX	Standard Deductions	Married-Joint return \$11,600 Head of Household 8,500 Single 5,800 Married-Separate ret. 5,800	Married-Joint return \$11,900 Head of Household 8,700 Single 5,950 Married-Separate ret. 5,950
	Personal & Dependent exemption amount	\$3,700	\$3,800
	SECA (OASDI & Medicare) rate	13.3%	13.3%*
	Employee FICA (OASDI & Medicare) rate	5.65%	5.65%*
	Employer FICA (OASDI & Medicare) rate	7.65%	7.65%
	OASDI Maximum compensation base	\$106,800	\$110,100
	Annual Gift Tax Exclusion	\$13,000	\$13,000
	Foreign Earned Income Exclusion	\$92,900	\$99,100
RETIREMENT	Maximum annual contribution to defined contribution plan	\$49,000	\$50,000
	Maximum salary deduction for 401(k)/403(b)	\$16,500	\$17,000
	401(k) & 403(b) Over 50 "catch up" limit	\$5,500	\$5,500
	Maximum income exclusion for NQ plans in 501(c)(3) organizations (IRC 457)	\$16,500	\$17,000
	IRA Contribution limit	\$5,000	\$5,000
	IRA over 50 "catch-up limit	\$1,000	\$1,000
	Highly compensated employee limit	\$110,000	\$115,000
	Earnings Ceiling for Social Security (applies to employment before full retirement age (FTA); special formula in full retirement age year)	Below FTA: \$14,160 Over FTA: None	Below FTA: \$14,640 Over FTA: None
EXPENSES REIMBURSEMENT / DEDUCTIONS	Standard Per diem: Lowest rates in continental USA	Lodging \$70.00 Meals & Incidentals \$46.00	Lodging \$77.00 Meals & Incidentals \$46.00
	IRS High/Low substitute per diem system (Effective October 1)	High \$233 Low \$160	High \$242 Low \$163
	Maximum automobile value for using cents-per-mile rate to value company provided automobile	\$15,300	\$15,900
	Business mileage rate	1/1 to 6/30 7/1 to 12/31 51.0 cents per mile 55.5 cents per mile	55.5 cents per mile
	Moving & medical mileage rate	1/1 to 6/30 7/1 to 12/31 19.0 cents per mile 23.5 cents per mile	23.0 cents per mile
	Charitable mileage rate	14.0 cents per mile	14.0 cents per mile
	Maximum value of reimbursement of business expenses (other than lodging) w/o receipt	\$75.00	\$75.00
	FILING THRESHOLDS	Threshold for filing 990 electronically	\$10 million assets & 250 information returns
Threshold for required filing Form 990T		\$1,000 gross UBI	\$1,000 gross UBI
Threshold for required filing of Form 1099-MISC (payment for most personal services)		\$600.00	\$600.00
QUID PRO QUO EXCEPTIONS	Minimum contribution and maximum cost of token	Minimum gift: \$48.50 Maximum cost: \$9.70	Minimum gift: \$49.50 Maximum cost: \$9.90
	Maximum value of de minimus benefit	2% of gift, but max. \$97.00	2% of gift, but max. \$99.00

* Rates considered likely, pending legislation.