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Tax Tips and Highlights for 2011-12

Payroll Tax Issues

In November 2011, you should receive "Your Year 2012 Federal Tax Deposit Requirements" from the IRS, your annual Unemployment Compensation Tax Rate Notice for 2012, and notification from the state if you are required to file unemployment forms and taxes electronically. These notices should be forwarded to your payroll preparer, and a copy to us.

On July 24, 2009, the Federal minimum wage increased from \$6.55 to \$7.25 with certain states increasing their minimum wage even more, i.e. Florida minimum wage will increase from \$7.31 to \$7.67 January 1, 2012 for hourly employees and tipped employees increased from \$4.29 to \$4.65, even though the Federal minimum wage for tipped employees is \$2.13 per hour.

The taxable wage base for Social Security in 2011 was \$106,800 and will increase to \$110,100 for 2012, making the maximum social security tax \$6,826.20 (6.2% Employer and Employee); raising back up the additional 2% for employee portion withheld from the paycheck. However, the 4.2% extended thru February 2012. Medicare wages are taxed at 1.45% with no limit. Wages paid to a son or daughter under the age of 18 are exempt from social security and FUTA taxes. **Bonus checks** are considered earned income and are subject to payroll taxes, as well as **per diem** expense reimbursements. The IRS requires employers to track expense reimbursements in excess of federal per diem rates.

IRS maintains a zero tolerance for incorrect W-2s and 1099s. A \$50 penalty per incorrect form could be assessed against employers whose forms have mismatched names and social security numbers. You can verify up to five names and numbers by calling the SSA at 1-800-772-6270 or visiting their website at www.ssa.gov/employer for larger groups.

Employee versus Independent Contractor

Under common-law rules, an individual generally is an employee if the company he works for has the right to control and direct him regarding the job he is to do and how he is to do it. Otherwise, he is an independent contractor. Any individual independent contractor receiving compensation of \$600 or more for the year must be issued a 1099-MISC. In addition, ALL attorneys who received ANY amount of payment must be issued a 1099-MISC. Corporate tax returns now have a Y/N question to answer whether or not filed.

Increased Code Section 179 expensing

For 2012, the maximum annual expensing amount is \$139,000, for purchases not exceeding \$560,000. 50% bonus depreciation will also be available in 2012.

Company Provided Vehicles

Employees should be taxed for the personal use of any employer provided vehicle. Specifically, the employee's gross income on Form W-2 is increased to the extent the fair market value of this benefit exceeds the amount paid, if any, by the employee. This fringe benefit is subject to payroll taxes and should be withheld from the employee's salary by year-end.

2011 Standard Mileage Rates

For the business use of a car, van or truck use 51 cents per mile from 1/1-6/30/11 and 55.5 cents per mile from 7/1-12/31/11. When computing deductible medical or moving expenses, use 19 cents per mile from 1/1-6/30/11 and 23.5 cents per mile from 7/1-12/31/11. You may also deduct 14 cents per mile when providing services to a charitable organization. The latter rates are in effect for 2012.

Qualified Pension Plan Contribution Limits for 2011 and 2012

There are several employer-sponsored tax-deferred retirement plans that were affected by 2001 legislation, all of which have increased contribution limits. The most common is the 401(k) having a contribution limit of \$16,500 for 2011 and will increase to \$17,000 for 2012. Many of the plans also have "catch-up" contributions for employees age 50 or older, remaining at \$5,500.

Personal dependency exemption (Pde) and annual gift exclusion

The Pde for 2011 is \$3,700 and is estimated to increase to \$3,800 in 2012. The annual gift exclusion for 2011 is \$13,000 and will remain the same for 2012.

Please keep in mind that we've described only highlights and some of the changes in the tax rules. There are many more questions and opportunities for proper tax planning. Please give us a call on how you may be affected by these important tax issues.

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