

IMPORTANT 2012 FEDERAL PAYROLL TAX CHANGES

Here is a summary of some important changes to federal payroll tax laws and figures that are effective Jan. 1, 2012.

Withholding Tax. New federal withholding tables have been issued. An annual federal withholding allowance is now valued at \$3,800 (previously, \$3,700).

The Social Security withholding tax rate of 4.2% on wages earned by employees will remain in effect at least through February 29, 2012. This was part of the Temporary Payroll Tax Cut Continuation Act of 2011 which was signed into law on December 23, 2011. Congress hopes to enact legislation in the coming weeks that will keep this rate in effect through December 31, 2012. We will keep you informed when changes are made. The maximum benefit that a worker will receive from the tax rate reduction is \$367 (i.e., \$110,100 Social Security wage base \times 2% \times 2/12). Employers will continue to pay Social Security taxes at a 6.2% rate.

The 2012 wage limit for social security rate is \$110,100 and there is no limit for the medicare rate.

Employers must make all federal tax deposits (FTDs) by electronic funds transfer (EFT), effective Jan. 1, 2011. FTDs can no longer be made on paper tax deposit coupons (Forms 8109 and 8109-B).

Fringe Benefits. Effective Jan. 1, 2012, the standard mileage rate for computing the deductible cost of operating a car (including vans, pickups, or panel trucks) for business use is 55.5 cents per mile.

An employee may exclude up to \$240 a month for qualified parking expenses in 2012. The tax-free exclusion for the combined value of transit passes and transportation in a commuter highway vehicle will decrease from \$230 a month to \$125 a month in 2012, unless Congress retroactively enacts legislation that keeps this exclusion equal to the amount of the qualified parking exclusion.

The maximum amount that can be excluded from an employee's gross income in connection with the adoption by the employee of a child (whether or not he or she has special needs) is limited to \$12,170 in 2012.

Pension Plan Limitations. The maximum amount that an employee may elect to defer to an IRC §401(k) cash or deferred compensation plan is \$17,000 in the 2012 tax year. The maximum amount that an employee/participant may elect to defer to a savings incentive match plan for employees (SIMPLE plan) is still \$11,500. The limitation on total annual contributions to defined contribution plans is \$50,000 (up from \$49,000 in 2011). The annual benefit limit for defined benefit plans is \$200,000 (up from 195,000 in 2011). The limitation on deferrals for IRC §457 deferred compensation plans of state and local governments and tax-exempt organizations remains at \$17,000 (up from \$16,500 in 2011). The limitation used in the definition of a highly compensated employee increases from \$110,000 to \$115,000 in 2012.

The maximum aggregate annual contribution that can be made to a health savings account in 2012 is \$3,100 for self-only coverage (up from \$3,050 in 2011) and \$6,250 for family coverage (up from \$6,150 in 2011).

The employee compensation amount used in the definition of "control employee" for purposes of the auto commuting valuation rule increases from \$195,000 to \$205,000 in 2012. The compensation amount used in the definition of company officers who are ineligible for the commuting valuation rule increases from \$95,000 to \$100,000 in 2012.

Federal Minimum Wage Rate. The federal minimum wage rate is still \$7.25 per hour in 2012.

Work Opportunity Tax Credit. The work opportunity tax credit (WOTC) allows employers who hire members of certain targeted groups to receive an income tax credit. The WOTC may now only be claimed by employers who hire qualified veterans (i.e., no other targeted groups besides qualified veterans) between January 1, 2012 and December 31, 2012. It's possible that Congress will retroactively enact legislation that will allow employers who hire other targeted groups, besides veterans, to claim the WOTC in 2012. Tax-exempt organizations are now allowed to offset the WOTC against their OSADI (Social Security) tax liability.

If you have any questions about these changes, please feel free to contact your tax advisor.

Thank you for the continued opportunity to serve you.

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