

Tax Law Changes For 2012: What You Need To Know

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Of course you can't fully determine your tax liability for next year until you know what your profits and losses will be. But you can get a good idea of what the tax rules will be and how to prepare for them. Reviewing tax law changes and anticipating the various cost-of-living adjustments that you'll have to make will help you plan for 2012. Here's what you should know for tax year 2012.

Taxes on your profits

Most small business owners pay income tax on their share of business profits on their personal returns. [Cost-of-living adjustments](#) to federal income tax brackets for individuals mean that you can receive more income without being pushed into a higher tax bracket next year. Various other personal tax rules, including the personal and dependency exemption, the standard deduction and the deductible portion of long-term care insurance, have also been increased due to inflation.

In figuring your profits, you won't be able to write off as much as you can this year for the purchase of equipment and machinery. Changes include:

- A decline in the Section 179 first-year expensing deduction to \$139,000 (from \$500,000 in 2011).
- A drop in bonus depreciation to 50 percent (down from 100 percent in 2011).

Of course, Congress continues to debate the retention of these and other tax breaks that are incentives for making purchases that help the economy, so the final word on these breaks is still out.

Payroll taxes

You may see an increase in your payroll taxes for 2012. While the tax rates for the Social Security and Medicare portions of FICA will not rise—they remain at 6.2 percent and 1.45 percent, respectively—the wage base on which the Social Security portion is figured will rise. The Social Security Administration [announced](#) a 3.6 percent increase to the wage base, setting it at \$110,100 for 2012; it had been \$106,800 since 2009. This amounts to about a \$200 increase per employee at or above the wage base.

The FUTA tax rate remains at 6.0 percent, a decline that took effect on July 1, 2011. However, Congress is considering adding back the 0.2 percent surtax that had expired. This surtax was in place since 1976 and likely will be viewed as a benign revenue raiser if funds are needed to offset new tax breaks enacted as part of a jobs bill or other stimulus package.

If you are self-employed, the same Social Security wage base also applies for self-employment tax purposes. Thus, in 2012 the self-employment tax to cover your Social Security and Medicare tax obligation will rise about \$400, one half of which will be deductible.

Benefits for employees

[Most of the breaks](#) that you currently provide to employees on a tax-advantaged basis will continue to apply for 2012. However, some may increase due to COLAs, while others may decrease because of law changes that take effect next year.

- **Contributions to qualified retirement plans.** [Companies will be able to contribute](#) on a tax-deductible basis up to \$50,000 to profit-sharing plans and SEPs in 2012; the limit for the past several years has been \$49,000. Benefits under defined benefit (pension plans) will be permissible up to \$200,000 (up from \$195,000 in 2011).
- **Transportation assistance.** If you provide certain transportation fringe benefits, changes are afoot. The limit on the value for monthly free parking will rise to \$240 (up from \$230), while the limit on monthly transit passes and vanpooling will drop to \$125 (down from \$230). Bicycling assistance will stay at \$20 per month.
- **Adoption assistance.** Companies that pay for or reimburse employee adoption costs will be limited to \$12,650 (down from \$13,360 in 2011).

The bottom line

Meet now with your tax adviser to review coming changes. This will enable you to do year-end planning to save on this year's tax bill, as well as budget more accurately for the coming year