

2012 Tax Law Changes

Hello!

We hope your new year is off to a good start. In this month's newsletter, a summary of some of the tax law changes for 2012 are highlighted below. Additional information on the updated numbers for 2012 can be found in the "2012 Clarity Reference Guide" on the Additional Clarity section of our website.

We are aware that with it being a new year, some choose to make their new year's resolutions be to save more or become diligent in learning of the potential financial strategies they can benefit from. If you know of any one that you feel would benefit from Clarity's financial planning and/or investment management services, we are offering a complimentary consultation for a financial check-up.

2012 Tax Changes

Contribution Limits for Employer-Sponsored Plans

For some retirement plans, the contribution limits have increased for this year.

- **401(k) Plans, 403(b) Accounts, Government Thrift Savings Plans (TSP), and some 457 Plans** – The contribution limit has been increased by \$500 to \$17,000. For those ages 50 and over, catch up contributions remain at \$5,500.
- **SEP IRAs and Profit Sharing Plans** – This year, the contribution limit for these plans is \$50,000, up from \$49,000 in 2011.

- **Simple IRAs and Simple 401(k) Plans** – Contribution limits for these plans remain at \$11,500, as does the catch up contribution limit of \$2,500 for those ages 50 and over.

Personal Exemption Amount

For 2012, this has increased from \$3,700 to \$3,800 and represents the amount one can deduct for each exemption claimed on a federal income tax return for this year.

Standard Deduction Amount

According to the IRS, approximately two-thirds of taxpayers claim the standard deduction on their income tax returns. Here are the changes for this year:

- **Single**: \$5,950 (an increase of \$150)
- **Married Taxpayers Filing Jointly and Qualifying Widows** – \$11,900 (an increase of \$300)
- **Married Filing Separately** – \$5,950 (an increase of \$150)
- **Head of Household** – \$8,700 (an increase of \$200)

Payroll Taxes

The temporary payroll tax cut has been extended to February 29, 2012 where employees will only pay 4.2% of their earnings (up to a certain amount) for Social Security taxes versus 6.2%. For 2012, the Medicare tax rate remains at 1.45% for all taxable income.

The Social Security wage base for this year is \$110,100, up from \$106,800 in 2011, which is the first time this amount has increased in three years. Once one's wages exceeds this amount, Social Security taxes will not be withheld but Medicare taxes will continue to be withheld.

For those that are self-employed, the same Social Security wage base also applies for purposes of calculating self-employment taxes. As a result, the self-employment tax for Social Security and Medicare taxes will increase by about \$400, one-half of which is tax-deductible.

High Deductible Health Plans (HDHPs) and Health Savings Accounts (HSAs)

HDHPs – For those who are covered under HDHPs, the annual deductible remains unchanged from last year:

- Individual coverage: \$1,200
- Family coverage: \$2,400

HSAs – If the HDHP is one that is HSA-compatible, then a health savings account (HSA) can be funded. Here are the contribution limits for this year:

- Individual coverage – \$3,050 (up from \$3,050 in 2011)
- Family coverage – \$6,250 (up from \$6,150 in 2011)

For those covered under an HSAA-compatible HDHP policy, if they are ages 55 and over, they are entitled to make an additional catch-up contribution of \$1,000.

Small Business Owners

Businesses will not be able to write off as much for the purchase of equipment and machinery this year as they had been in prior years.

- Section 179 first-year expensing deduction - \$139,000 (reduced from \$500,000 in 2011).
- Bonus depreciation – 50% (reduced from 100% in 2011).