

MEMORANDUM

TO: Tax Article Readers
FROM: Dunbar, Breitweiser & Company, LLP
RE: 2012 Changes Involving Payroll, Pensions and Sales Tax
DATE: January 3, 2012

Though not all 2012 tax rates and limits have been issued, the following have been determined for 2012:

- FICA tax rates: The Social Security (OASDI) and Medicare withholding rates remain the same for 2012, 6.2% and 1.45%, respectively. However, the *employee's* share of Social Security is reduced for 2012 to 4.2%, but only through February 29, 2012. Congress may extend this brief reduction of 2012 withholding rates at a later date.
- The Social Security wage base has increased for 2012 to \$110,100.
- There is no wage base for Medicare; all covered wages are subject to the Medicare tax.
- The optional federal withholding rate for supplemental wages paid during 2012 remains the same at 25%. Effective with respect to payments made after December 31, 2004, once the total supplemental wage payments made to an employee, within a calendar year, exceeds \$1,000,000, the excess will be subject to a federal withholding rate of 35%.

New limits for qualified retirement plans are as follows:

- The limit on elective deferrals under 401(k) Plans for 2012 has increased, to \$17,000.
- The limit on Section 415 Plans, Defined Benefit for 2012 has increased, to \$200,000.
- The contribution limit on Section 415 Plans, Defined Contribution for 2012 has increased, to \$50,000.
- The contribution limit on Section 457 Deferrals for 2012 has increased, to \$17,000.
- The amount of Maximum Compensation that can be considered under a plan for 2012 has increased, to \$250,000.
- The contribution limit on Section 408 Plans, SIMPLE Retirement accounts for 2012 remains unchanged, at \$11,500.
- The limit on 2012 IRA contributions remains unchanged, at \$5,000.

Also, in 2012, the additional "catch-up" contributions to qualified retirement plans for individuals age 50 and older are as follows:

- 401(k), 403(b), 457, or SEP is a maximum of \$5,500.
- SIMPLE is a maximum of \$2,500.
- IRA is a maximum of \$1,000.

Earnings ceiling for Social Security benefits are as follows:

- **If you are under full retirement age (see below):** when you start getting your Social Security payments, \$1 in benefits will be deducted for each \$2 you earn above the annual limit. For 2012 that limit is \$14,640. Remember, the earliest age that you can receive Social Security retirement benefits remains 62 even though the full retirement age is rising.

- **In the year you reach your full retirement age (see below):** \$1 in benefits will be deducted for each \$3 you earn above a different limit, but only counting earnings before the month you reach the full benefit retirement age. For 2012, this limit is \$38,880.
- **Starting with the month you reach full retirement age (see below):** you will get your benefits with **NO** limit on your earnings.

Please Note: Earned income is defined as income from wages or net earnings from self-employment. Pensions, 401(k) distributions, dividends, interest, and IRA distributions are NOT earned income.

What is your full retirement age?

<u>Year of Birth</u>	<u>Full Retirement Age</u>
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 –1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

The year 2012 mileage rates are as follows:

- The business mileage rate in 2012 is 55.5¢. The 2011 business mileage rate was 51¢ for January 1 through June 30, and 55.5¢ for July 1 through December 31.
- Medical and moving mileage rate in 2012 is 23¢. The 2011 medical and moving mileage rate was 19¢ for January 1 through June 30, and 23.5¢ for July 1 through December 31.
- Charitable mileage rate remains the same in 2012 at 14¢.

The 2012 sales tax rate remains the same for general merchandise retailers in Bloomington and Normal, at 7.75%. Also, for Bloomington and Normal there is a 2% sales tax on prepared food items, and alcoholic liquor & non-alcoholic beverages served for immediate consumption at a restaurant, bar or other establishment exclusive of any other tax charged for such food items and/or alcoholic liquor/non-alcoholic drinks.

For 2012, the first \$13,000 of gifts made by a donor to any donee (other than gifts of future interests in property) is not included in the total amount of the donor's taxable gifts during that year.