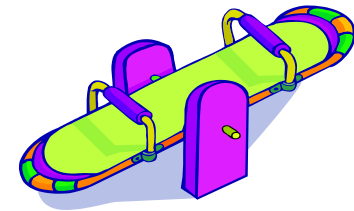


The Really Big Picture

- ▶ What are the “Bush Tax Cuts” and why are they so important
- ▶ The Math of the Federal Budget
 - Revenues + debt = expenditures
- ▶ What could happen if they expire?
- ▶ What can we expect?
 - **HIGHER TAXES and a lack of certainty in planning**
- ▶ What can we do...



2012 SEPs and 401 (k) Plans

▶ Limits increased for 2012

◦ SEPS

- Maximum contribution \$49,000 in 2011 increased to \$50,000 for 2012.
- Maximum income in 2012 is \$250k (\$245k in 2011)

◦ 401(k)s

- Maximum contribution \$16,500 in 2011 increased to \$17,000 in 2012.
- Catch up contributions for TPs over age 50 remains in 2012 unchanged from 2011 at \$5,500.

Pre-tax investment income compounds much faster! Invest as much as you can and withdraw at a lower rate later.

2012 IRAs and Roth IRAs

- ▶ **Due date for contributions and withdrawals.** The due date for making contributions for 2011 to your IRA is April 17, 2012.
- ▶ **If under the Age of 50 at 2012**
 - The maximum contribution that can be made to a Roth or traditional IRAs is the smaller of \$5,000 or taxable compensation.
- ▶ **If over age 50 before the end of 2012**
 - The maximum contribution that can be made to a traditional or Roth IRA is the smaller of \$6,000 or the amount of taxable compensation
- ▶ **Modified AGI limit for traditional IRA contributions increased.** For 2012 phase out limits for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:
 - between \$92K and \$112K (\$90k and \$110k for 2011) for a married couple filing a joint return or a qualifying widow(er),
 - Between \$58k and \$68k (\$56k and \$66K 2011) limits for a single individual or head of household, or
 - Phase out when spouse is covered by a retirement plan at work, modified AGI is between \$169k and \$179k. If your modified AGI is \$179k you cannot take a deduction for contributions to a traditional IRA.

2012 IRAs and Roth IRAs (cont'd)

- ▶ **Modified AGI limit for Roth IRA contributions increased.** For 2012, your Roth IRA contribution limit is reduced (phased out) in the following situations.
 - Married filing jointly or qualifying widow(er) and modified AGI $>$ \$173k to \$183k. No Roth IRA contribution is allowed if modified AGI is \$183k or more. (2011 phase out was \$169k to 179k, no contribution if income over \$179k.)
 - Filing status single, head of household, or married filing separately and did not live with spouse at any time in 2012 and modified AGI is at $>$ \$110k and $<$ \$125k. No Roth IRA contribution if your modified AGI is \$125,000 or more. (2011 phase out was \$107k to \$122k, no contribution if modified AGI over \$122k.)

Reminders 2010 conversions and rollovers to Roth IRAs. If you converted or rolled over amounts to your Roth IRAs in 2010 and did not elect to include the entire amount in income in 2010, you must include part of the amount in income in 2011.

Business Information Reporting in 2012

- ▶ Several Acts for information return reporting were repealed or delayed
 - Reporting under the Patient Protection and Affordable Care Act (PPACA) repealed. Law would have required all entities to file information returns for all payments over \$600 made after 1/1/2012. (likely to come back)
 - 1099 reporting requirements under the 2010 Small Business Jobs Act of 2010 repealed. Would have required reporting of payments of \$600 or more for rental properties made after 12/31/2010.
 - Payments by trade or business are still required for amounts \$600 or greater.
- ▶ Reporting of employer provided health coverage is delayed
 - Reporting under the Affordable Care Act required reporting of cost of employer provided health care as non-taxable benefit
 - Small employers (under 250 employees) have been granted optional treatment for the foreseeable future.

2011/12 Reduced Social Security and Self-Employment Tax Rate to Continue

- ▶ The 2010 TRA reduced the social security tax on employees wages from 6.2% to 4.2%. This law has had several extensions and will be in place through the end of 2012.
- ▶ This law also impacted self-employed individuals. SE social security tax rates were reduced from 12.4% to 10.4%

This saves a taxpayer with SE income of \$100k saves \$2k per year.

2012 Small Business Health Care Tax Credit

- ▶ Tax credit of 35% for small businesses and 25% for NPOs.
 - To be eligible employer must pay 50% of single health care coverage.
 - Employer must have fewer than 25 employees.
 - Average wages must be less than \$50k per year.
- ▶ Tax credit rates increase to 50% and 35% in 2014.
- ▶ Employer's contribution must be non-elective.
- ▶ Unused credit carried back one year and forward 20 years.
- ▶ Premium deduction is reduced by the amount of the credit.

2011 Self Employed Now Pay Self Employment Taxes on Health Deduction

- ▶ Self-employed taxpayers are no longer allowed a deduction to reduce self-employment taxes for health insurance payments. Schedule SE (Form 1040)
- ▶ Payments are still deductible on Form 1040, line 29.

Equipment Purchases and Expense or Depreciation Deduction in 2012

- ▶ The bonus depreciation rate dropped from 100% to 50% effective 1-1-12. Bonus depreciation disappears in 2013 altogether.
 - Bonus Depreciation is not subject to the limitations that section 179 depreciation is.
 - Subject to recapture on sale.
 - Subject to recapture on listed property if use drops below 50%.
- ▶ Section 179 expensing election dropped to \$125k effective 1-1-12 down from \$500k. It drops further to \$25K in 2013.
 - Section 179 expensing is subject to income limitation
 - High purchases amounts reduce the amount of the election. (2011 \$500k of equipment with a \$2million cap on purchases. 2012 = \$125k/\$560k and 2013 = \$25k/\$200k.
 - Is subject to recapture on sale.