

Taxes.....Taxes – What to Know for 2012 Planning

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Although much of the tax returns look the same as last year, there are a few items that you should be aware of that will affect your 2012 tax planning. The following tax provisions for individuals have been extended through 2012:

- Capital gain tax rate of 15% for both regular tax and alternative minimum tax
 - Marriage penalty relief
 - \$1,000 child tax credit; enhanced dependent care credit and earned income credit rules
 - American opportunity tax credit and some other higher education savings provisions.
- Note, however, that the deduction for tuition has not been extended past 2011 yet.

The Social Security Administration has announced that the Social Security wage base for 2012 is \$110,100 (in 2011 it was \$106,800). The elective contribution limit for the 401(k), 403(b) and 457(b) plans increase \$500 per year up to an even \$17,000 for 2012. The catch-up contribution remains unchanged at \$5,500 for those over age 50.

Opportunities are available for those of you that want to take cash out of an annuity or a life insurance contract. Since 2008, there have been strides to help the taxpayer get more favorable treatment in this area. In October 2011, the IRS announced modifications providing more flexibility to taxpayers wanting to complete a partial exchange of annuity contracts. Make sure you consult your tax advisor and financial planner to further understand these changes.

A couple of planning ideas for businesses in 2012.....

The Applicable Federal Rate is at 2.63% in January. Make sure that you have documented any loans that you have outstanding, in writing, with the applicable rate of interest. These interest rates are at an all time low. Take advantage of that opportunity and clean up any loans outstanding at year end with the appropriate documentation.

Hire a Veteran! The Work Opportunity Tax Credit allows for certain credits that apply to hiring all veterans, even veterans that are 60 years old and served 30 years ago. Make sure you know the rules and consult with a tax advisor before hiring to understand if a credit would apply. It is imperative that you do this during the hiring process as there is a deadline to get forms to your state agency within 28 days from the start of employment to claim this credit. This credit also applies to hiring veterans in tax exempt entities and is a way of getting some payroll tax back for those entities.