

Summary of important federal payroll tax changes for 2012 Jan.3, 2012

Here is an overview of important payroll related information for the 2012 tax year:

Withholding Tax. New federal percentage method withholding tables have been issued. An annual federal withholding allowance is now valued at \$3,800 (previously, \$3,700).

The 4.2% Social Security withholding tax rate on wages earned by employees will remain in effect at least through *Feb. 29, 2012*. Congress hopes to enact legislation in the coming weeks that will keep this rate in effect through Dec. 31, 2012.

Fringe Benefits. The standard mileage rate for computing the deductible cost of operating a car (including vans, pickups, or panel trucks) for business use will remain at 55.5¢ per mile. It has been at this rate since July 1, 2011.

An employee may exclude from taxable income up to \$240 a month for qualified parking expenses in 2012 (up from \$230 a month in 2011). The tax-free exclusion for the combined value of transit passes and transportation in a commuter highway vehicle. will decrease from \$230 a month to \$125 a month in 2012, unless Congress retroactively enacts legislation that keeps this exclusion equal to the amount of the qualified parking exclusion.

It is now easier for an employer-provided cell phone, or a personally-owned cell phone used for business purposes, to qualify as a tax-free fringe benefit.

Pension Plan Limitations. The maximum amount that an employee may elect to defer to an Code Sec. 401(k) cash or deferred compensation plan is \$17,000 in the 2012 tax year (up from \$16,500 in 2011). The maximum amount that an employee/participant may elect to defer to a savings incentive match plan for employees (SIMPLE plan) remains at \$11,500. The limitation on total annual contributions to defined contribution plans is \$50,000 (up from \$49,000 in 2011). The annual benefit limit for defined benefit plans is \$200,000 (up from \$195,000 in 2011). The limitation on deferrals for Code Sec. 457 deferred compensation plans of state and local governments and tax-exempt organizations increases from \$16,500 to \$17,000 in 2012. The limitation used in the definition of a highly compensated employee increases from \$110,000 to \$115,000 in 2012.

The maximum aggregate annual contribution that can be made to a health savings account in 2012 is \$3,100 for self-only coverage (up from \$3,050 in 2011) and \$6,250 for family coverage (up from \$6,150 in 2011).

The employee compensation amount used in the definition of "control employee" for purposes of the auto commuting valuation rule increases from \$195,000 to \$205,000 in

2012. The compensation amount used in the definition of company officers who are ineligible for the commuting valuation rule increases from \$95,000 to \$100,000 in 2012.

W-2s. Employers may now submit up to 50 W-2 forms through W-2 Online (previously, up to 20 W-2 forms).

Unemployment Tax. The 0.2% federal unemployment tax (FUTA) surtax expired on June 30, 2011. The FUTA tax rate, before consideration of state unemployment tax credits, is 6.2% from Jan. 1, 2011 to June 30, 2011, and 6.0% after June 30, 2011. Employers in 20 states (and in the Virgin Islands) will see their state unemployment tax credits reduced on their 2011 FUTA return because their state failed to repay its federal unemployment insurance loans before the required deadline.

Federal Minimum Wage Rate. The federal minimum wage rate is still \$7.25 per hour in 2012.

Other. The IRS has launched a “Voluntary Classification Settlement Program” that it says will allow many employers to resolve past worker classification issues under the tax law at a low cost if they voluntarily agree to reclassify their workers as employees.

The work opportunity tax credit (WOTC) allows employers who hire members of certain targeted groups to receive an income tax credit. The WOTC may now only be claimed by employers who hire qualified veterans (i.e., no other targeted groups besides qualified veterans) between Jan. 1, 2012 and Dec. 31, 2012. It's possible that Congress will retroactively enact legislation that will allow employers who hire other targeted groups, besides qualified veterans, to claim the WOTC in 2012. Tax-exempt organizations are now allowed to offset the WOTC against their OASDI (Social Security) tax liability.