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Money Matters | Ten tax tips for 2012

By SANDI WEAVER

Members of the local chapter of the Financial Planning Association refreshed their tax knowledge with our January meeting on “Current Tax Issues” presented by Julie Welch and Randy Gardner, both CPAs. Here are some highlights that may impact you.

• Taxes on your paycheck will increase after February, if no tax change is passed, because social security taxes increase by 2%, reverting back to the old level. AMT, alternative minimum tax, will increase for many people in 2012 since the exemption is dropping from $74,450 to $45,000. More people will be snared by AMT than ever before. In 2011 teachers can get a $250 deduction for classroom materials for the last time.

• Take advantage of some favored rates while you can. Income tax rates will remain at the lower levels of 10%, 15%, 25%, 28%, 33%, and 35% until the end of 2012. If you can shift some income to 2012, it may be taxed at a lower rate than next year.

• Tax rates on capital gains and dividends remain at 15% this year and then revert to 20%. Taxpayers in the 10% and 15% brackets still enjoy 0% tax on gains and dividends for 2012. You might analyze if selling assets and taking capital gains this year versus next is advantageous for you. Also you’ll be filling out a new Form 8949 for 2011’s tax return. It records your cost in investments you’ve sold. Stockbrokers and mutual funds are required to track your cost, and report that on your 1099 forms which you’ll receive soon.

• Higher income earners will keep 100% of their itemized deductions and personal exemptions for 2012. That ends in 2013 when both of those are phased out, or reduced, once more. Shifting deductions to 2012 to the extent possible may make sense.

• You can convert your IRA to a Roth, regardless of your income level now, but the bill is due the year you convert. You can also unconvert, or recharacterize, a Roth conversion completed in 2011 until October 15, 2012.

• If your business pays for a cell phone for you, neither you nor your firm is required to keep records on personal versus business use anymore, in most cases. That benefit is not considered taxable income to you either.

• 2012 ushers in a higher contribution amount for pensions. You can contribute a maximum of $17,000 to your employer’s 401(k) plan.

• Many people are now working from home, due to changes in their job or because of technology. The home office deduction is often overlooked, and can yield a deduction for you if separate rooms, or portions of rooms, are used “regularly and exclusively” for your office or for storage.

• For those caring for children in your home, note that a recent tax court case disallowed deductions related to a child daycare business because the individual had not complied with state licensing requirements. In Kansas, if you care for more than six children in your home, you may need to file with the state.

• Estate taxes will change after this year also. We now have a 35% maximum tax rate and a $5.12 million exclusion before taxes are levied. That returns to a 55% tax rate and a $1 million exclusion after 2012 unless legislation is passed.

Interesting Tax Fact: The top 1% of taxpayers in the U.S. pays 38% of the taxes, while the bottom 50% of taxpayers pay 3%, based on 2008 data. We worked until April 12th last year in order to pay all of our taxes. After that, our earnings were our own.

As you’ve noted above, many of these tax changes occur at year-end. In an election year, it’s unlikely Congress will work together to pass laws in a timely fashion. So be prepared for last-minute and even after-the-fact tax changes.

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