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Money Matters | 2012 inflation adjustments increase tax benefits

By DAN MATHEWS

By law, the IRS is required to adjust the dollar amounts for a variety of tax provisions to keep pace with inflation. The IRS recently released the inflation adjustments for 2012 that will affect virtually every taxpayer. The following is a summary of the key provisions and a few tips on how to take advantage of them.

Although the tax-bracket percentages are not scheduled to change for 2012, the tax-bracket thresholds for each filing status will increase. For example, the 15% tax-bracket threshold for joint filers is \$70,700 in 2012, versus \$69,000 in 2011. Similarly, the 15% tax-bracket threshold for single filers is \$35,350 in 2012, versus \$34,500 in 2011. If you have the option to defer income to 2012, then consider doing so to take advantage of the higher thresholds.

The 2012 personal and dependent exemption is \$3,800, up \$100.

The standard deduction increases to \$11,900 for married couples filing jointly, up \$300, \$5,950 for singles, up \$150, and \$8,700 for heads of household, up \$200. If you expect to itemize your deductions this year, and to take the higher standard deduction in 2012, then consider accelerating deductions into 2011. For example, you could make your January mortgage payment in December, pay your entire real estate tax bill before the end of the year, or make charitable gifts in December scheduled for early next year.

The 2012 phase-out applicable to the \$2,500 maximum student loan interest deduction increases to \$155,000 for married taxpayers filing jointly, but remains at \$75,000 for single taxpayers. If your student loans are in deferment, consider making voluntary payments before the end of the year to increase your 2011 deductions.

The 2012 phase-out applicable to the Lifetime Learning Credit begins at Modified Adjusted Gross Income of \$104,000 for married filing jointly, up \$2,000, and \$52,000 for singles, up \$1,000. The phase-out did not change for the other popular education tax credit, the American Opportunity Tax Credit.

Details on all of the inflation adjustments related to income taxes can be found at <http://www.irs.gov/pub/irs-drop/rp-11-52.pdf>.

Not since 2009 has the 401(k) contribution limit for participants under the age of 50 increased, but it is in 2012 to \$17,000, up \$500. The Catch-Up contribution limit for participants age 50 and older remains at \$5,500. If you traditionally reach the limit, then check with your plan administrator to ensure that your elective deferral percentage on file will capture the 2012 limit.

Details on all of the inflation adjustments relating to retirement plans can be found at <http://www.irs.gov/newsroom/article/0,,id=248482,00.html>.

Not all inflation adjustments will benefit the taxpayer. The Taxable Wage Base increases to \$110,100, up \$3,300, so earnings up to this amount are subject to the 6.2% Social Security tax paid by employees. President Obama has proposed to cut this rate in half next year for employees through the American Jobs Act, which he is urging Congress to pass. Details about President Obama's plan can be found at <http://www.whitehouse.gov/economy/jobsact>.

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