



**UPDATED AMOUNTS WHICH AFFECT PAYROLL IN 2012
ARE AS FOLLOWS:**

SOCIAL SECURITY WAGE BASE

Wages are taxed up to \$110,100 for FICA in year 2012 (up from \$106,800 in 2011). This year's FICA tax withholding rate of 4.2% from employees is scheduled to revert back to 6.2% effective January of 2012 unless legislation is enacted to retain or reduce FICA tax rates in 2012. Reduced FICA tax rates for both the employer and employees are included in various jobs/economic stimulus proposals currently being discussed by the Obama administration and congress. Stay tuned on this one!

FUNDING 2012 RETIREMENT PLANS

Funding limits for employee payroll contributions to various types of "qualified" retirement plans during 2012 are as follows:

<u>Type of Plan</u>	<u>Regular Amount</u>	<u>Additional "Catch-up"*</u>
401K, 403b annuity and 457 govt.	\$17,000	+ \$5,500 (Increase of \$500 over 2011)
SIMPLE-IRA	\$11,500	+ \$2,500 (Unchanged from 2011)

*An employee must be at least age 50 by 12/31/12 to contribute the "catch-up" contributions.

NOTE - The maximum compensation which can be "counted" for defined contribution retirement plans is \$250,000 for 2012 (which produces a funding "cap" of \$50,000 in 2012).

HEALTH SAVINGS ACCOUNTS

The 2012 annual funding limits to health savings accounts (HSA's) increased to \$3,100 for self-only or \$6,250 for family HSA's. Employees age 55 - 65 can fund additional "catch-up" amounts of \$1,000 to HSA's (to \$4,050 for self-only and \$7,150 for family HSA accounts).

These 2012 annual funding limits are the combined contribution amounts between employee and employer funding.

NOTE -- It is always smart to include employee HSA contributions as an "includable benefit" in a written Section 125 cafeteria plan document, in order to save FICA/Medicare taxes.

EMPLOYER-PAID PARKING

An employer may reimburse or directly pay employees for up to \$240 per month during 2012 for parking as a non-taxable fringe benefit. The parking must be job-related and on or near the employer's business location.

NOTE -- "Downtown" employers may want to consider providing non-taxable parking benefits in lieu of taxable employee wages.

VEHICLE REIMBURSEMENTS

The IRS increased the business mileage tax deduction to 55 1/2 cents per mile, effective for miles driven after June 30, 2011. An employer may choose to reimburse employees at the IRS rate for business miles driven on their personal vehicle, without the reimbursement being reported as taxable wages to the employee. Reimbursements above 55 1/2 cents per mile must be treated as taxable wages.

NOTE -- An employer is not required to use the IRS mileage rate for employee reimbursements, and therefore can reimburse more (taxable on excess) or less than the IRS rate.

HOW MUCH CAN STUDENTS EARN IN 2012?

Students/children of business owners can earn up to \$5,950 in wages during 2012 without paying any Federal income tax. As always, the wages paid to the owner's children/grandchildren must be reasonable amounts based on the actual work completed. Maintain records to prove that wages paid to family members are "reasonable".

Call one of AccuPay's CPP/CPA teams at 885-7600 with questions about your payroll or suggestions about how we can serve you better in 2012! Also, be alert to various

information requests we will be sending out in order to prepare accurate year-end payroll tax reports and employee W-2 forms.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.