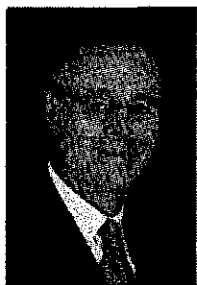


Tax Law Changes For 2012



■ GUEST
COLUMN
By Paul
Scholz

The end of the year is fast approaching, and as a result we have the typical seasonal traditions coming upon us . . . after-Christmas sales, New Year's parties and, of course, a new set of tax rules. Starting in January 2012 there will be changes in the tax laws that business owners must be aware of in order to take advantage of available benefits or avoid costly pitfalls, sucking the cash out of your business faster than you can say "Auld Lang Syne."

This year, it isn't so much that there are new laws coming into effect (just wait until 2013!), as it is that there are many tax provisions expiring that business owners have learned to count on and previously taken advantage of. Of course, Congress can always change things at the last minute, and typically do, so at this point, nothing is guaranteed. Regardless, let's explore some of the changes currently scheduled to take effect that you should be aware of.

• **Sec 179 expensing cap drops from 500k to 125k**

In 2011, businesses that acquire

qualifying property can, under IRC Section 179, elect to expense the cost of that property up to a maximum amount of \$500,000. In 2012 the maximum amount drops down to \$125,000. This benefit currently phases out for businesses that place property into service that exceeds \$2 million. In 2012 this phase out amount drops to \$500,000. What this means is that businesses will have less opportunity to get immediate tax benefit from purchasing new machinery and equipment in 2012 than they did in 2011, due to the lower cap amount and faster phase out. For this reason many businesses will accelerate equipment purchases into December of 2011 that might otherwise have occurred in 2012.

• **Bonus depreciation drops from 100 percent to 50 percent**

In addition to the expensing provisions of Sec 179, businesses can currently expense 100 percent of the excess over the Sec 179 amounts, effectively allowing unlimited expensing of assets in the year purchased. In 2012, this excess amount is limited to 50 percent of cost over the Sec 179 amounts, and will be based on a more stringent date placed in service criteria. Result: fewer initial deductions for businesses adding equipment in 2012. This provision will impact mostly larger businesses that place machinery and equipment into service in 2012 that exceed the Sec 179 limitations discussed above.

• **Qualified Real Property no longer subject to Sec 179 expensing**

Currently, qualified leasehold improvements, restaurant property and retail improvement property placed into service in 2011 are all available for Sec 179 expensing. This exception expires this year and these assets will no longer be eligible for this favorable tax treatment. As a result, businesses improving qualifying leased space, restaurant and retail property in 2012 will have to default back to depreciating those improvements over long periods of time rather than receiving immediate deductions for the costs incurred.

• **R&D credits expiring**

We knew this was coming: each year Congress waits until the last minute to extend the popular 20 percent Research and Development Tax Credits for another year. These credits help many companies that invest in R&D to reduce their tax burdens. In the current fiscal climate it is uncertain whether or not this benefit will be renewed.

• **Social Security Wage Base increases to \$110,100**

This little adjustment will increase payroll tax costs in 2012 for employers who pay, and employees who earn, wages that equal or exceed the previous 2011 cap of \$106,800. This tax increase will also hit self-employed individuals.

• **Work Opportunity Tax Credit expires**

The WOTC is a credit available to employers who hire new employees from certain targeted groups. The

Starting in January 2012 there will be changes in the tax laws that business owners must be aware of in order to take advantage of available benefits or avoid costly pitfalls, sucking the cash out of your business faster than you can say "Auld Lang Syne."

credit is generally 40 percent of first year wages up to \$6,000. This credit only applies to wages paid to employees who begin work prior to January 1, 2012.

• **Differential Wage Payment Credits expire**

Currently eligible small businesses who pay differential pay to employees called to active duty for more than 30 days can receive a credit of 20 percent of the difference paid, up to \$20,000 per employee. This tax credit encouraged small business to support military families while a member was called away to duty. The credit is no longer available after 2011.

It isn't all bad news however. There are some new laws that will actually help lower taxes. Consider these:

• **New Veteran's Hiring credit**

The Differential Wage credit was replaced by a new credit, effective for businesses that hire previously unemployed veterans after November 21, 2011. The credit can be as much as \$9,600 depending on if the veteran is disabled or not and how long he or she was unemployed.

• **Pension Contribution maximums are increasing**

The elective deferral limits for 401(k) participants increases from \$16,500 to \$17,000 in 2012, so participants in 401(k) plans can shelter a bit more of their earnings. Also, the maximum Defined Benefit used for Defined Benefit plans increases from \$195,000 to \$200,000. This will enable (or force) employers to fund greater contributions into Defined Benefit type plans in 2012.

Tax planning is a basic right of all taxpayers. Any of these expiring provisions may be extended, altered or simply allowed to expire as part of the political process. Businesses must be aware of this uncertainty and factor that into any attempts to plan ahead for taxes.

(Paul Scholz, CPA, MS, ABV has more than 30 years of experience in the field of taxation, having worked for both public and private corporations. He is currently the managing partner of Onisko & Scholz, Certified Public Accountants, LLP, in Long Beach, and serves as partner in charge of tax planning and compliance for individuals, corporations, estates, trusts, partnerships and LLCs.)