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Payroll Tax Cut Extended: (*IR-2011-124, Dec. 23, 2011*) On December 23 Congress passed H.R. 3765, the “Temporary Payroll Tax Cut Continuation Act of 2011” (the TTCA). The bill was signed into law by President Obama shortly thereafter. Nearly 160 million workers will benefit from the extension of the reduced payroll tax rate that has been in effect for 2011. The Temporary Payroll Tax Cut Continuation Act of 2011 temporarily extends the two percentage point payroll tax cut for employees, continuing the reduction of their Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid through Feb. 29, 2012. This reduced Social Security withholding will have no effect on employees’ future Social Security benefits.

Employers should implement the new payroll tax rate as soon as possible in 2012 but not later than Jan. 31, 2012. For any Social Security tax over-withheld during January, employers should make an offsetting adjustment in workers’ pay as soon as possible but not later than March 31, 2012.

Employers and payroll companies will handle the withholding changes, so workers should not need to take any additional action.

Under the terms negotiated by Congress, the law also includes a new “recapture” provision, which applies only to those employees who receive more than \$18,350 in wages during the two-month period (the Social Security wage base for 2012 is \$110,100, and \$18,350 represents two months of the full-year amount). This provision imposes an additional income tax on these higher-income employees in an amount equal to 2 percent of the amount of wages they receive during the two-month period in excess of \$18,350 (and not greater than \$110,100).

This additional recapture tax is an add-on to income tax liability that the employee would otherwise pay for 2012 and is not subject to reduction by credits or deductions. The recapture tax would be payable in 2013 when the employee files his or her income tax return for the 2012 tax year. With the possibility of a full-year extension of the payroll tax cut being discussed for 2012, the IRS will closely monitor the situation in case future legislation changes the recapture provision.

A highlight of the TTCA issued by the House Ways & Means Committee on December 22, indicates that the recapture provision would apply only if the temporary payroll tax cut ends on Feb. 29, 2012. A House-Senate Conference will convene soon to consider extending the temporary payroll tax cut for the remainder of 2012

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The IRS will issue additional guidance as needed to implement the provisions of this new two-month extension, including revised employment tax forms and instructions and information for employees who may be subject to the new “recapture” provision. For most employers, the quarterly employment tax return for the quarter ending March 31, 2012, is due April 30, 2012.

2012 Standard Mileage Rates: (*IR-2011-116, Dec. 9, 2011*) The Internal Revenue Service today issued the 2012 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2012, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 55.5 cents per mile for business miles driven
- 23 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The rate for business miles driven is unchanged from the mid-year adjustment that became effective on July 1, 2011. The medical and moving rate has been reduced by 0.5 cents per mile.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. Independent contractor Runzheimer International conducted the study.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for more than four vehicles used simultaneously.

Changes with Our Newsletter: As of January, we will begin sending out our monthly newsletter by email. For those of you without access to email, we will be more than happy to continue mailing the newsletter to you. If you have not already done so, please forward your email address to chrissi@paceandwooten.com or call our office at (252)-633-5096 to indicate your preference for receiving the newsletter. If we do not hear from you, we will continue to send your newsletter through the mail. Thank you for your assistance.

The following estimated tax payments are due by January 15, 2012:

Individuals	4 th Installment
Corporate Income Tax Years Ending:	
September 30, 2012	1 st Installment
July 31, 2012	2 nd Installment
April 30, 2012	3 rd Installment
January 31, 2012	4 th Installment

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