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IRS Inflation Changes and Your Tax Bill

IRS inflation changes will likely affect your tax bill. Some of the changes include higher income tax brackets in 2012, higher standard deduction and exemption amounts and higher maximum amounts you can contribute to your workplace retirement plan. When all these come into effect, it would probably lower your tax bill.

For example, when the tax bracket goes up, more of your income will be counted in the lower tax brackets. So the higher your income, the lower the amount of taxes you pay.

Here are the changes more specifically.

1. Tax bracket limits will rise. For individual taxpayers, the 25% tax bracket will start from \$35,350 compared to \$34,500 in 2011. For couples filing jointly, the 25% tax bracket starts from \$70,700, up from \$69,000 this year.
2. The personal and dependent exemption will be increased to \$3,800 from \$3,700 this year.
3. For couples filing jointly, the standard deduction will be raised to \$11,900, and for individual taxpayers and couples filing separately it will rise to \$5,950. The standard deduction for head-of-household filers will be increased to \$8,700.
4. The foreign earned-income deduction will rise to \$95,100. This is increased by \$2,200 from the maximum deduction this year.

5. The maximum earned income tax credit or EITC, which was \$5,751 in 2011, will rise to \$5,891. This maximum amount is for working families with three or more qualifying children. In addition, the maximum income limit to be eligible for the credit will increase to \$50,270 from \$49,078 in 2011.

6. You will be excluded from estate tax if your estate is worth less than \$5.12 million in 2012, compared to \$5 million in 2011. But the annual gift tax exclusion will remain at \$13,000.

The changes will affect your 2012 tax returns, which are due in April 2013. This time, the changes are more noticeable than previous changes. According to tax publisher CCH Inc, "The formula used in indexing showed a relatively higher amount of inflation this year over last, just over 3.8%." The CCH statement went on to say, "(Based on their calculations), this increase is well above the 1.4% amount used last year, and far greater in comparison to the 0.18% inflation factor used to set 2010 tax amounts. Although so-called 'rounding conventions' keep some tax amounts for 2012 the same as they are for 2011, such as the \$13,000 gift tax annual exclusion, most 2012 figures will move higher."

The CCH has calculated certain taxable amounts. Let's say you are a married couple earning \$100,000 a year in taxable income filing jointly in 2012. Due to the changes in tax brackets, you would pay \$190 less in taxes. This amount rises as your income rises. Under the same circumstances, if you earn \$450,000, you would save \$732 in income tax.

In addition, you will also be able to contribute more towards your 401(k) and other retirement plans. The maximum amount of contribution for 401(k), 403(b), most 457 retirement plans and the government's Thrift Savings Plan will be increased to \$17,000, up from \$16,500 presently.

For more details on the changes, check out the IRS website, www.irs.gov.