

# Overview of 2011 and 2012 Payroll Tax Issues

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***On December 23, 2011, Congress passed, and President Obama signed into law, H.R. 3765, the "Temporary Payroll Tax Cut Continuation Act of 2011" (the TTCA). The tax provisions of the TTCA consist of a two-month temporary extension of the payroll tax cut that's in place for 2011, plus a parallel extension of a lower Self-Employment Contributions Act (SECA) tax rate on self-employment income.***

***Here's a look at the key provision of the package:***

*Temporary tax cut for 2011.* For remuneration received during 2011, the 2010 Tax Relief Act reduced the employee OASDI (Old Age, Survivors and Disability Insurance (commonly known as the Social Security tax)) tax rate under the FICA tax by two percentage points to 4.2%. Similarly, for self-employment income for tax years beginning in 2011, the Act reduced the OASDI tax rate under the SECA tax by two percentage points to 10.4% percent. As a result, for 2011, employees pay only 4.2% Social Security tax on wages up to \$106,800 and self-employed individuals pay only 10.4% Social Security self-employment taxes on self-employment income up to \$106,800.

**New law.** Under the TTCA, the reduced employee OASDI tax rate of 4.2% under the FICA tax, and the equivalent employee portion of the RRTA (Railroad Retirement Tax Act ) tax, is extended to apply to covered wages paid in the first two months of 2012.

## **FUTA Tax Changes**

Employers file Form 940, *Employer's Annual Federal Unemployment Tax Return*, on January 31 each year. The *Federal Unemployment Tax Act* (FUTA) tax rate is currently 6.2 percent on the first \$7,000 of each employee's wages with a tax credit, generally, of 5.4 percent for companies that pay their state unemployment tax on time. After considering the credit, a company would pay 0.8 percent on the first \$7,000 of wages, or \$56 per employee.

On July 1, 2011, the FUTA tax rate is scheduled to decrease to 6 percent. As a result, if your state is not a credit reduction state, your FUTA rate will drop from 0.8 percent to 0.6 percent July 1, 2011. Federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit is 0.3% for the first year, and an additional 0.3% for each succeeding year until the loan is repaid. The FUTA credit reduction results in a net increase in FUTA taxes and applies to all Georgia contributing employers. The FUTA credit reduction results in an additional \$21 per employee in the first year that loans are not repaid.

***I hope this information is helpful. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call.***