



Subject: 2011 Paychecks – Up or Down?

Most employees will notice an increase in their net paycheck in January of 2011 as a result of the recently enacted Tax Relief Act. The main provisions affecting employee net payroll checks in 2011 are:

- The Social Security payroll tax on individual wages will be lowered to 4.2% in 2011, from the usual 6.2% rate. For an individual with wages of \$60,000, that amounts to a \$1,200 savings. If the individual gets paid twice a month, it will mean an extra \$50 in his or her paycheck starting in January. The employer's share of Social Security tax is not affected; it stays at 6.2%. Thus, the employer's cost of hiring new workers isn't directly affected by the payroll tax reduction.
- Some of the benefit of the 2% reduction in employee social security tax will be offset by the expiration of the "Making Work Pay" tax credit at the end of 2010. The "MWP" tax credit, which has been built into the Federal income tax withholding tables, provided a \$400 annual tax credit for most employees. Upper income employees did not receive the "MWP" tax credit but will benefit from the 2% reduction in 2011 social security taxes.
- The "so called Bush tax cuts" were extended for years 2011 and 2012. This means that Federal income tax rates for 2011 will be the same as 2010.
- Also extended for years 2011 and 2012 were popular Federal income tax credits for childcare and college education. Employees who pay for daycare and college education should again factor those 2011 income tax credits into their 2011 W-4 withholding allowance form.

SPECIAL NOTE – The 2% reduction in 2011 social security taxes will NOT REDUCE the employee's future social security benefit, which is based on lifetime earnings, not the amount of tax paid into the social security system.

Not sure if your income tax withholdings are "in sync" with your income, deductions and tax credits for 2011? The IRS "W-4 calculator" is excellent at helping employees calculate their correct W-4 exemption allowances, and therefore avoid owing substantial taxes with their annual tax returns. You can access the W-4 calculator by clicking on "Forms & Downloads" at www.accupay.com

If an employee wishes to change their W-4 allowances, please submit a new W-4 to AccuPay, or call us at 885-7600.

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