



Obama, Bush & My Paycheck

Today's news is increasingly talking about "the fiscal cliff", new "Obamacare taxes", the expiration of the "payroll tax holiday" and related tax laws which will impact virtually every worker's first paycheck in January of 2013. The precise legislative tax outcomes remain unclear at this point, but tax increases are clearly anticipated for January of 2013 and beyond. The following comments can help you prepare and budget for next year.

Payroll Tax Holiday

An employee's social security tax (FICA) rate the past 2 years, 2011 and 2012, was temporarily decreased from 6.2% to 4.2%. This so - called "payroll tax holiday" was enacted as a temporary measure only, for years 2011 and 2012, and is set to expire at the end of this year.

Employees should anticipate that their first payroll check in January, 2013 will withhold FICA at the pre - 2011 rate of 6.2%. This increase in FICA tax scheduled for 2013 will cost an employee earning \$60,000 per year an extra \$100 per month in tax.

Obama Medicare Tax

President Obama's healthcare legislation imposes a few different types of Medicare taxes which are intended to raise tax revenue to help pay for Obamacare:

- Employees who earn above \$200,000 in year 2013 wages will notice additional Medicare tax of 9/10 of 1%, which will first be withheld from payroll when the employee "hits" the \$200,000 gross wage level; and
- The more talked - about new 3.8% Medicare tax will be imposed on "unearned" income, and this will not be paid by payroll tax withholdings. Those higher - income taxpayers who anticipate owing the additional 3.8% Medicare tax on investment income may wish to request extra Federal income tax be withheld in 2013, by completing a new W-4 withholding allowance form.

Bush Tax Cuts and The Fiscal Cliff

Personal income tax rates were lowered in 2001 and 2003 by the Bush Administration, along with other tax reducing deductions and tax credits. All of these so - called "Bush Tax Cuts" are scheduled to disappear January 1, 2013, along with scheduled cuts in Federal government spending programs. The combination of the expiration of the "Bush Tax Cuts" and decreased Federal spending on various programs are expected to cost us jobs and depress our economy in 2013 - thus the "fiscal cliff".

President Obama wants to maintain the lower "Bush Tax Rates" for individuals who earn less than \$200,000 per year, and couples with income below \$250,000 annually. Republicans are opposed to tax increases on anybody now without significant cost cuts in "entitlement spending". This political drama (also non-sense!) will play out during the remainder of this year and into the first quarter of 2013. A few observations about the Bush Tax Cuts and the Fiscal Cliff are:

- Unless a political and legislative compromise is reached, virtually everybody's Federal income taxes will be increased in January of 2013 --- due to increased "across - the - board" tax rate increases and a reduction in many tax deductions and credits;
- It is unlikely that those taxpayers who earn less than \$200,000 per year (\$250,000 for a couple) will see any material increase in their 2013 Federal income taxes; and
- It is likely that "rich Americans" will pay increased Federal income taxes in 2013 and future years. It would not be surprising if the definition of "rich" is increased from the \$200,000/\$250,000 annual income level to a greater amount - perhaps \$400,000, perhaps a Million dollars, who knows, and perhaps with one definition of "rich" for tax rate increases and another definition of "rich" for reduced tax deductions. Since having 2 different definitions of "rich" would be the most complex outcome, I can easily see that conclusion finding its way into law!

2013 Tax Tables

Expect to see new 2013 Federal withholding tax tables once Congress reaches compromising legislation about tax rates and deductions for 2013 - which could come out after the first of January.

Stay Tuned

We will closely monitor changes in 2013 tax rates and will make sure we withhold the correct amount of income and payroll taxes on employee payroll checks. AccuPay's Tax Department is managed by a CPA with 40 years of tax experience, and assisted by a Certified Payroll Professional (CPP). Do not hesitate to contact your AccuPay processing team at 317-885-7600 with questions/concerns about your payroll taxes.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.

