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## My Paycheck Went Down -- Why?

Employees quickly notice when their net payroll check decreases from previous checks. Here are some of the reasons an employee's paycheck can go down:

- **The reason that most employees have seen their January, 2013 paychecks decrease is the 2013 increase in social security/FICA tax withholdings from 4.2% of wages the past 2 years to 6.2% of wages in 2013.** The lower FICA tax rate the past 2 years was intended as a temporary economic stimulus which expired at the end of 2012 and reverted to the pre-2011 FICA tax rate of 6.2%.
- An employee who earns \$40,000 per year will pay \$800 more in FICA tax this year than the past 2 years. These extra taxes for 2013 will be paid by payroll deductions starting with employees' first January, 2013 paychecks.
- If an Indiana resident moved during 2012 to a different Indiana county, their 2013 paychecks could increase or decrease due to differences in Indiana counties' tax rates. As examples, Marion County's tax rate on residents is 1.62%, whereas Johnson County's rate is 1.0%, Hamilton County's rate is 1.0%, and Morgan County residents pay a whopping 2.72% county income tax rate.
- Each person's 2013 county tax rate is "fixed" for 2013 based on the county they lived in on January 1, 2013. If a person moved in 2012 from Johnson County to Morgan County, their 2013 county income tax rate will be 2.72%, nearly triple their 2012 Johnson County tax rate of 1.0%. If a person moved in 2012 from Marion County to Hamilton County, they should notice a slight decrease in County taxes withheld from their paycheck starting January of 2013.

**Employers should request new WH-4 forms from their employees at the beginning of each year. Employers may wish to read our recent PayDay entitled "[How Indiana County Taxes Work](#)" to make sure they are handling county tax withholdings in an accurate manner.**

- The "news" the past month has been chock full of discussions about the "fiscal cliff", and possible significant income tax increases on everybody starting this month. However, the actual tax law

negotiated and legislated for 2013 keeps Federal income tax rates, deductions and tax credits unchanged for 99% of all employees. The only employees who will notice Federal income tax withholding changes in January compared to last year are those whose wages will exceed \$400,000 in 2013. Employees who will earn over \$200,000 in wages during 2013 will notice 9/10 of 1% additional/new medicare tax once they exceed the \$200,000 wage threshold this year.

**So, even though the IRS did release new Federal income tax withholding tables on January 3, 2013 and then released revised/corrected tax tables a week later, most paychecks will not be impacted by the new IRS income tax withholding tables.**

- Health insurance premium costs continue to increase, and it is common that employees pay their share of employer - sponsored health insurance costs by payroll deductions. So, if your net payroll check has decreased, check to see if your deduction for health insurance has changed in January.
- If an employee reduces their 401(k) or 403(b) retirement plan contributions, their tax withholdings will increase. If an employee contributes to an after-tax Roth 401(k) or 403(b) and had previously funded the plan on a pre-tax basis, tax withholdings will increase and net pay will decrease;
- Reduced payroll deductions for Section 125 plan benefits, such as flexible spending accounts (FSA's), will increase BOTH income taxes and social security/medicare taxes;
- If you revised your W-4 forms January of 2013 to report less exemption allowances this year, or to reflect a dependent child turning 17 during 2013, your income tax withholding will increase; and
- If you are a "non-resident alien" - essentially non-US citizens who are temporary workers in the USA - new tax tables were installed January of 2013 which increased federal income tax withholdings on these non-US citizens. If you employ "non-resident aliens", call AccuPay to make sure we are withholding taxes based on their special tax tables. THIS IS IMPORTANT DUE TO INCREASING FOCUS ON EMPLOYERS WHO EMPLOY FOREIGN WORKERS (See our PayDay titled "Payroll Tax Rules For Hispanics")
- Not sure if your income tax withholdings are "in sync" with your income, deductions and tax credits for 2013? AccuPay's "online calculators" include "[The Form W-4 Assistant](#)" which 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 Form W-4 Assistant" by clicking on "[Online Calculators](#)" at [www.accupay.com](http://www.accupay.com).

**If an employee wishes to change their W-4 allowances, please submit a new W-4 to AccuPay so we can implement the change for you.**

*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.*