

2011 Tax Rate Update

Recent legislation passed entitled *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*, included items that will impact employees' take home pay during the 2011 calendar year. Included in this legislation is:

- An extension of the Bush era tax cuts. 2011 federal income tax rates will remain essentially unchanged except for minor inflation adjustments.
- A new version of a 'stimulus' called the 'Payroll Tax Holiday'. Instead of giving a tax credit when you file your income tax, the federal government will be reducing the Social Security (FICA/OASDI) rate from 6.2% to 4.2%. This rate reduction is in effect for one year only and is scheduled to return to the 6.2% rate after the conclusion of the 2011 calendar year.
- The 'Making Work Pay' tax credit implemented by the federal government last February 2010 expired on December 31, 2010. This tax credit was implemented through reductions to the tax tables employers used to calculate withholding (income) tax.
- The 'Payroll Tax Holiday' is intended to replace the 'Making Work Pay' tax credit but employees should be mindful that the amount of their new overall net pay is dependent upon whether or not you qualified for any portion of the 'Making Work Pay' tax credit last year.

Employers are required to implement the new rates by January 31, 2011 and refund any over withheld Social Security (FICA/OASDI) tax as soon as possible but not later than March 31, 2011.

- The District will implement the new rates in the paycheck you receive on January 21st, 2011 which is the second regular paycheck of the year.
- In that same paycheck, employees will be adjusted for any over withheld Social Security (FICA/OASDI) tax from the first regular paycheck of the year which was on January 7th, 2011.
- For example, you had FICA/OASDI taxable earnings of \$500.00 on the January 7th, 2011 paycheck. Your Social Security (FICA/OASDI) tax was \$31.00 (6.2% X \$500.00). That resulted in \$10.00 too much in FICA/OASDI tax. On the January 21st paycheck if your FICA/OASDI taxable earnings remain at \$500.00 your FICA/OASDI tax will now be \$21.00 (4.2% X \$500.00). You would see FICA/OASDI tax of \$11 (4.2% X \$500.00 minus \$10.00) on this paycheck.

Employees should contact their accountant or tax professional should they have questions or concerns about their individual tax situation. Employees may also visit the Internal Revenue Service website for additional information at www.irs.gov