



2011 New Tax Changes: Effect on Employers & Employees

January 26, 2011

Dear Client:

Confused by all the new tax changes in 2011? Wondering how to comply with all these variations? Here is a breakdown of federal employment taxes impacting employers and employees this year.

Overview of Tax Changes for 2011

Social Security tax:

Employee Social Security: The employee social security tax rate is reduced from 6.2% to 4.2% on the first \$106,800 wages paid in 2011. The maximum social security tax that can be withheld will be \$4,485.60. Employees covered by the Railroad Retirement Tax Act (or Tier I Withholding Tax) will also use the 4.2% tax rate.

Employer Social Security: Employer match continues to use the 6.2% rate on the first \$106,800 wages paid in 2011 for their same share of the tax. HIRE ACT employers social security tax has *not* been extended and does *not* apply in 2011.

Percentage Method Tables for Income Tax Withholdings:

The 2010 tax rates of 10%, 15%, 25%, 28%, 33% and 35% will stay in effect for another two years through December 31, 2012. They were originally set to expire on December 31, 2010.

Federal Withholding:

The marriage penalty relief has been extended; this Act sets the standard deduction for married individuals filing jointly at double that for single individuals and widened the 15% tax bracket to twice the size for joint filers than it is for individual filers.

The Making Work Pay tax credit expired on 12.31.10; this credit was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The Making Work Pay tax credit had boosted paychecks by up to \$400 for single filers and \$800 for joint filers by reducing the tax withheld and giving a credit for that amount. Tax tables in 2011 will now return this slight increase in withholding.

As a result of the tax changes listed above many employees may not experience a change in their take-home pay during 2011 and some may even see a slight decrease.

Below is an example of a paycheck processed in December and then in January based on the tax changes discussed above.

| Bi-weekly Payroll Claims Single w/ 0 Exemptions | December Paycheck | January Paycheck | Differences | Comments |
|--|--------------------------|-------------------------|--------------------|-------------------------------------|
| Gross Pay | \$1,538.47 | \$1,538.47 | | |
| Federal Tax | \$201.84 | \$214.58 | \$12.74 | Making Work Pay Credit Elimination |
| Social Security | \$96.18 | \$64.48 | \$(30.70) | Social Security 2% Reduction |
| Medicare | \$22.26 | \$22.26 | | |
| Net Pay | \$1,219.19 | \$1,237.15 | \$17.96 | Results a small increase in net pay |

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SCI *Best Practices* and Recommendations

- SCI's payroll and tax systems were updated to reflect the changes and went into affect immediately with the first payrolls generated for 2011.
- Employers should encourage their employees to review their withholding every year and, if necessary, fill out a [new W-4](#).

Additional Support and Resources

Access these websites for further information about the tax changes:

- 2011 Percentage Method Tables for Income Tax Withholding: www.irs.gov/pub/newsroom/notice_1036.pdf
- IRS Employer's Tax Guide: www.irs.gov/pub/irs-pdf/p15.pdf

Remember, your assigned SCI Professional is available to assist you in gaining a better understanding of the updates and help you to identify additional strategies for regulation of the tax changes.

All content in this notice is based on current information and supersedes previous communications regarding this topic. If you have any questions or concerns, please contact your assigned SCI Professional.

Sincerely,

SCI Companies