

ALERT

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December 29, 2011

Federal Tax Cut Extended through February 2012

On December 23, Congress passed H.R. 3765, the “Temporary Payroll Tax Cut Continuation Act of 2011” (“Bill”). The Bill was signed into law shortly thereafter. The Bill provides for a two month extension of the payroll tax cut which was already in place for 2011 and a corresponding extension of a lower tax rate on self-employment income.

Before the rate cut that was instated for 2011, the payroll tax rate for employees and employers was 7.65% each; the self-employment tax was 15.3%. As a result of the 2010 Tax Relief Act, the employee portion of the payroll tax was reduced by two percentage points to 5.65% and the employer portion of the payroll tax remained at 7.65%. Additionally, the 2010 Tax Relief Act reduced the self-employment tax by two percentage points to 13.3%.

As a result of the passage of the Bill, the lower rates are extended for wages paid in the first two months of 2012. The Bill also extends the lower self-employment tax at 13.3%, for self-employment income of up to \$18,350. The Bill provides special rules for 2012 so that taxpayers with self-employment income and income from employment in excess of \$18,350 (one-sixth of the 2012 Social Security wage base of \$110,100) do not receive an extra benefit. If a full year extension of the payroll tax cut is not enacted, taxpayers with income from employment for January and February that exceeds \$18,350 will be required to recapture the excess benefit they receive. The recapture provision was included instead of a cap on the amount of employment income because of the compliance difficulties that would cause employers.

If you have any questions about how this may apply to your company or any other questions, please contact your Green Hasson Janks advisor at (310) 873-1600.

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