

Payroll Withholding Changes for 2011

In the recent Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 some changes were made that will effect payroll withholdings beginning January 1, 2011. In the past the social security tax rate for both employers and employees has been 6.2%. For 2011, the social security tax rate for employers will remain the same but for employees the rate has been reduced by 2% to 4.2%. This will mean that employers should only withhold social security taxes from employee's checks at a rate of 4.2% for 2011. The effect of the change should begin 1/1/11 but the IRS recognizes that since the Act was not passed until the middle of December 2010 that it will be difficult for employers to make the change. Employers have until 1/31/11 to make the necessary rate changes. However, if employers withhold at the higher rate of 6.2% for the month of January, they then must reimburse the employees on subsequent paychecks no later than March 31, 2011. To avoid this adjustment, I suggest employers make every effort to make the rate change starting with the first checks issued in January 2011. Please remember that employers will not get a break with the tax rate change. Therefore, the matching contribution for employers will still be at 6.2%.

As a footnote, the Act states that the reduced rate of withholding will not affect taxpayer's social security benefits in the future.

If you are currently using a payroll service, these adjustments should be made by your payroll service and will not result in you making any changes.

Please note that the Medicare tax rates of 1.45% have not changed. The social security wage base for 2010 is \$106,800.