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Payroll Tax Cut Skips Some Of The 99%

Have you spent your payroll tax cut savings yet? You might want to wait. According to the IRS, the payroll tax cut that was just [passed](#) and that will be in effect for 60 days will benefit about 160 million workers. But to see if you're one of them, there's just one more thing.

Do you make more than \$110,100 annually? If you do, you still could be in the 99% but the payroll tax cut this time won't apply to you. Those at the 99th percentile of income earn about \$506,553 according to a [Tax Policy Center analysis](#).



image via wikipedia.org

[The Temporary Payroll Tax Cut Continuation Act of 2011](#) keeps alive the two percentage point payroll tax cut we had in 2011. It continues the reduction of employees' Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid through Feb. 29, 2012. This reduced Social Security withholding will have no effect on employees' future Social Security benefits. See [Payroll Tax Cut Temporarily Extended into 2012](#).

However, this time the deal struck by Congress includes a "recapture" provision. It applies only to those employees who receive more than \$18,350 in wages during the next two-months. The Social Security wage base for 2012 is \$110,100, and \$18,350 is two months of the full-year amount. This recapture tax is 2% of the wages you receive during

January and February 2012 in excess of \$18,350 (and not greater than \$110,100).

Employers and payroll companies will handle the withholding changes, so workers should not need to take any action. The recapture tax is an added on to your income tax liability for 2012. The recapture tax can't be reduced by credits or deductions. You pay it in 2013 when you file your income tax return for calendar year 2012.

Of course, it's possible there will be a full-year extension of the payroll tax cut for 2012. The IRS says it will closely monitor the situation in case future legislation comes along. The IRS says it plans to issue additional guidance as needed to implement the provisions of this new two-month extension. It will need to churn out revised employment tax forms and instructions, plus explanatory information for employees.

Employers should implement the new payroll tax rate as soon as possible in 2012 but not later than Jan. 31, 2012. For most employers, the quarterly employment tax return for the quarter ending March 31, 2012, is due April 30, 2012. For any Social Security tax over-withheld during January, employers should make an offsetting adjustment in workers' pay as soon as possible but not later than March 31, 2012.

For more, see:

[Payroll Tax Cut Bill Includes New 'Recapture' Tax For Wealthy](#)

[Wait! Payroll Tax Deal Has Wrinkle For High Earners](#)

[What The Payroll Tax Deal Will Do](#)

[Parsing the Puny Payroll Tax Postponement](#)

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