



TAX ALERT

PAYROLL TAX CUT TEMPORARILY EXTENDED THROUGH FEBRUARY 29, 2012

The Temporary Payroll Tax Cut Continuation Act of 2011 (the "Act") extends the reduced employee Social Security tax rate of 4.2 percent through February 29, 2012. The rate was scheduled to revert back to its normal 6.2 percent on January 1, 2012. The IRS has notified employers that they should implement the 4.2 percent rate as soon as possible in 2012, but not later than January 31, 2012. The IRS also said that if an employer withholds too much tax during January, an offsetting adjustment in the employee's pay should be made as soon as possible, but no later than March 31, 2012. Under the Act, self-employed individuals will continue to pay the reduced self-employment tax of 10.4 percent through February 29, 2012.

The Act includes a special provision, not included with the 2011 payroll tax cut, which applies to taxpayers with self-employment income or income from wages in excess of \$18,350 for the period January 1, 2012 through February 29, 2012. These taxpayers will be required to recapture the 2 percent "benefit" they receive based on the lower 4.2 percent rate imposed by the Act. This recapture would occur as an add-on to the income tax liability the taxpayer will have for 2012 and would be payable in 2013, when the individual's 2012 tax return is filed. There has been a commitment by Congress to try to negotiate a full one-year extension of the payroll tax cut, and the IRS has stated that it will "monitor the situation closely in case future legislation changes the recapture provision." Presumably, this would mean that a full-year extension of the payroll tax cut could remove the recapture requirement.

The IRS intends to issue additional guidance, as needed, to implement the provisions of the two-month extension, including revised employment tax forms and instructions and information for employees who may be subject to the new recapture provision

IRS CIRCULAR 230 DISCLOSURE

Pursuant to the Treasury Regulations, any tax advice contained in this communication (including any attachments) is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.

Questions?

If you wish to discuss any of the above items, please contact Charles Marston or Rich Pacella at (724) 934-0344, or email at cmarston@srsnodgrass.com or rpacella@srsnodgrass.com