

## Extension of Bush Tax Rates

December 23, 2010

Earlier this month, the United States government approved, among other things, an extension of the Bush tax rates. The basic elements of the rate extension provision include:

- A one-year reduction of 2% in Social Security taxes (FICA) for employees and self-employed individuals. Effective January 1, 2011 (and for one year only), the social security withholding rate will drop from 6.2% to 4.2%. The *employer* social security "match" remains at 6.2%. This rate reduction replaces the Making Work Pay tax credit.
- A 13-month extension of funding for unemployment benefits.
- A two-year extension of all the Bush-era individual tax rates currently in effect.
- Other non-payroll related items such as a two-year extension of current capital gains rates and more.

**What this means to you:** Your employees will see an *increase* in their take-home pay as a result of the 2% reduction in FICA withholding tax.

Because the change in this withholding law came so late in 2010, the IRS is allowing employers until January 31, 2011 to adjust their payroll systems and reduce the FICA withholding rate. Companies that do not adjust the Social Security withholding in their employees' January 2011 pay will have until March 31, 2011 to return any excess withholding. We understand the time sensitivity of this issue to our clients and are working to implement these withholding changes as quickly as possible.

### Health Care Reform Income Tax Credits for Small Businesses

Starting in 2010, a small business with ten or fewer full-time workers and average annual wages under \$25,000 can get a tax credit for 35% of the lesser of: (1) the employer's contribution for employee health coverage; or (2) the average group health care premium for small businesses in the employer's state. The tax credit percentage is reduced for companies with more employees and higher average pay. No credit is allowed for firms with 25 or more workers or an average annual pay of \$50,000 or more.

### New HIRE Act Expires on December 31, 2010

The Social Security tax exemptions received by employers under the HIRE Act expire at the end of

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calendar year 2010. This provision provided employers an exemption from the cost of “matching” the Social Security tax paid for eligible employees.

However, the business tax credit is still in effect. Employers may claim a general business tax credit when filing their 2011 business tax return for each worker retained for 52 consecutive weeks. To meet the retention test, wages paid in the second 26-week period must be at least 80% of the pay in the first 26-week period. The business tax credit will be the lesser of \$1,000 or 6.2% of the wages paid by the employer during the 52-week retention period.

Please contact the WorkLife HR Tax Department ([taxdepartment@worklifehr.com](mailto:taxdepartment@worklifehr.com)) if you have any questions. Thank you and we appreciate your business.



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