



Tax Researcher

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EMPLOYEE SOCIAL SECURITY TAX RATE DECREASE EFFECTIVE 1/1/12 TO 2/29/12

Under the Temporary Payroll Tax Cut Continuation Act of 2011 signed by the President on December 23, 2011, the decrease in the employee tax rate that went into effect on January 1, 2011 was extended to February 29, 2012. The decrease from 6.2% to 4.2% is for the employee portion only; the employer rate remains 6.2%.

Additionally, there is no impact on the tax rate for Medicare. Both the employee and the employer rates remain unchanged at 1.45% with no wage base limit.

The Internal Revenue Service (IRS) further explains: "Under the terms negotiated by Congress, the law also includes a new "recapture" provision, which applies only to those employees who receive more than \$18,350 in wages during the two-month period [1/1/12 to 2/29/12] (the Social Security wage base for 2012 is \$110,100, and \$18,350 represents two months of the full-year amount). This provision imposes an additional income tax on these higher-income employees in an amount equal to 2 percent of the amount of wages they receive during the two-month period in excess of \$18,350 (and not greater than \$110,100).

"This additional recapture tax is an add-on to the income tax liability that the employee would otherwise pay for 2012 and is not subject to reduction by credits or deductions. The recapture tax would be payable in 2013 when the employee files his or her income tax return for the 2012 tax year.

"With the possibility of a full-year extension of the payroll tax cut being discussed for 2012, the IRS will closely monitor the situation in case future legislation changes the recapture provision."

STATE DISABILITY INSURANCE UPDATE

Laws in five states and Puerto Rico provide benefits for workers temporarily disabled by injuries or illnesses **NOT** related to their employment. Temporary disability benefits provide some salary continuation for persons who are unable to work because of illness or injury, but who do not qualify for benefits under workers' compensation or unemployment compensation laws. Workers' compensation laws cover only work-related injuries or illnesses, while unemployment laws require that claimants be able and available to work.

Temporary disability benefits may be financed in three ways: 1) employee contributions withheld by employers, 2) employer contributions, or 3) by a combination of the two. Noted below are the EMPLOYEE contribution requirements for the six jurisdictions which have temporary disability benefit laws:

California: For 2012, the employee contributes 1.0% on the first \$95,585 of annual earnings for a maximum deduction of \$955.85. Employers may substitute comparable private plan coverage.

Hawaii: Half the cost of providing benefits is contributed by the employee. For 2012, however, no more than 0.5% of an employee's wages up to \$903.28 weekly may be deducted (maximum weekly contribution of \$4.52).

New Jersey: For 2012, employees contribute 0.2% of their first \$30,300 of annual earnings for a maximum contribution of \$60.60. Employers are not required to participate in the state plan if they provide comparable private plan coverage which has been reviewed and approved by the NJ Division of Temporary Disability Insurance.

New York: Unchanged from 2011, the employee may contribute 0.5% of year 2012 wages, up to \$0.60 per week. While the employer **MUST** provide disability insurance, it is the employer's decision whether to be reimbursed through employee deductions.

Puerto Rico: Again in year 2012, the employee will contribute 0.3% on the first \$9,000 in wages. The maximum deduction is \$27.00.

Rhode Island: For year 2012, the employee contributes 1.2% on taxable wages up to \$60,000. The maximum deduction is \$720.00.

NEW YORK STATE & YONKERS WITHHOLDING TAX CHANGES EFFECTIVE 1/1/12

Effective January 1, 2012 New York State has changed its withholding to reflect the recently enacted legislation which revised personal income tax rates. This includes a change to the supplemental wage withholding rate for bonuses, commissions, overtime pay, sales awards, etc., decreasing it from 9.77% to 9.62%.

Also effective January 1, 2012, the income tax withholding on Yonkers residents has changed. The percentage of state tax to be withheld has decreased from 17.5% (the withholding rate in effect from 5/1/11 to 12/31/11) to 15%. The Yonkers nonresident withholding rate remains unchanged at 0.50%. Additionally, the supplemental wage withholding rate for Yonkers residents decreased from 1.70975% to 1.443%. The supplemental wage withholding rate for Yonkers nonresidents remains unchanged at 0.50%.

It should be noted that no January 1, 2012 changes were made to the New York City withholding tax rates and that the supplemental wage withholding rate will remain at 4.25%.

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