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CONGRESS EXTENDS PAYROLL TAX RELIEF FOR TWO MONTHS

On December 23, 2011, Congress passed a two-month extension of payroll tax relief. The Temporary Payroll Tax Cut Continuation Act of 2011 will extend through February 29, 2012, the 2010 Tax Relief act provision that reduced the employee portion of the Social Security tax on earned income from 6.2% to 4.2%.

For 2012, the maximum taxable wage base for Social Security taxes is \$110,100 (up from \$106,800 in 2011). So, assuming a full-year extension is ultimately passed as planned, the maximum tax savings from this break will be \$2,202.

The Act's language allows employers to withhold employee payroll taxes at the 4.2% rate on all wages paid during the two-month period subject to the full 2012 wage base of \$110,100. But if the full-year extension isn't passed, an amount equal to 2% of wages in excess of \$18,350 (2/12 X \$110,100) paid in January and February will be recaptured on the employee's individual tax return for 2012.

The Continuation Act includes other provisions as well, such as extending for two months the following:

- Enhanced unemployment benefits - but only for states with high unemployment,
- Current Medicare payment rates for physician services - the rates were scheduled to be reduced 27.4% starting Jan. 1, 2012, and
- Other Medicare-related provisions that are normally extended when physician payment rates are extended.
- The act also increases certain Fannie Mae and Freddie Mac fees and addresses the controversial Keystone XL pipeline.

The debate regarding a full-year extension of payroll tax relief, as well as the other extensions, is how to pay for them. Congress has yet to address many other tax breaks that will expire at year end, such as alternative minimum tax relief, the research credit and the deduction for state and local sales tax in lieu of state and local income taxes.

In addition, a variety of rates and other breaks are set to expire at the end of 2012. So the coming year will likely be a very interesting one tax-wise. Please contact us if you have questions about how tax law changes - as well as tax law uncertainty - could affect you.

The information provided in this alert is not necessarily specific to your tax situation. We should discuss your circumstances before taking any action. If you have any questions about the tax provisions and planning techniques described in this letter, please contact **FGMK**. Our tax professionals can assist you with tax-effective and proactive planning.

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