

FICA Tax "Holiday" Ends With 2012

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Social Security and Medicare Contributions Increase For Some Employees

On January 1, 2013, Congress approved the American Taxpayer Relief Act of 2012, the bill designed to avert the so-called "fiscal cliff." The Act, which President Obama signed into law yesterday, extended certain tax relief measures for most Americans.

The Act does not, however, avoid the expiration of the payroll tax cuts that were in effect for 2011 and 2012. These tax cuts (most recently set forth in the Middle Class Tax Relief and Job Creation Act of 2012) temporarily reduced the amount of Federal Insurance Contributions Act ("FICA") taxes owed by employees by two percentage points from 6.2% to 4.2%. This reduction expired on December 31, 2012. Therefore, **effective January 1, 2013**, employers should withhold the full 6.2% for FICA from employees' paychecks.

The New Year brings two additional payroll tax increases:

- First, maximum taxable earnings for Social Security contributions increase from \$110,100 to \$113,700 for 2013, which means that higher earners will pay additional Social Security contributions.
- Second, the new Additional Medicare Tax (imposed by the Patient Protection and Affordable Care Act) requires individuals to pay a supplemental 0.9% tax (in addition to the 1.45% contribution that applies to all wages) on wages in excess of \$200,000.

Employers should implement these changes where applicable in all payroll transactions this year.

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