

Tips for Taxpayers



Employee take-home pay increases 2% in 2011

Taxpayers have to wait for new forms

The most recent Tax Act signed into law (**Tax Relief Act of 2010**, signed December 17, 2010) will provide workers with a 2% increase in take home pay in 2011! This is accomplished by a reduction in the employee-share of the OASDI portion of Social Security taxes from 6.2 percent to 4.2 percent for wages earned up to the taxable wage base of \$106,800. The Medicare component is the same (1.45 percent), for a combined tax rate of 5.65 percent. However, the Act did not change the employer's combined tax rate as that remains at 7.65 percent.

This change will also benefit self-employed individuals with a reduction in their OASDI tax from 12.4 percent to 10.4 percent. When combined with the Medicare component of 2.9 percent, the total self-employment tax rate is 13.3 percent.

The reduction is available to all wage earners irrespective of income level, with a maximum benefit of \$2,136 (\$106,800 wage base *2%) per individual. However, individuals who do not pay into Social Security, including some public employees, will not benefit from the payroll tax rate reduction.

WHAT EMPLOYERS NEED TO DO

Because the Act was signed so late in the year, the IRS has cautioned that it needs time to program its computer systems for any late year legislation!

Employers should implement the 4.2% employee social security tax rate with their first payroll cycle in January 2011, with a deadline of no later than January 31, 2011. If an employer is unable to implement the change with their first payroll of the year, they should make an offsetting adjustment in a subsequent pay period to correct any over-withholding of social security tax. The corrections should be made no later than March 31, 2011.

OTHER THINGS TO BE AWARE OF:

The IRS is warning taxpayers that it will not accept certain 2010 individual tax returns until mid- or late February due to tax law changes recently enacted by Congress (IR-2010-126). Taxpayers affected include all those who itemize deductions on Schedule A, as well as those who take certain recently extended deductions. The delays will affect taxpayers whether they e-file or file on paper.

The IRS is emphasizing that for most taxpayers, filing season will start in January, as usual. But because of changes made by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (PL 111-312), enacted Dec. 17, the IRS will need time to update forms and to reprogram its computer systems to handle certain items.

The change affecting the most taxpayers will be the fact that Form 1040, Schedule A, will have to be updated to reflect the extension of the state and local general sales tax deduction. The IRS anticipates that it will be the middle of or late in February before it can accept Forms 1040 with itemized deductions on updated Schedule A.

*This article provides general advice. Contact **Bosma Group** to get information on your specific situation.*



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