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SPECTRA INSIGHT

The IRS will issue additional guidance as needed to implement the provisions of this extension, including revised employment tax forms and instructions and information for employees who may be subject to the new "recapture" provision. For most employers, the quarterly employment tax return for the quarter ending March 31, 2012 is due April 30, 2012.

Link to the Temporary Payroll Tax Cut Continuation Act of 2011:

<http://www.gpo.gov/fdsys/pkg/BILLS-112hr3630eas/pdf/BILLS-112hr3630eas.pdf>



Payroll Tax Cut Temporarily Extended Into 2012

On December 23rd, 2011 a payroll tax cut extension through February 2012 was passed by congress and signed by President Obama.

"The Temporary Payroll Tax Cut Continuation Act of 2011" extends the 2 percentage point payroll tax cut for employees reduction of Social Security tax withholding rate from 6.2% to 4.2% of wages paid until February 29, 2012.

Employers should implement the new payroll tax rate as soon as possible in 2012 but not later than Jan. 31, 2012. For any Social Security tax over-withheld during January, employers should make an offsetting adjustment in workers' pay as soon as possible but not later than March 31, 2012.

Employers and payroll companies will handle the withholding changes, so workers should not need to take any additional action.

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 (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 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.

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