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IT ALL ADDS UP.

CONGRESS EXTENDS PAYROLL TAX RELIEF

After much debate and political maneuvering, Congress has passed an 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%.

The Senate had passed a previous version of the act December 17, but that version couldn't garner enough votes in the House. In negotiations with Speaker of the House John Boehner, Senate Majority Leader Harry Reid agreed to appoint conferees to work with House conferees on a full-year extension. In addition, the House added language to the Senate's version of the Continuation act to allow employers to avoid certain compliance challenges that otherwise could result from the temporary extension.

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. Because of the language the House added to the act, however, high-income earners may — temporarily — be able to enjoy this entire savings even if the full-year extension isn't ultimately passed.

The language allows employers to withhold employee payroll taxes at the 4.2% rate on all wages paid during the two-month period subject only to the *full* 2012 wage base of $110,100 and without regard to the $18,350 cap on wages earned through the end of February that was included in the Senate version of the act. But if the full-year extension *isn't* passed, an amount equal to 2% of those excess wages will be recaptured on the employee's individual tax return for 2012.

The language change was requested by the National Payroll Reporting Consortium because they contended that the two-month cap would have made it almost impossible for some employers to change their payroll systems in time to comply with the law.

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 January 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 main point of debate regarding a full-year extension of payroll tax relief, as well as the other extensions, is how to pay for them. And 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.