

Payroll Changes Require Immediate Action as Result of New Tax Package

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The President signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act Of 2010 on Friday. The IRS released guidance regarding implementing the payroll tax reduction for 2011.

The Act provides a two percentage point payroll tax cut for employees, reducing their Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid. This reduced Social Security withholding will have no effect on the employee's future Social Security benefits.

Employers and payroll companies are required to handle the withholding changes, so workers typically won't need to take any additional action, such as filling out a new W-4 withholding form.

The IRS has advised that employers should start using the new withholding tables and reducing the amount of Social Security tax withheld as soon as possible in 2011, but not later than January 31, 2011. 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, 2011.

All the information necessary to make the changes is available at the IRS website of Notice 1036 (click here for pdf copy of Notice 1036 -->) [notice_1036](#).