

Tax Implications Of Your Bigger Paychecks In 2011

(NAPSA)—Millions of employees and self-employed taxpayers will receive slightly larger paychecks this year thanks to the new payroll tax holiday. For 2011, the employee and self-employed portion of the Social Security tax is reduced by 2 percent so that FICA-OASDI Social Security tax rates are 4.2 percent for employees and 10.4 percent for self-employed. With the \$106,800 income limit, the maximum amount an employee can receive by the end of 2011 is \$2,136. Tax rates for the Medicare portion of FICA taxes remain unchanged.

The payroll tax holiday was part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. It essentially replaces the 2009 and 2010 Making Work Pay Credit that expired on December 31, 2010, worth up to \$400 (\$800 for joint filers) and distributed in paychecks through reduced federal withholding.

How much larger your paychecks are this year depends on your earned income and whether you received the Making Work Pay Credit last year. For instance, paychecks for taxpayers who received the Making Work Pay Credit last year and earn over \$20,000 this year will be larger, as 2 percent of income at this level exceeds the \$400 Making Work Pay Credit. On the other hand, a taxpayer who received the Making Work Pay Credit last year but earns less than \$20,000 will actually receive smaller paychecks this year because the 2 percent tax cut results in less than \$400.

“Taxpayers should do two things as a result of these tax law changes,” said Jessi Dolmage, spokesperson for TaxACT. “First, review your federal withholding since the Making Work Pay Credit has expired. If you want to adjust your withholding, give your employer a new W-4. Self-em-



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ployed should adjust their estimated tax payments as needed.

“Second, if you received the Making Work Pay Credit in 2010, remember to claim it on your federal tax return that’s due by April 18, 2011,” Dolmage continued. “Claiming the credit on your 2010 return makes up for the reduced federal withholding in last year’s paychecks.”

Taxpayers filing Form 1040 or 1040A will figure the Making Work Pay Credit amount using Schedule M. If filing Form 1040-EZ, use the designated worksheet for the line to figure the credit.

Free tax preparation software such as TaxACT will help you correctly claim the Making Work Pay Credit, review and adjust your federal withholding, and walk you through all the tax law changes. Returns are backed by maximum refund and accuracy guarantees. Regardless of tax situation, age, income or state, everyone can prepare, print and e-file a federal return free with TaxACT Free Edition.

Learn more about the payroll tax holiday and Making Work Pay Credit by visiting www.irs.gov. Learn more about TaxACT at www.taxact.com.