

January 11, 2013

Dear Friends and Clients,

We would like to address an implication of the American Taxpayer Relief Act of 2012 that affects employees and self-employed individuals.

The "payroll tax holiday" expired after the calendar year 2012 and was not extended for 2013 under the American Taxpayer Relief Act of 2012. The "payroll tax holiday" was a 2 percent reduction in the Social Security portion of FICA tax paid by employees under the Taxpayer Relief Act of 2010. The effective rate was reduced from 6.2 percent to 4.2 percent. Thus the net pay of employees was increased by 2 percent during the calendar years of 2011 and 2012.

With the expiration of the "holiday tax credit," wage earners may expect a 2% increase in their FICA withholding and thus a 2% decrease in the net pay starting with the first paycheck in 2013 on amounts up to the year-to-date wage base of \$113,700.

Similarly, the rate for self-employed individuals was reduced from 12.4 percent to 10.4 percent in 2011 and 2012, and effective January 1, 2013, has reverted to 12.4 percent on amounts up to the same wage base.

Please feel free to contact me with any questions at 512-327-0909 or cinda.brown@mangoldcpa.com

Sincerely,
Marlene Van Sickle, CPA
Client Services Director