

Legislative Brief

Tax Cut Legislation Implications For Employers



Congress Passes Tax Cut Bill

On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Tax Relief Act). The Act is a multi-billion dollar tax cut package that extends certain tax provisions known as the "Bush tax cuts." Specifically, certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) are extended for two years.

The Tax Relief Act is the result of an agreement between President Obama and Republican leaders in Congress made in early December. The agreement and the new bill were surrounded by much debate and controversy, with the bill being passed just before the prior tax provisions were set to expire on December 31, 2010.

Many provisions in the Tax Relief Act, such as reduced individual income tax rates, relief from the so-called marriage penalty, and enhancements to the Earned Income Credit and Child Tax Credit, will relate specifically to individual as taxpayers. However, the Tax Relief Act also contains provisions that will affect employers and employees.

This Midlands Financial Benefits, Inc. Legislative Brief outlines the parts of the Tax Relief Act that may be of interest to employers. Please read below for more information.

Summary of Employment-Related Provisions

Payroll Tax Cut

The tax relief provides a one year reduction in the employee portion of the FICA payroll tax. For calendar year 2011, the employee rate is reduced from 6.2 percent to 4.2 percent, up to the taxable wage base of \$106,800. The rate for self-employed individuals is reduced for 2011 as well, from 12.4 percent to 10.4 percent.

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**. IRS [Notice 1036](#) contains the percentage method income tax withholding tables, the lower Social Security withholding rate and related information that most employers need to implement these changes. Publication 15, (Circular E), Employer's Tax Guide, containing the extensive wage bracket tables that some employers use, will be available on www.irs.gov.

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**.

Employer-Provided Child Care

Under EGTRRA, employers that provide child care facilities for employees were eligible for a tax credit equal to 25 percent of their qualified expenses for the child care plus 10 percent of their qualified expenses for resource and referral services. The maximum amount of expenses that could be taken into account was \$150,000. The Tax Relief Act extended the availability of the credit through December 31, 2012.

Employer-Provided Educational Assistance

The Tax Relief Act extended EGTRRA's provisions regarding employer-provided educational assistance for two years, through December 31, 2012. These rules permit an employee to receive up to \$5,250 per year in tax-free educational

Legislative Brief

Tax Cut Legislation Implications For Employers

assistance from his or her employer, including for graduate school. The employer can deduct up to \$5,250 per year for an employee's qualified educational expenses.

Transit and Parking Benefits

Employers may provide transit and parking fringe benefits of up to \$230 tax-free through December 31, 2011. These benefits include transit passes, vanpooling and employer-provided parking.

Adoption Assistance

Individuals who adopt a child may be eligible for a tax credit and may be able to exclude employer-provided adoption assistance from their income. The new law extends the increased credit and income exclusion amounts for an additional year, through December 31, 2012. However, the credit and exclusion amount are phased out for high-income individuals.

Work Opportunity Tax Credit

The Tax Relief Act extends the Work Opportunity Tax Credit, which was designed to encourage employers to hire individuals from certain groups that have faced obstacles in obtaining employment, such as certain veterans and Temporary Assistance to Needy Families (TANF) recipients. The credit is now available for individuals who begin employment through December 31, 2011. However, the new law does not extend the credit beyond 2010 for the two newest targeted groups – unemployed veterans and disconnected youth.

Extension of Federal Unemployment Benefits

The new law provides an extension of federal unemployment benefits for an additional 13 months, through December 2011. The current maximum time period for receiving benefits – 99 weeks – remains in effect.

This Midlands Financial Benefits, Inc. Legislative Update is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel for legal advice.

Content © 2011 Zywave, Inc. Images © 2000 Getty Images, Inc. All rights reserved.
EAS 1/11