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Tax Changes May Hit Paychecks Hard in 2011

SAN ANTONIO—Millions of Americans could see the amount of tax taken from their paychecks increase by 50 percent in 2011.

The rise in taxes is attributed to the expiration of four key pieces of legislation, the Making Work Pay credit, the Advance Earned Income Credit, and the 2001 and 2003 tax cuts, all set to expire on December 31, 2010.

These potential key tax changes will impact Americans of all income levels. As we approach National Payroll Week 2010, September 6-10, the American Payroll Association suggests employees review the impact of these potential tax changes on their paychecks and watch for Congressional action between now and the end of the year.

2001 and 2003 Tax Cuts

In both 2001 and 2003, Congress enacted tax cuts that impacted paychecks in a number of different ways.

The impact on paychecks, if expired:

- The 10-percent tax bracket will be eliminated. The first $8,375 of taxable income of a single filer, now subject to a 10-percent tax rate, will be taxed at 15 percent -- a 50 percent increase for Americans whose income, after subtracting the standard deduction and personal exemptions, is $8,375 or less.
- The tax credit parents can claim per qualifying child under age 17 will decrease by 50 percent per qualifying child from $1,000 to $500.
- The tax cuts reduced the tax burden on married couples by increasing their standard deduction to exactly twice that of a single person and increasing the amount of income subject to the 10-percent and 15-percent taxes to exactly twice that of a single person. These equalizers will disappear if the cuts expire.
- The supplemental tax rate, the rate payroll professionals used to calculate the tax on bonuses, commissions, and other supplemental pay, will increase from 25 to 28 percent.
- Many of the tax rates will increase, with the highest tax rate rising from 35 percent to 39.6 percent.
- Non-job-related educational assistance will no longer be a tax-free benefit. Currently employers may provide up to $5,250 per employee, per year in non-job-related educational assistance tax-free.

Making Work Pay Credit
The Making Work Pay credit was part of the American Recovery and Reinvestment Act of 2009. The credit provides up to $400 per individual and $800 per married couple. Most workers receive the credit directly in their paychecks by a reduction in their income tax withholding. Workers with no income tax withholding receive the credit when they file their tax returns.

Impact on paychecks, if expired: An additional up-to-$34 per month in taxes taken out of each paycheck per individual and $67 per married couple filing jointly.

Advance Earned Income Credit
This current IRS program lets employees who qualify for the Earned Income Tax Credit get anticipated tax savings right way. The program puts some of their anticipated tax savings directly into each paycheck during the year rather than making them wait until they file their tax return. Congress recently voted to end the advance payment, effective 2011.

Impact on paycheck: An up-to-$152 decrease in take-home pay per month as workers who qualify will have to wait until they file their 2011 return in 2012 to receive their tax credit.

"All Americans stand to be impacted by these tax changes," said Scott Mezistrano, CPP, senior manager of government relations for the APA. "We should all take a close look now to see how these tax changes will impact our 2011 take-home pay and plan to review and adjust our withholding as necessary at the beginning of the new year."

For more information on how the tax changes will affect American paychecks, visit www.nationalpayrollweek.com.

Editor's note: These changes will also have an impact on employers' compliance responsibilities. To speak to an expert about the impact on individuals or businesses, contact APA's Public Relations department at (210) 226-4600, ext. 2277 or press@americanpayroll.org.

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