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Circular E for 2011 Reflects Important Tax Changes.

Newly released Publication 15 (Circular E), Employer's Tax Guide for use in 2011, reflects changes made by the 2010 Tax Relief Act and explains when employers should put the changes into effect. Circular E also covers other important tax rules going into effect in 2011.

New law income tax changes for 2011. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Relief Act, P.L. 111-312) made many changes affecting employee income tax withholding for 2011. Late in December, IRS issued Notice 1036, "Early Release Copies of the 2011 Percentage Method Tables for Income Tax Withholding," carrying 2011 percentage method tables for income tax withholding that reflect the 2010 Tax Relief Act. New Circular E for use in 2011 carries both 2011 percentage method tables and wage bracket tables for income tax withholding that reflect the 2010 Tax Relief Act.

Employers are advised to: (1) implement the 2011 withholding tables as soon as possible, but not later than Jan. 31, 2011; and (2) use the 2010 withholding tables until they implement the 2011 withholding tables.

New law payroll tax holiday. For remuneration received during 2011, the 2010 Tax Relief Act reduces the employee Old Age, Survivors, and Disability Insurance (OASDI) tax rate under the FICA tax by two percentage points to 4.2%. (Similarly, for self-employment income for tax years beginning in 2011, the OASDI tax rate under the SECA tax is reduced by two percentage points to 10.4% percent.) As a result, for 2011, employees will pay only 4.2% Social Security tax on wages up to \$106,800 (and self-employed will pay only 10.4% Social Security self-employment taxes on self-employment income up to \$106,800).

In the new Circular E, IRS advises employers to implement the 4.2% employee Social Security tax rate as soon as possible, but not later than Jan. 31, 2011. After implementing the new 4.2% rate, employers are told to make an offsetting adjustment in a subsequent pay period to correct any Social Security tax over withholding as soon as possible, but not later than Mar. 31, 2011.

Other relevant changes. Other changes reflected in Circular E include the following:

- Expiration of the Making Work Pay credit on Dec. 31, 2010.
- The FUTA tax rate will remain at 6.2% through June 30, 2011. However, unless Congress acts, the FUTA tax rate is scheduled to decrease to 6.0% beginning July 1, 2011.

Beginning January 1, 2011, employers must use electronic funds transfer (EFT) to make all federal tax deposits (such as deposits of employment tax, excise tax, and corporate income tax). Forms 8109 and 8109-B, Federal Tax Deposit Coupon, cannot be used after Dec. 31, 2010.

Source: Thomson Reuters/RIA

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