



California Public Employees' Retirement System
P.O. Box 942715
Sacramento, CA 94229-2715
(888) CalPERS (or 888-225-7377)
TTY: (877) 249-7442
www.calpers.ca.gov

Reference No.:
Circular Letter No.: 200-077-11
Distribution: VI, XII, XVI
Special:

Circular Letter

December 27, 2011

TO: **PUBLIC AGENCIES AND SCHOOL EMPLOYERS WITH
SOCIAL SECURITY COVERAGE**

SUBJECT: **THE TEMPORARY PAYROLL TAX CUT CONTINUATION ACT OF 2011**

The California Public Employees' Retirement System (CalPERS) is the State Social Security Administrator for California. As such, the purpose of this Circular Letter is to inform you of recent legislation that may affect you and your employees.

Temporary Extension

Provisions of the Temporary Payroll Tax Cut Continuation Act of 2011 (Act) temporarily extend the reduction of employees' Social Security tax withholding rate from 6.2% to 4.2% of wages paid through February 29, 2012. The rate for employers remains at 6.2%, as it was in 2011.

Due to the late date at which this legislation was implemented, some employers or payroll processing firms may have already planned to increase the employees' withholding rate back to 6.2%. The Internal Revenue Service (IRS) asks that 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, 2012.

The Maximum Taxable Earnings for Social Security purposes for calendar year 2012 have been increased from \$106,800 to \$110,100.

Recapture Provision

The Act also includes a new "recapture" provision, which applies only to those employees who receive more than \$18,350 in wages during the two-month period. This provision imposes an additional federal income tax on these higher-income employees in an amount equal to 2% of the amount of wages they receive during the two-month period in excess of \$18,350, and not greater than \$110,100.

This additional recapture tax is an add-on to federal income tax liability that the employee would otherwise pay for 2012 and is not subject to reduction by credits or deductions. The recapture tax would be payable in 2013 when the employee files his or

her income tax return for the 2012 tax year. With the possibility of a full-year extension of the payroll tax cut being discussed for 2012, the IRS will closely monitor the situation in case future legislation changes the recapture provision.

Additional Information

The IRS will issue additional guidance as needed to implement the provisions of this new two-month extension, including revised employment tax forms and instructions and information for employees who may be subject to the new recapture provision. For most employers, the quarterly employment tax return for the quarter ending March 31, 2012 is due April 30, 2012.

Congress may very well pass additional legislation by February 29, 2012 to perhaps extend this tax withholding cut through 2012, or to change other provisions. We will send updated information as soon as it becomes available. In the meantime, you may refer to [IRS News bulletin IR-2011-124](#), dated December 23, 2011, available on the IRS website www.irs.gov, or consult the Social Security Administration website www.ssa.gov for more information.

New Bulletin

Starting in 2012, CalPERS' State Social Security Administrator Program (SSSAP) unit will send an occasional bulletin about Social Security matters, which will be sent by email to interested subscribers. This bulletin will contain not only breaking news about Social Security matters, but also information about Social Security topics of general interest (e.g., rules regarding retired or "rehired" annuitants) to employers and workers. While we will continue to issue Circular Letters to all employers on Social Security issues, we hope that this bulletin may be a useful educational resource for you and your agency, as well as a quicker medium of communication when legislation with immediate effects is passed.

If you would like to receive this bulletin, send an email to the SSSAP unit at: socialsecurity@calpers.ca.gov with "SUBSCRIBE" as the subject. There is no limit to how many persons at an agency who may subscribe. You may also direct other Social Security-related questions to the SSSAP unit via this email address.

RAND ANDERSON, Acting Chief
Affiliate Program Services Division