

## RETIREMENT PLANNING AND EMPLOYEE BENEFITS FOR FINANCIAL PLANNERS 7TH EDITION UPDATES

The Tax Relief Act of 2010 introduced the so-called 2011 Payroll Tax Holiday, which reduces the employee's portion of Social Security tax from 6.2% to 4.2% for tax year 2011. As a result of this legislation, the following changes should be noted:

### CHAPTER 11 PAGE 512

The first paragraph should read as follows. The changes are bolded in red.

Both employers and employees pay the taxes for Social Security and Medicare. **However, for the year 2011, an employer will pay 6.2 percent and an employee will only pay 4.2%** of the employee's gross salary up to a limit of \$106,800 for OASDI (Old Age, Survivor, and Disability Insurance). The salary limit rises annually based on annual increases in average wages. Self-employed workers **generally** pay 12.4 percent (6.2 percent x 2) of their taxable income up to the same salary limit. **For tax year 2011, self-employed workers pay 10.4% of their taxable income up to \$106,800.** The Medicare portion of the Social Security tax is 1.45 percent for both employers and employees and is 2.9 percent for self-employed workers with no limit on the amount of compensation taxed.

### CHAPTER 11 PAGE 512, EXAMPLE 11.1

The following example should read as follows. The changes are bolded in red.

If an employee earns a salary of \$109,300 in 2011, the first \$106,800 of the employee's salary will be subject to a tax of **5.65 (4.2 + 1.45)** percent while the remaining \$2,500 will be subject to a tax of only 1.45 percent. The employer pays **7.65% (6.2 + 1.45) up to \$106,800, and pays 1.45% tax on the excess.**