



Tax Researcher

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EMPLOYEE SOCIAL SECURITY TAX RATE DECREASE EXTENDED THROUGH 12/31/12

Under the Middle Class Tax Relief and Job Creation Act of 2012, signed by the President on February 22, 2012, the temporary decrease in the employee Social Security tax rate from 6.2% to 4.2% has been extended through December 31, 2012. Therefore, the maximum employee contribution for 2012 will be \$4,624.20 (\$110,100 taxable wage limit @ 4.2%). Under the former legislation, the Temporary Payroll Tax Cut Continuation Act of 2011, it was to be in effect only from January 1, 2012 to February 29, 2012. The lower rate is for the employee portion only; the employer rate remains 6.2%.

There continues to be no impact on the tax rate for Medicare. Both the employee and the employer rates remain unchanged at 1.45% with no wage base limit.

Recapture Tax Repealed

The "recapture" provision under the Temporary Payroll Tax Cut Continuation Act of 2011, which would have imposed an additional 2% income tax on employees who received more than \$18,350 (up to \$110,100) in wages during the two-month period of January 1, 2012 to February 29, 2012 has been repealed. This tax was originally going to be an add-on to the income tax liability that the employee would otherwise pay for 2012 when they filed their income tax return.

HOUSEHOLD WORKERS – Who Should Be Reported?

Both the Internal Revenue Service (IRS) and the Social Security Administration provide information on the unique requirements of household employment. If you hire someone to work in your home, both you and your employee should know about paying Social Security and Medicare taxes

Your household employee may be eligible for Social Security and Medicare some day – if you deduct Social Security and Medicare taxes from his or her wages, pay the taxes to the IRS and report the wages to the Social Security Administration.

When you report those wages and pay the taxes, your employee gets credit toward Social Security benefits and Medicare coverage. This includes retirement (as early as age 62) and disability benefits for the worker and his or her dependents. It also includes survivor's benefits for his or her dependents when the worker dies

You have a household employee if you hired someone to do household work and that worker is your employee. The worker is your employee if you can control not only what work is done, but how it is done. If the worker is your employee, it does not matter whether the work is full time or part time or that you hired the worker through an agency or from a list provided by an agency or association. It also does not matter whether you pay the worker on an hourly, daily, or weekly basis, or by the job.

Household work is work done in or around your home. Some examples are:

- Baby-sitters
- Cleaning people
- Drivers
- Housekeepers
- Nannies
- Health aides
- Private nurses
- Maids
- Caretakers
- Yard workers
- House cleaning workers

Workers who are not your employees

If only the worker can control how the work is done, the worker is not your employee but is self-employed. A self-employed worker usually provides his or her own tools and offers services to the general public in an independent business. A worker who performs child care services for you in his or her home generally is not your employee. If an agency provides the worker and controls what work is done and how it is done, the worker is not your employee.

Example

You made an agreement with Tom Smith to care for your lawn. Tom runs a lawn care business and offers his services to the general public. He provides his own tools and supplies, and he hires and pays any helpers he needs. Neither Tom nor his helpers are your household employees.

What wages must be reported?

If you pay a household worker \$1,800 or more in cash wages during 2012, you must deduct Social Security and Medicare taxes and report the wages once a year. This includes reporting any cash you pay to cover the cost of the employee's transportation, meals or housing. If you do not report the wages on time, you may have to pay a penalty in addition to the overdue taxes.

Are all household workers covered?

When you pay a household worker \$1,800 or more in cash wages during the year, the wages are covered by Social Security and Medicare. However, the wages paid to the following should not be counted even if they are \$1,800 or more:

- Your spouse
- Your child under the age of 21
- Your parent, with certain exceptions
- An employee under the age of 18 at any time during the year unless providing household services is their primary occupation. If the employee is a student, providing household services is not considered to be their principal occupation.

How to report wages

- **Keeping records** – For Social Security purposes, you need the names, addresses and Social Security numbers of all household workers and the amount of wages you paid them. Copy the Social Security number directly from each person's Social Security card. If one of your employees does not have a card, he or she should apply for one at any Social Security office.
- **Deductions for Social Security and Medicare taxes** – The 2012 Social Security tax rate on wages up to \$110,100 for employees is 4.2%. For employers, the rate is 6.2% on those same wages. The Medicare tax rate for both employees and employers is 1.45% of all wages.
- **Deductions for Federal Income Tax** – You are not required to withhold federal income tax from your household employee's wages. However, you may do so if your employee requests you to do so.
- **Filing your report** – Use your own federal income tax return (IRS Form 1040 Schedule H) to report wages of \$1,800 or more that you paid a household worker. As the employer, you pay your share of the Social Security and Medicare taxes, along with the taxes you withheld from the employee's wages, when you file your return.
- **Submitting a W-2 after the year ends** – You must give your household employee copies B, C and 2 of IRS Form W-2 (Wage and Tax Statement) by January 31st after the year the wages were paid. Send copy A to the Social Security Administration by the last day of February.

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