

## The “Payroll Tax”

### Payroll Tax holiday Debate

Congress extended the temporary payroll tax holiday of 2011 until February 29, 2012. Service members will continue to receive additional take-home until February 29, 2012. However, beginning on March 1, 2012 service members will receive less take-home pay in their bank accounts unless the payroll tax holiday of 2011 is extended further. The payroll tax holiday temporarily reduced the 6.2% tax on wages to 4.2% but only for calendar year 2011. It was to expire on December 31, 2011 automatically increasing 2% to the normal 6.2% rate beginning January 1, 2012 but congress acted to extend it through February 29, 2012.

### Payroll Tax, FICA, What is it?

The payroll tax, also known as FICA (Federal Insurance Contributions Act) is a tax paid by both the employer and the employee as contributions for Social Security and Medicare. The Social Security portion is 6.2% on basic pay (taxable wages) up to \$110,100 (increased from \$106,800) and the Medicare portion is 1.45% without a maximum limit on wages. The tax is not imposed against pay received for Basic Allowance for Housing (BAH) or Basic Allowance for Subsistence (BAS).

### Where is the FICA deducted?

The Defense Finance and Accounting Service (DFAS) annotates the amount of FICA tax deducted from a member’s pay in the deduction box of the Leave and Earning Statement (LES). It is located beneath the amount of federal taxes withheld. But unlike federal withholding, which is ultimately applied to a member’s income tax owed, the FICA is a flat rate tax similar to a sales tax and the member will not see this money again except in the form of Social Security and Medicare benefits received later in life.

### 2012 by the numbers

The 2012 monthly basic pay subject to FICA for an E-4 with 3 years of service is \$2,157.30. The reduced 4.2 % FICA is tax is \$90.60 (4.2%), not \$133.75 (under the regular 6.2% rate). Accordingly, an E-4 will receive a benefit of increased take home pay of \$43.15 per month because the amount of tax deducted was less (\$133.75 minus \$99.60 = \$43.15) or \$517.80 (\$43.15 x 12 months) for the 2012 tax year.

<b>E-4 with 3 years</b>		
Tax Year	Jan-Feb 2012	March 2012
Basic Pay/mo	\$2,157.30	\$2,157.30
6.2% FICA	N/A	\$133.75
4.2% FICA	\$90.60	\$90.60
Benefit/mo	\$43.15	0
Benefit/year	\$517.80	0

<b>O-3 with 8 years</b>		
Tax Year	Jan-Feb 2012	March 2012
Basic Pay	\$5,536.50	\$5,536.50
6.2% FICA	N/A	\$343.26
4.2% FICA	\$232.53	\$232.53
Benefit/mo	\$110.73	0
Benefit/year	\$1,328.76	0