

Dear Colleagues,

Effective January 1, 2011 a number of changes to both the Federal and State tax code took effect that will affect your take-home pay. Below is a summary of what you can expect.

There are two Federal payroll tax changes to be aware of:

- Under legislation approved by Congress and signed into law by the President on December 17, the amount of Social Security tax withheld from your paycheck drops this year to 4.2% from 6.2% of your pay. Social Security tax withholding is calculated on the first \$106,800 of pay. Thus, you can expect your Social Security withholding to be reduced this year.
- A federal tax withholding adjustment (the Making Work Pay credit (<http://www.irs.gov/newsroom/article/0,,id=204447,00.html>)), which reduced federal tax withholding for many workers during 2009 and 2010 expired and was not renewed by Congress. Some employees may see their federal tax withholding increase a small amount as a result of the expiration of this credit.

There are several Rhode Island payroll tax changes to be aware of:

- Legislation changing Rhode Island's entire personal income tax structure effective January, 2011 was approved by the General Assembly and signed into law by the Governor in 2010. The changes reduced tax brackets from five to three, with a top tax rate of 5.99% - down from 9.9%. However the State also reduced the value of each personal exemption allowances that an employee may claim for withholding purposes on their form W4 from \$3,650 to \$1000 per exemption allowance. Thus, many employees will see an increase in their RI tax withholding.
- Personal exemption allowances and standard deductions are eliminated for high income tax payers. Taxpayers with state adjusted gross income of \$175,000 or more will see exemptions and the standard deduction gradually phased-out and taxpayers with state adjusted gross income of \$195,000 or more will not be permitted either personal exemption allowances or the standard deduction. High income taxpayers may wish to reduce their state personal exemption allowances for payroll tax withholding purposed to zero (0) to avoid significant under withholding plus penalties and interest. The state has created a new State W4 form which is available in the Payroll Office and on the Controller's Office website.
- Rhode Island Temporary Disability Insurance (TDI) tax withholding is increasing from 1.2% of the first \$57,900 of wages to 1.3% of the first \$58,400 of wages. This increases the maximum TDI withholding from \$695 to \$759.

Overall, many employees are going to see an increase in Rhode Island withholding this year but the overall impact of all of the tax changes, including the reduction in Social Security tax, will result in an increase in net pay (take-home pay) for most employees .

There was an excellent article on these many tax changes in the January 2 issue of the Providence Journal [http://www.projo.com/news/content/rhode\\_island\\_tax\\_01-02-11\\_QSLM9CH\\_v16.196e1f.html](http://www.projo.com/news/content/rhode_island_tax_01-02-11_QSLM9CH_v16.196e1f.html) . If you have any questions on tax changes enacted by either the Federal or State government, please consult your tax advisor. The Payroll Office does not provide tax advice.

