

STATE CONTROLLER'S OFFICE
PERSONNEL AND PAYROLL SERVICES DIVISION
P.O. BOX 942850
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DATE: December 29, 2011

PAYROLL LETTER #11-023

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Lisa Crowe, Chief
Personnel and Payroll Services Division (PPSD)

RE: TEMPORARY SOCIAL SECURITY EMPLOYEE TAX RATE REDUCTION

As announced in various news media, Congress passed and the President signed into law on December 23, 2011, the *Temporary Payroll Tax Cut Continuation Act of 2011* (H.R. Bill 3765). Among other things, this legislation provides that the tax rate paid by employees for Social Security continues at 4.2% for wages paid through February 29, 2012. Employers continue to pay the full 6.2% rate for their portion of the Social Security tax. This will result in changes necessary for December 2011 payroll as well as any pay with a January and February 2012 issue date.

Since the December 2011 master payrolls, issue dated January 1, 2012 were processed prior to Congress taking action and were made using the higher tax rate of 6.2%, offsetting adjustments are needed. The Internal Revenue Service Notice IR-2011-124 requires employers to make any offsetting adjustments in the employees' pay for any Social Security tax that was over-withheld during January 2012 by no later than March 31, 2012. For the majority of employees, the State Controller's Office (SCO) will issue the adjustments within the January 2012 master payrolls (issue dated February 1, 2012). All other employees will receive their adjustment, if applicable, via a separate payment. The adjustment payments should all be issued by February 29, 2012.

The Internal Revenue Service Notice IR-2011-124 also directs employers to implement the reduced tax rate for pay issue dated from January 1 through February 29, 2012 by no later than January 31, 2012. The SCO will revise the State's payroll system tax tables in time for the first payroll cycle in January 2012 (i.e., payrolls with an issue date of January 4, 2012 and thereafter). Also, the following on-line payroll calculators have been updated and are accessible from the SCO public web site:

- [Paycheck calculator](#)
- [Industrial Disability Leave Supplementation calculator](#)

A subsequent Payroll Letter will be issued regarding the conclusion or extension of the tax rate reduction beyond February 29, 2012. To assist in responding to employee inquiries, attached are frequently asked questions (FAQs) and corresponding answers about the Social Security tax rate reduction. Also, agencies can contact the Payroll Liaison at (916) 323-3081 or California State University (CSU) campuses can contact the CSU Payroll Liaison at (916) 322-7980 with any other questions.

LC:LM:PMAB

FREQUENTLY ASKED QUESTIONS ABOUT THE CONTINUATION OF THE SOCIAL SECURITY TAX RATE REDUCTION

1. Since Congress passed and the President signed the law on December 23, 2011 to extend the 4.2% Social Security employee tax rate, why did the Controller's Office increase the tax rate to 6.2% in my December 2011 payroll check?

The payrolls for the majority of State employees are processed around the 20th or 21st of each month to ensure that payroll is distributed timely. Because Congress acted after this date the 6.2% Social Security tax rate that was current law was used for December 2011 payroll.

2. Why did my December 2011 payroll check have the higher Social Security rate applied when the 6.2% tax rate was supposed to be effective starting January 1, 2012?

As previously prescribed by the Internal Revenue Service (IRS), any pay issue dated January 1, 2012 or later was to be processed at the 6.2% higher tax rate, regardless of the pay period. Furthermore, employees received a full 12 months of benefit because the 4.2% employee rate was applied beginning December 2010 payroll.

3. Now that the lower Social Security tax rate of 4.2% continues and should have been applied against my December 2011 payroll check, will I receive a refund and if so, when will that happen?

The Internal Revenue Service has directed employers to make any offsetting adjustment in the employees' pay by no later than March 31, 2012. However, the Controller's Office will issue the adjustment for the over-withheld amount to the majority of employees in their January 2012 master payroll, issue dated February 1, 2012. All other employees will receive a separate adjustment payment, if applicable, by February 29, 2012.

4. What circumstances require a separate adjustment payment?

If you separate during January 2012 and do not receive a January 2012 master payroll check, you will receive a refund payment. Also, if your December 2011 payroll reflects certain types of payroll actions, special processing may be needed that could result in a refund payment. The Controller's Office will make every effort to refund the over-withheld amount as timely as possible and by no later than February 29, 2012.

5. Why would I not receive a refund?

If you were in a position or type of appointment that is not subject to Social Security taxes (e.g., a position eligible for safety retirement benefits or working as a retired annuitant) during the month of December 2011, you will not receive a refund. Also, if you were in an unpaid leave status for the entire month of December 2011, or are newly employed in January 2012 or received your December 2011 wages after January 1, 2012, you did not have any over-withheld Social Security taxes and consequently are not entitled to a refund.