



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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OFFICE OF
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The Honorable Olympia J. Snowe
United States Senate
Washington, DC 20510

Dear Senator Snowe:

I am responding to your inquiry dated January 20, 2011, on behalf of your constituents who are state employees. They wrote about the increase in their federal income tax withholding in 2011.

The increase in your constituents' withholding amounts may reflect the recent expiration of the Making Work Pay Credit under The American Recovery and Reinvestment Act of 2009. For tax years 2009 and 2010, eligible taxpayers could claim the Making Work Pay Credit, which was equal to the lesser of 6.2 percent of a taxpayer's earned income or \$400 (\$800 for married couples filing jointly). The credit began phasing out for taxpayers with modified adjusted gross incomes over \$75,000 per year for working individuals (\$150,000 for married couples filing jointly). Many employers reduced the federal income tax withholding of eligible employees during 2009 and 2010 to reflect the credit. However, the Making Work Pay Credit expired on December 31, 2010. Because the credit expired at the end of 2010, taxpayers who were eligible for the credit may pay more in federal income tax (reflected in federal income tax withholding) during 2011.

For taxpayers who participate in the Social Security system, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced the withholding rate for the Federal Insurance Contributions Act (FICA) tax from 6.2 percent to 4.2 percent of an employee's wages for 2011. However, state employees who do not contribute to the social security system do not benefit from this reduction in FICA tax because they do not pay FICA tax.

I hope this information is helpful. If we can assist you further, please contact me or
at .

Sincerely,

Michael J. Montemurro
Chief, Branch 4
Office of Associate Chief Counsel
(Income Tax & Accounting)