



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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OFFICE OF THE CHIEF COUNSEL

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The Honorable Marco Rubio
United States Senate
Washington, DC 20510

Dear Senator Rubio:

I am responding to your inquiry dated April 5, 2011, on behalf of your constituent . asked for information on the changes to payments and federal income tax withholding rates in 2011.

In general, employees and retirees may see changes in 2011 payments and withholding. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, enacted on December 17, 2010, included several changes affecting workers' take-home pay and retirees' net pension checks for 2011. The Tax Relief Act extended for two years the income tax rates that were scheduled to expire at the end of 2010, which prevented a large increase in federal income tax withholding. The Tax Relief Act also provided a reduced rate of social security tax for all employees from 6.2 percent to 4.2 percent for tax year 2011 (withholding for Medicare, at 1.45 percent, did not change). However, it did not extend the Making Work Pay (MWP) credit that had been available for tax years 2009 and 2010.

We issued revised withholding tables for 2009 and 2010 that reflected the reduced withholding rates resulting from the MWP credit. Most eligible workers received the benefit of the MWP credit without any action on their part, as employers typically handled the credit through automated withholding changes. This meant that workers did not need to fill out a new Form W-4, Employee's Withholding Allowance Certificate. However, for some workers, such as employees with multiple jobs or married couples in high tax brackets, the changes from the MWP credit required them to submit a revised Form W-4 to ensure that employers withheld enough tax.

Most pension recipients did not qualify for the MWP credit unless they received other earned income. However, because the revised 2009 and 2010 withholding tables,

which reflected the MWP credit, could result in underwithholding for pension recipients, we provided pension plan administrators with an optional adjustment procedure. The optional procedure automatically adjusted withholding on pension payments, and pension recipients did not need to take action. The optional procedure prevented underwithholding on pension payments. However, not all plan administrators made the optional adjustment.

The withholding tables for 2011 reflect the expiration of the MWP credit, which resulted in increased withholding for most taxpayers. For most employees, the net effect of the expiration of the MWP credit and the reduced rate of employee social security tax will result in less total tax withheld from their checks.

However, because the social security tax reduction does not affect pension payments, pension recipients whose plan administrators did not use the optional adjustment procedure for withholding in 2009 or in 2010 are likely to see an increase in withholding for their 2011 pension payments once pension plan administrators make the 2011 changes. Withholding may increase by approximately \$7 to \$50 per payment, depending on filing status, the amount of the payment, and the frequency of the payment. Accordingly, the retirement check payments for some pension recipients may be lower, depending on the method that their plan administrators used to calculate withholding in 2009 and 2010.

Due to the late enactment of these tax law changes, the IRS asked employers and plan administrators to adjust their systems as soon as possible but not later than January 31, 2011. This means employees and pension recipients may not have seen the full impact of these changes until their first paycheck in February 2011.

We encourage employees and pension recipients to review their withholding every year. They can use the [IRS Withholding Calculator](http://www.irs.gov) on www.irs.gov. If necessary, they can fill out a new Form W-4 or Form W-4P, Withholding Certificate for Pension or Annuity Payments, and give it to their employers or pension plan administrators. Information about the changes in withholding is available at www.irs.gov.

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

Sincerely,

Paul Carlino
Branch Chief, Employment Tax,
Branch 1
Division Counsel/Associate Chief Counsel
(Tax Exempt & Government Entities)