



OFFICE OF THE CHIEF COUNSEL

DEPARTMENT OF THE TREASURY  
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The Honorable Douglas A. Collins  
Member, U.S. House of Representatives  
111 Green Street SE  
Gainesville, GA 30501

Attention:

Dear Congressman Collins:

I am responding to your October 31, 2014, inquiry on behalf of your constituent, . asked for verification of several claims listed in an email about supposed changes to the Internal Revenue Code (the Code) effective on July 1, 2014. The claims are listed below, with our responses.

1) Top Income Tax bracket went from 35% to 39.6%

The American Taxpayer Relief Act of 2012 raised the top income tax bracket from 35 percent to 39.6 percent. This rate applies to:

- Married individuals whose combined income exceeds \$450,000 per year
- Heads of households earning more than \$425,000 per year
- Unmarried individuals earning more than \$400,000 per year

It applies only to income in excess of those amounts. This rate change took effect on January 1, 2013.

2) Top Income Payroll Tax went from 37.4% to 52.2%

The term “income payroll tax” is not a term used in the Code but may refer to employment taxes including Federal Insurance Contributions Act (FICA) taxes (commonly referred to as social security tax, Medicare tax, and Additional Medicare Tax (AdMT)) and income tax withholding.

Under the FICA (sections 3101 through 3128 of the Code), employers and employees pay social security and Medicare taxes on wages. The employee portion of these taxes is withheld by the employer from wages. For 2014, the social security tax rate is 6.2 percent, and the Medicare tax rate is 1.45 percent.

Additionally, social security tax has a wage base limit (maximum wage subject to the tax for that year) of \$117,000 for 2014. The wage base limit applies to social security tax, but not to Medicare tax.

Beginning in 2013, the 0.9 percent AdMT applies to an individual’s wages, compensation, and self-employment income that exceed a threshold amount based on filing status. The threshold amounts are:

- \$250,000 for married filers
- \$200,000 for single filers
- \$125,000 for married filing separately

Employers are responsible for withholding AdMT on an individual’s wages paid in excess of \$200,000 in a calendar year, beginning in the pay period in which the employer pays wages in excess of the \$200,000 threshold to an employee. For more information about the AdMT, please visit [www.irs.gov/Questions-and-Answers-for-the-Additional-Medicare-Tax](http://www.irs.gov/Questions-and-Answers-for-the-Additional-Medicare-Tax).

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced the withholding rate for the social security tax from 6.2 percent to 4.2 percent for 2011 (although the employer rate remained at 6.2 percent), and the Congress extended the reduction for 2012. The temporary 2 percent reduction in the employee portion of social security tax was not extended by the American Taxpayer Relief Act of 2012.

The current and historical rates for both social security tax and Medicare tax are available on the Social Security Administration website at [www.ssa.gov/taxrates](http://www.ssa.gov/taxrates). Except for the 2 percent reductions in the employee social security tax rate in 2011 and 2012, the rates for social security and Medicare have not changed since the 1990s.

Generally, employers withhold federal income tax based on allowances claimed by employees on Form W-4, Employee’s Withholding Allowance Certificate. The rate at which income tax withholding will apply varies, depending on the information provided to the employer by an employee on the Form W-4.

- 3) Capital Gains Tax went from 15% to 28%

The American Taxpayer Relief Act of 2012 increased the maximum capital gains rate from 15 percent to 20 percent. The change took effect on January 1, 2013.

4) Dividend Tax went from 15% to 39.6%

We tax qualified dividends at the same rates as long term capital gains under section 1(h)(11) of the Code. The maximum tax rate on qualified dividends therefore increased when the capital gains rate increased from 15 percent to 20 percent in 2013 as a result of the American Taxpayer Relief Act.

5) Estate Tax went from 0% to 55%

In 2001, the top rate of the federal estate tax was 55 percent. This rate was paid by estates valued higher than \$3,000,000, on the excess over \$3,000,000. Since 2001, federal legislation has changed the top rate of the federal estate tax as follows:

Year	Top Federal Estate Tax Rate
2002	50%
2003	49%
2004	48%
2005	47%
2006	46%
2007, 2008, 2009	45%
2010, 2011, 2012	35%
2013, 2014	40%

Currently, the top federal estate tax rate is 40 percent. No current law will cause the top federal estate tax rate to increase above 40 percent in 2015.

6) All these changes were passed under the Affordable Care Act.

The Affordable Care Act affected only the Additional Medicare Tax, described in our response to question 2. Most of the changes resulted from the American Taxpayer Relief Act of 2012.

I hope this information is helpful. If you have any questions, please contact me or at ( ) .

Sincerely,

Andrew J. Keyso  
Associate Chief Counsel,  
Income Tax and Accounting