



Paylocity Corporation

December 29, 2011

Dear Valued Client,

The following communication provides you with an update on very important employer and employee tax rate matters:

2012 Social Security Tax Update

The 2011 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provided a two percentage point payroll tax cut for employees, reducing their Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid. This reduction was set to expire on December 31, 2011 however, on December 23rd, President Obama signed legislation that extends the 4.2 percent rate for the employee portion of Social Security tax into the first two months of 2012 (H.R. 3765). Additional information can be found on IRS.gov under the following link;

<http://www.irs.gov/newsroom/article/0,,id=251650,00.html>

- This legislation temporarily **extends the Employee Social Security withholding rate of 4.2% through February 29, 2012.**
- The bill also includes a measure requiring that those who are paid more than the pro-rata wage base of \$18,350 (2/12s of the 2012 Wage Base of \$110,100) recapture any tax relief amounts in excesses of the wage base on their 2012 personal income tax returns. This recapture is only in effect if Congress does not extend the reduced 4.2% rate for the full year.
- At this time, employers do not need to take any action - Paylocity will calculate payrolls processed with January and February check dates correctly.

2011 FUTA Credit Reductions increases Employer Taxes Due in January 2012

The US Department of Labor announced in late November that employers in 21 states will pay retroactive FUTA taxes for the 2011 calendar year at a higher rate since the states failed to repay their outstanding federal UI loans. This tax increase is retroactive to January 1, 2011 and was previously communicated to you in November. The additional FUTA tax must be deposited with the Q4, 2011 payment. Since our first communication, South Carolina has been granted a waiver, however, 20 states will still carry a significant increase in FUTA tax. Attached are [instructions](#) to assist you with making an estimate of this increased tax liability. Please contact your Paylocity representative if you need assistance with these instructions. **You should speak with your accounting department to ensure they are aware of the additional expense so they can accrue it PRIOR TO YEAR END since Paylocity will not impound the additional tax until mid January with our regular Q4 Variance Collection.**

FUTA rates for the following states increased by 0.3%

Arkansas	North Carolina
California	New Jersey
Connecticut	Nevada
Florida	New York
Georgia	Ohio
Illinois	Pennsylvania
Kentucky	Rhode Island
Minnesota	Virginia
Missouri	Wisconsin

The FUTA rate for the state of Indiana increased by 0.6%

The FUTA rate for the state of Michigan increased by 0.9%

Send us your 2012 SUI Rates & Deposit Frequencies

It's that time of year again - many states have sent your Annual Contribution Rate Notices and updates to your Deposit Frequencies. Please email a copy of these notices to SUIRates@Paylocity.com or your Dedicated Service Representative. Sending your rate notices to Paylocity at least 5 days before processing your first 2012 payroll will minimize any variance collections in April 2012, ensure accurate tax filings and minimize the chance of receiving a tax notice.

Preventing Tax Notices

The easiest way to prevent tax notices and eliminate unnecessary penalties or interest is to regularly review the "Taxes Tab" in Web Pay. This tab is found under the Company Menu; Payroll Set Up; Taxes and contains each Tax Code assigned to your company. Next to each Tax Code is the data necessary for sound tax filing, including Employer Account Numbers (EINs), Rates and Deposit Frequencies. Paylocity encourages you to review this information periodically to ensure we have the most up-to-date data.

Please contact your dedicated client representative if you have any questions. Paylocity wishes you a happy and a prosperous 2012.

Sincerely,
Your Paylocity Staff