DBL Law
The Practice of Excellence

Payroll Tax Cut and Jobless Benefits Extended
Bob Hoffer

On February 17, the U.S. Senate and the House of Representatives both voted to extend the 2% payroll tax cuts for the rest of 2012. This new legislation is "a bill to extend the payroll tax holiday, unemployment compensation, Medicare physician payment, provide for the consideration of the Keystone XL pipeline, and for other purposes." Had lawmakers not reached this agreement, the payroll tax cuts would have expired on February 29. The bill will be forwarded to President Obama, who has indicated that he will sign it into law.

Under the legislation, the Social Security tax for employees will remain at its current rate of 4.2%. This is a 2% reduction in the Social Security share of employee payroll taxes. As a result of the extension, an employee making $50,000 per year will save about $83 per month. Put another way, the average taxpayer will see about $20 more each week until the end of 2012.

The unemployment part of the bill works to extend these benefits from 40 to 73 weeks. This is down from the previous unemployment benefit length of 99 weeks. Most states, including Ohio, can extend benefits to 63 weeks. Kentucky and the 17 other states with the highest rates of unemployment can extend benefits to 73 weeks. Ohio's unemployment rate is currently 8.1%, while Kentucky's is 9.1%. Under the new law, states may also choose to mandate conditions to receive unemployment benefits such as drug testing.

Finally, under the third major provision of the bill, nicknamed the "doc fix," physicians will not face reduced Medicare reimbursements for the time being. The original proposed 27% cut in the reimbursement rate for doctors has been postponed for another 10 months. The cost of extending the payroll tax cuts, unemployment benefits and guaranteeing Medicare reimbursements is about $50 billion, to be paid for by a variety of cuts including changes to federal employee pensions for new hires and Medicare spending cuts.

Sources:
http://www.forbes.com/sites/kellyphillipserb/2012/02/17/payroll-tax-cuts-unemployment-benefits-extended-finally/2/

http://money.cnn.com/news/economy/storysupplement/state_unemployment_rates/

http://abcnews.go.com/blogs/business/2012/02/payroll-tax-cut-extension-could-give-consumers-85mo/