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TO: All State Agencies and Employees

FROM: Robert J. Murphy, Director  
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DATE: January 7, 2011

SUBJECT: Payroll Changes Effective January 1, 2011

Please make the following information accessible to employees of your agency.

1. Social Security (FICA) Tax for Employees

- The Social Security Administration (SSA) has announced that the Social Security taxable wage base will not increase for calendar year 2011 but will remain at \$106,800. The employer's FICA tax rate will hold steady at 7.65% for 2011; the Social Security portion of the FICA rate is 6.2%; the Medicare portion is 1.45%. The FICA tax rate for employees will be 5.65%; the Social Security portion of the FICA rate is **reduced** to 4.2% for one year on wages earned beginning January 1, 2011; the Medicare portion remains at 1.45%.

FICA Tax is composed of two portions:

- OASDI (Old Age, Survivors, Disability Insurance) or better known as the Social Security Tax.
  1. 2011 FICA taxable wages capped at \$106,800
  2. 2011 Social Security tax rate for **employers** is 6.20% on wages up to \$106,800 or a maximum of \$6,621.60 Social Security taxes.
  3. 2011 Social Security tax rate for **employees** is 4.20% on wages up to \$106,800 or a maximum of \$4,485.60 Social Security taxes.
- Medicare (Hospital Insurance)
  1. Medicare tax applies to all FICA taxable wages. There is no Cap for this tax.
  2. 2011 Medicare tax computed as 1.45% of all FICA taxable wages (EX: \$1,548.60 for FICA taxable earnings of \$106,800)

Therefore, for the first \$106,800 in FICA taxable earnings employees will pay a combined tax amount of \$6,034.20 (\$4,485.60 + \$1,548.60). All FICA taxable earnings in excess of the \$106,800 will continue to be taxed at the rate of 1.45% for Medicare. Your employer, the State of Maryland, continues to contribute Social Security taxes at the rate of 6.20% and Medicare tax of 1.45% which equals \$8,170.20 (\$6,621.60 + \$1,548.60) for the first \$106,800 in wages.

## 2. Medicare (Hospital Insurance) Tax for Certain Employees

The Medicare (Hospital Insurance) Tax, which is the only Social Security tax applicable to some University of Maryland and certain State Police employees, shall apply to every dollar of FICA taxable earnings in 2011. The Medicare (Hospital Insurance) tax rate is unchanged at 1.45%.

## 3. State Withholding Tax Changes - All local income tax rates remain at the previous level with the exception of Baltimore City which will increase to 3.20%.

The tax rates and rate brackets which became effective for all tax years beginning after December 31, 2007 as listed below, are unchanged for 2011 with the exception of wages in excess of taxable net income over \$1,000,000 which is reduced to 5.50% from 6.25%. Also, in 2011 the tax rate for withholding on bonuses paid as a lump sum in excess of \$1,000,000 will be 5.50%.

<b>Taxpayers Filing Joint, Surviving Spouse or Head of Household Returns</b>		<b>All Other Individual Taxpayers</b>	
<u>Taxable Income</u>	<u>Tax Rate</u>	<u>Taxable Income</u>	<u>Tax Rate</u>
\$1 - \$1,000	2.00 percent	\$1 - \$1,000	2.00 percent
\$1,001 - \$2,000	3.00 percent	\$1,001 - \$2,000	3.00 percent
\$2,001 - \$3,000	4.00 percent	\$2,001 - \$3,000	4.00 percent
\$3,001 - \$200,000	4.75 percent	\$3,001 - \$150,000	4.75 percent
\$200,001 - \$350,000	5.00 percent	\$150,001 - \$300,000	5.00 percent
\$350,001 - \$500,000	5.25 percent	\$300,001 - \$500,000	5.25 percent
In excess of \$500,000	5.50 percent	In excess of \$500,000	5.50 percent

**Actual Calculation****Filing Jointly, Surviving Spouse or Head of Household**

<u>Taxable Income</u>	<u>Pay</u>	<u>Plus Percent on Excess</u>	<u>Of the Amount Over</u>
\$1 - \$1,000	\$0	2.00 percent	\$0
\$1,001 - \$2,000	\$20.00	3.00 percent	\$1,000
\$2,001 - \$3,000	\$50.00	4.00 percent	\$2,000
\$3,001 - \$200,000	\$90.00	4.75 percent	\$3,000
\$200,001 - \$350,000	\$9,447.50	5.00 percent	\$200,000
\$350,001 - \$500,000	\$16,947.50	5.25 percent	\$350,000
In excess of \$500,000	\$24,822.50	5.50 percent	\$500,000

**Filing as Single, Married Filing Separately, Dependent Taxpayers or Fiduciaries**

<u>Taxable Income</u>	<u>Pay</u>	<u>Plus Percent on Excess</u>	<u>Of the Amount Over</u>
\$1 - \$1,000	\$0	2.00 percent	\$0
\$1,001 - \$2,000	\$20.00	3.00 percent	\$1,000
\$2,001 - \$3,000	\$50.00	4.00 percent	\$2,000
\$3,001 - \$150,000	\$90.00	4.75 percent	\$3,000
\$150,001 - \$300,000	\$7,072.50	5.00 percent	\$150,000
\$300,001 - \$500,000	\$14,572.50	5.25 percent	\$300,000
In excess of \$500,000	\$25,072.50	5.50 percent	\$500,000

**Exemption Amount** - Remains unchanged at \$3,200 for 2011. An additional exemption of \$3,200 may be claimed for any additional dependent that is at least 65 years of age on the last day of the tax year.

For taxpayers with higher incomes, the exemption amount is limited as follows:

<b>Taxpayers Filing Joint, Surviving Spouse, Head of Household Returns</b>		<b>All Others (Excluding Dependent Taxpayers)</b>	
<u>Federal Adjusted Gross Income</u>	<u>Exemption Amount</u>	<u>Federal Adjusted Gross Income</u>	<u>Exemption Amount</u>
\$150,001 - \$175,000	\$2,400	\$100,001 - \$125,000	\$2,400
\$175,001 - \$200,000	\$1,800	\$125,001 - \$150,000	\$1,800
\$200,001 - \$250,000	\$1,200	\$150,001 - \$200,000	\$1,200
In excess of \$250,000	\$600	In excess of \$200,000	\$600

The additional \$1,000 exemption amount for a taxpayer or spouse being at least 65 years of age or blind remains.

**Refundable Earned Income Credit Rate and Eligibility:** An individual may claim a refund in the amount, if any, by which 25 percent of the federal earned income credit exceeds the state income tax for the tax year. The eligibility for this refundable credit does not require that the taxpayer have one or more dependent exemptions.

**Safe Harbor for Calculation of Underpayment of Estimated Taxes:** Estimated tax payments made by individuals for tax year 2010 must be at least 90 percent of the tax developed for the current tax year or 110 percent of the tax developed for the prior tax year

**Pass-Through Entity Nonresident Tax Rates:** Tax rates of 7.50 percent for nonresident individual members (including nonresident fiduciaries) and 8.25 percent for nonresident entity members remain unchanged. These same rates apply to the sale or transfer of real property or tangible personal property by a nonresident individual or nonresident entity.

**Nonresident Income Tax:** The statute was amended to change the calculation of the state income tax on nonresident returns. The state income tax imposed on a nonresident is calculated using the following formula, in accordance with Section 10 of the Tax-General Article.

$$\begin{array}{ccccccc}
 & & & & \text{Nonresident's Maryland taxable income} & & \\
 & & & & \text{calculated *with* the subtractions under} & & \\
 & & & & \text{Section 10-210(b), (e) and (f)} & & \\
 & & & & \hline
 \text{Applicable} & \mathbf{X} & \text{Nonresident's} & & & & \\
 \text{tax rate under} & & \text{Maryland taxable income} & \mathbf{X} & & & \\
 \text{Section} & & \text{calculated *without the*} & & & & \\
 & & \text{subtractions under Section} & & & & \\
 & & & & & & \\
 10-105(a) & & 10-210(b),(e) and (f) & & & & \\
 & & & & \text{Nonresident's Maryland taxable income} & & \\
 & & & & \text{calculated *without* the subtractions under} & & \\
 & & & & \text{Section 10-210(b),(e) and (f)} & & \\
 & & & & & & \\
 & & & & & & \text{Nonresident} \\
 & & & & & & \text{income tax} \\
 & & & & & & \text{amount}
 \end{array}$$

4. The Military Spouses Residency Relief Act" remains -

This act amended the "Service Members Civil Relief Act" so that exemption from Maryland income tax is applicable if the following three conditions are met:

- a. Your spouse is a member of the armed forces present in Maryland in compliance with military orders
- b. You are present in Maryland solely to be with your spouse
- c. You maintain your domicile in another state

If you claim exemption under this Act you must enter your state of domicile (legal residence) on Line 5; enter "EXEMPT" in the box to the right on Line 5" and attach a copy of your spousal military identification card to Form MW507(W-4).

5. Maryland County Income Tax Withholding

All Maryland counties' rates will remain the same in calendar year 2011 with the exception of Baltimore City which will increase to 3.20%.

## Local Income Tax Withholding Rates for 2011

City or County Of Residence	County Code	Local Income Tax Withholding Rate (percentage of MD Taxable Wage)
<u>Allegany County</u>	01	3.05
<u>Anne Arundel County</u>	02	2.56
<u>Baltimore City</u>	04	3.20
<u>Baltimore County</u>	03	2.83
<u>Calvert County</u>	05	2.80
<u>Caroline County</u>	06	2.63
<u>Carroll County</u>	07	3.05
<u>Cecil County</u>	08	2.80
<u>Charles County</u>	09	2.90
<u>Dorchester County</u>	10	2.62
<u>Frederick County</u>	11	2.96
<u>Garrett County</u>	12	2.65
<u>Harford County</u>	13	3.06
<u>Howard County</u>	14	3.20
<u>Kent County</u>	15	2.85
<u>Montgomery County</u>	16	3.20
<u>Prince George's County</u>	17	3.20
<u>Queen Anne's County</u>	18	2.85
<u>St. Mary's</u>	19	3.00
<u>Somerset County</u>	20	3.15
<u>Talbot County</u>	21	2.25
<u>Washington County</u>	22	2.80
<u>Wicomico County</u>	23	3.10
<u>Worcester County</u>	24	1.25
<u>Unknown Maryland County</u>	**	3.20
<u>Out of State</u>	25-76	1.25

This table is a display of all possible Local Income Tax Withholding Rates effective for payments made on or after January 1, 2011.

\*\*Central Payroll Bureau is required to tax at maximum local rate of 3.20 absent of employee submitted address data on Form W-4. In this case the county code on the employee's pay stubs will reflect HW for Howard County.

## 6. Federal Withholding Tax Changes

The Federal income tax withholding rates will be changed effective January 1, 2011 with expiration of the "Making Work Pay" tax credit.

- The withholding allowance per exemption will increase to \$3,700
- To view the Federal Tax Tables visit our Web site at:

<http://compnet.comp.state.md.us/cpb>

Click on "State Employees/ News and Information"

Click on "2011-Federal Income Tax Withholding Information"

## 7. Annual Wage and Tax Statement (Form W-2) for 2010

The Central Payroll Bureau will issue laser-printed annual Wage & Tax Statements (Form W-2) by January 31, 2011. Confidentiality and efficiency are achieved through mailing the W-2 statements directly to all employees, former employees and employees on leave of absence or similar circumstances.

Three copies of the W-2 statement are provided for use with Federal and State returns plus a copy for the employee to retain. Additional copies are available to the employee or agency payroll personnel via our web site home page, menu option POSC, throughout the year beginning January 25, 2011.

## 8. Maryland Electronic Filing Program

Maryland Income Tax returns can be filed for "free" using "iFile". For information on iFile visit the Comptroller's web site at:

[www.marylandtaxes.com](http://www.marylandtaxes.com)

or call: 1-800-MD-TAXES

Individuals can email their state tax questions to:

[taxhelp@comp.state.md.us](mailto:taxhelp@comp.state.md.us).

## 9. Explanation of the W-2

Our web site offers a detailed explanation of the W-2 which can be downloaded for employees who need assistance in understanding the difference between their year-to-date earnings shown on the last pay stub (or “stubs” if the employee worked for more than one agency during the year) and the taxable wages shown on their Form W-2. The “Your 2010 W-2, What You Need to Know” information can be accessed from our home page

<http://compnet.comp.state.md.us/cpb>  
 Click on "State Employees/News and Information"  
 Click on "Your 2010 W2, What You Need to Know"

## 10. Request for Duplicate W-2

Duplicate W-2's may be requested via phone starting on January 25, 2011. Current available request lines are: 410-260-7964 (local) and 1-888-674-0019 (toll free in Maryland). Requests taken by phone are batched and processed on a weekly cycle. For faster service employees are encouraged to download a copy using the POSC (Payroll Online Service Center) application, located on the Central Payroll Bureau Web site:

<http://compnet.comp.state.md.us/cpb>

## 11. State Tax Return Requirements

Employee contributions to any of the following retirement or pension systems will be noted on the first line in box 14 of the W-2 labeled as “STPICKUP”. If an employee is due a refund of their Maryland taxes, failure to add the “state pickup amount” on line 3 of the 502 form or line 19 of the 505 form Maryland state tax returns can result in the refund being delayed. This is an additional modification required because the “state pickup amount” is only sheltered for Federal income tax purposes and is fully taxable for State income tax and Social Security (FICA) purposes.

## Check Stub Description

ST TCHR RETMT	ST EMP RETMT
ST POL RETMT	JUDGES RETMT
LEGIS RETMT	LAW ENF RETMT
LAW ENF PENS	ST TCHR PENS
ST EMP PENSION	ST TCHR PN-MOD
ST EMP PEN-MOD	
ST EMP PEN-ALT	

Employees will use the amount in box “16” of the Form W-2 (labeled “State wages, tips, other compensation”) for their State taxable wages. Because the Maryland Tax Return (Form 502 or 505) uses the “Federal adjusted gross wages” as the starting point for determining State taxable wages, box “16” (State Wages) was deliberately left blank in previous years. The use of software tax preparation programs or electronic/internet filing requires state wages to be reported without Federal adjustments, so box 16 will this year contain the correct amount needed by those programs to begin completing the state tax return.

See instructions in the State Income Tax Packet or visit the Comptroller's Maryland Tax web site at:

[www.marylandtaxes.com](http://www.marylandtaxes.com)

Under the heading "Tax Information"

Click on "Personal Taxes"

Click on "Filing Information/Forms and Instructions"

12. Maryland Charities Campaign Deduction

The voluntary deductions for the Maryland Charities Campaign, which were solicited in the Fall of 2010, will be effective starting with the Regular Payroll pay period ending December 28, 2010, paid on January 5, 2011 (the corresponding University of Maryland pay period ending is January 1, 2011, paid on January 7, 2011 and Contract pay period ending is January 4, 2011 and paid on January 12, 2011). The payroll deductions will continue for 26 pays.

13. Unemployment Insurance

The rate effective for the first payroll in January 2011 (PPE 12/28/10) is .0028. Unemployment Insurance Wages exclude cafeteria plans and dependent and health care plans.

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