# Important FICA Change Information
## 2011 Payroll Subscription Program

On December 17, 2010 the United States Congress passed legislation that lowered the employee FICA (Federal Insurance Contributions Act) rate from **6.2%** to **4.2%**. They mandated no change to the employer FICA percentage which remains at **6.2%**. The new law has raised many questions regarding how the FICA change affects AccountMate Payroll. This document is written in an effort to answer those questions.

The AccountMate **Apply Payroll/Payment** function currently calculates employee FICA at the rate of 6.2% of wages that are subject to FICA. The employer FICA is currently the same amount. There is no formula to calculate employer FICA as a separate value and neither is there provision to separately record employer FICA *(see Figure 1)*.

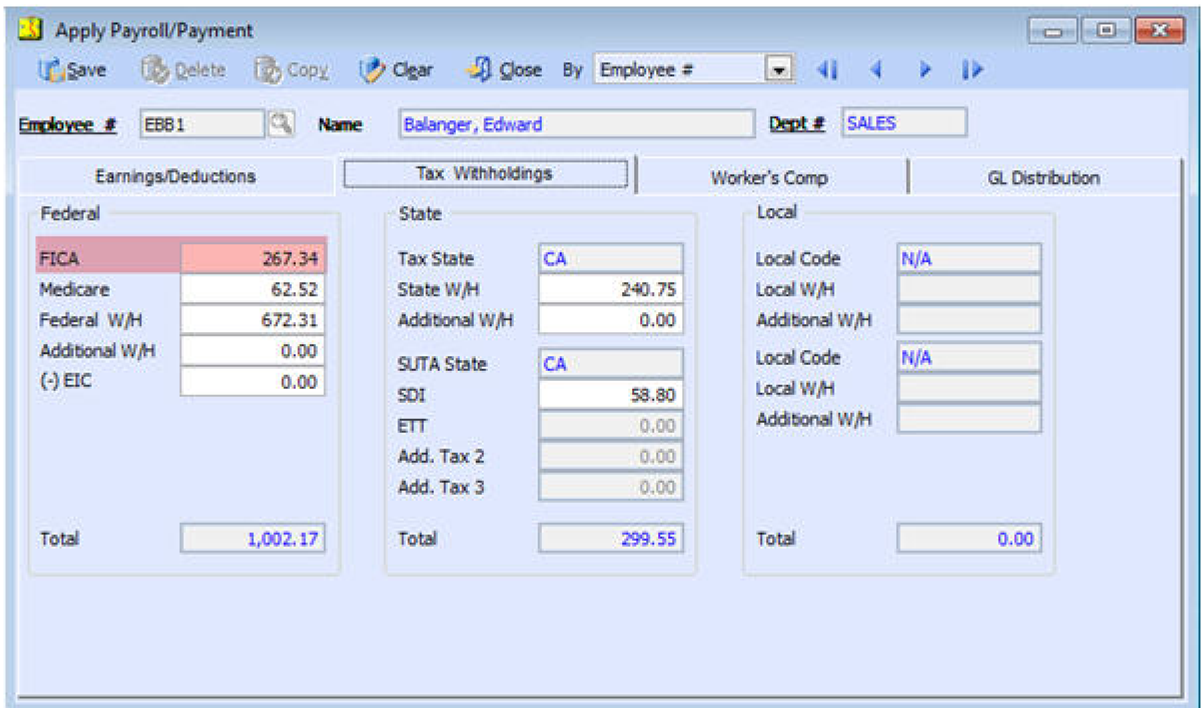


***Figure 1. Apply Payroll/Payment function – Tax Withholdings tab***

The AccountMate Payroll module is a flexible and powerful tool to automate departmentalization of payroll expense. This design presents us with a challenging process to accommodate the decrease in the employee FICA rate to 4.2% while maintaining the current employer FICA rate of 6.2%. Numerous reports must be changed; the Apply Payroll/Payment calculations must be enhanced; and the database structure must be changed. We, at AccountMate, are working diligently to accommodate all these changes as quickly as possible but with the higher goal of ensuring accuracy in all areas.

The Internal Revenue Service (IRS) has instructed employers to implement the employee FICA percentage change **no later than January 31, 2010**. They understand this law was passed at the last minute; and, therefore, have also provided **March 31, 2011** as the deadline for correcting any over withholding amounts. Use this link to access a copy of the

IRS Notice 1036: Withholding Guide. Check out Social security and Medicare tax for 2011 section on page 1.

AccountMate will provide a new Payroll Tax Subscription Program that will not only handle the different FICA calculations but will also correct the over withheld amount.

***IMPORTANT: You must not attempt to change the FICA amount during the Apply Payroll/Payment process. To do so will result in an erroneous value being calculated as the employer portion.***

***In addition, you should not change the FICA rate in the Federal Tax Tables Maintenance function. Changing the value in this area will also result in erroneous employer FICA calculation (see Figure 2).***

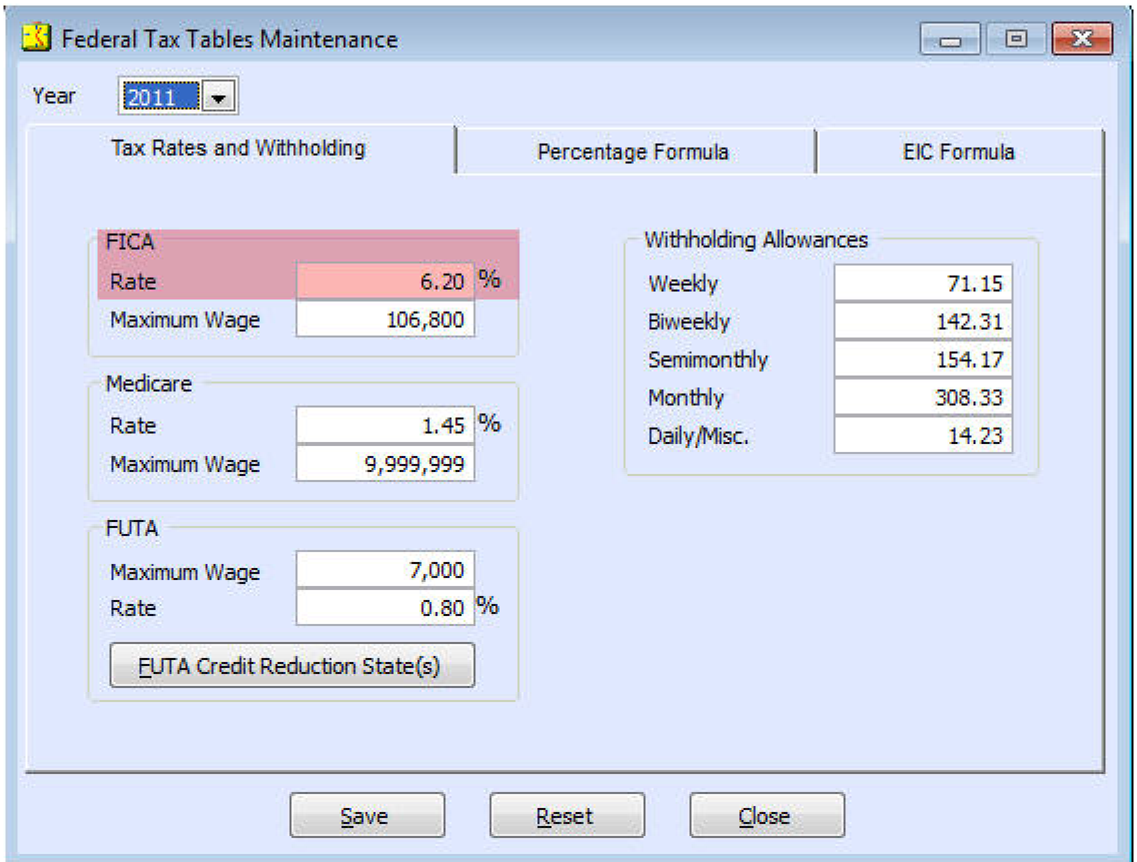


***Figure 2. Federal Tax Tables Maintenance – Tax Rates and Withholding tab***

To illustrate how the over withholding will be remedied we will use as an example an employee who is paid $1,000.00 per pay period. Let's assume that we pay the employee two pay periods before the FICA update is available. Both the employee and employer FICA rates are at 6.2%. The employee FICA withheld on these two pay periods is $62.00 per pay period *(see Figure 3)*.

| Before FICA Update (Employee and Employer FICA rate at 6.2%) | | | |
|---|---|---|---|
| | FICA Gross | Employee FICA at 6.2% | Employer FICA at 6.2% |
| 1st Payroll | 1000 | 62 | 62 |
| 2nd Payroll | 1000 | 62 | 62 |

***Figure 3. FICA Calculation Before FICA Update (first and second payroll)***

When you install the Payroll Tax Subscription Program with the FICA update, the employee FICA rate will be 4.2% and the employer FICA rate will remain at 6.2%. For the third payroll the employee FICA is calculated as the total of FICA Gross multiplied by 4.2% less Total Employee FICA Withheld which results in $2.00 employee FICA withheld. The employer FICA value will remain at $62.00 *(see Figure 4)*.

| Install FICA Update (Employee FICA rate at 4.2%, Employer at 6.2%) | | | |
|---|---|---|---|
| | FICA Gross | Employee FICA* | Employer FICA at 6.2% |
| 3rd payroll | 1000 | =(3000*4.2%) - (62+62)<br>= 126 - 124<br>= 2 | 62 |

* Calculated as total FICA Gross multiplied by 4.2% less Total Employee FICA Withheld

***Figure 4. FICA Calculation After FICA Update (third payroll)***

The fourth payroll will calculate the employee FICA at $42.00. The employer FICA will remain at $62 *(see Figure 5)*.

| Install FICA Update (Employee FICA rate at 4.2%, Employer at 6.2%) | | | |
|---|---|---|---|
| | FICA Gross | Employee FICA* | Employer FICA at 6.2% |
| 4th Payroll | 1000 | =(4000*4.2%) - (62+62+2)<br>= 168 - 126<br>= 42 | 62 |

* Calculated as total FICA Gross multiplied by 4.2% less Total Employee FICA Withheld

***Figure 5. FICA Calculation After FICA Update (fourth payroll)***

The over withheld amount has been resolved and subsequent FICA calculations will be correct for both the employee and employer.

If you have questions or need further explanation, please contact AccountMate Technical Support at 707-7747599 or 800-877-8896 ext. 95, or send an e-mail to bpsupport@accountmate.com.