MEMORANDUM

TO: Regular Faculty and Staff Employees

FROM: Dale G. Anderson
Director, University Human Resources

RE: Cost of Living Adjustment on December 31, 2012 and other “net pay” considerations

As you are undoubtedly aware, most faculty and staff will receive a long-overdue 2% Cost of Living Adjustment ("COLA") on December 31, 2012, which will appear in your paycheck dated January 18, 2013. This period of fiscal austerity has been difficult for our employees who have had to sustain years of wage freezes and furloughs without Cost of Living Adjustments.

While I know the COLA will be appreciated, I would be remiss if I didn’t remind employees that it is important to stay apprised of the federal budget situation as the President and Congress work to reach a debt reduction agreement to avoid the January 1, 2013 “fiscal cliff.” In the event a budget compromise is not reached before January 1st, you will likely see a significant and immediate impact on your paycheck due to the expiration of several temporary tax cuts that have been in place in recent years. The two that are most likely to impact you immediately are:

1. Commonly called the “Payroll Tax Holiday,” the federal Social Security tax (FICA) withheld from your paycheck was temporarily reduced in 2010 from 6.2% to 4.2% as an economic stimulus measure. Without an extension, the Social Security tax withheld from your paycheck will be restored to its original 6.2% withholding rate on January 1, 2013. The Congressional Budget Office (CBO) estimates that the expiration of the Social Security tax cut means middle-income families will see their federal Social Security tax burden increase between $700 and $1,000. For employees earning $113,700 or more, it will mean an increase of $2,425.

2. The "Bush Tax Cuts" are scheduled to expire on December 31, 2012, and if Congress does not agree to extend the cuts, the four highest tax brackets will automatically increase on January 1, 2013 to 39.6%, 36%, 31%, and 28%, from 35%, 33%, 28%, and 25% respectively. As such, there will be significantly higher tax withholding rates from most paychecks. The CBO estimates the average family will see their annual federal tax bill increase by $3,500 if the Bush Tax Cuts are not extended.

There are other tax cuts set to expire that may impact you as well. One relates to the exclusion of up to $5,250 a year for employer-provided educational assistance (tuition remission), and new Alternative Minimum Tax tables.

Please stay informed of these important matters as we approach the end of the year so that you can plan for your individual circumstances. Should you have any questions, please contact Payroll Services at 301.405.5665. Language assistance is available.

cc: Frank Taylor, Assistant Comptroller for Payroll Services