

Talking To Your Staff: How Did the “Fiscal Cliff” Affect My Paycheck?



I have a saying about management that I try and keep front and center in my mind whenever I interact with employees.

“There are two things you should never mess with: a person’s paycheck, and a person’s time off.”

If you heard a lot of noise from your staff when they received their first paycheck of 2013 – you were not alone. This New Year’s Day, Congress passed the American Taxpayer Relief Act of 2012 seeking to avoid the so-called “Fiscal Cliff” even if only temporarily. The “Fiscal Cliff” was a combination of tax increases and spending cuts designed to force Democrats and Republicans into negotiating a longer term deal on the country’s finances. Included in the fiscal cliff spending cuts were the scheduled reduction in Medicare reimbursements that has been long-forestalled by temporary delays. The Medicare cuts were stopped with another delay (or “Doc Fix”) until January 1st, 2014, while other cuts were pushed back as little as two months as Congress continues to negotiate the outlines of a bigger deal.

Another provision of the American Taxpayer Relief Act ends the two-year “payroll tax holiday” that had reduced Social

Security taxes by 2 percentage points. Employee payroll taxes rose from 4.2% back to 6.2% as a result of this. This is the main reason that most employees net take-home pay was reduced in the New Year.

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Separately, the Patient Protection and Affordable Care Act (or “Obamacare”) included a scheduled increase in the employee Medicare tax of 0.9% for individuals making more than \$200,000 a year. If you have providers or employees who will make that much in 2013, their Medicare withholding will have also gone up.

With many spending cuts only delayed for two months (roughly when the Federal Government will reach its “debt ceiling”), expects more change to taxes and spending before too long – whether they directly involve your staff’s take-home pay or not. We will be sure to keep our clients and readers updated as they arrive!

How do you explain paycheck changes in a straightforward and professional way? Let us know your thoughts in the comments below!