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Many workers surprised by hike in payroll taxes

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The first paycheck of 2013 contained a nasty surprise for many workers: a tax hike that shrank their take-home earnings by 2 percent or more.

While the "fiscal cliff" compromise spared most Americans an increase in their income taxes, Congress allowed a temporary cut in payroll taxes for Social Security and Medicare to expire. The tax increase comes at a time when worker paychecks are already under pressure from rising health care premiums and ongoing furloughs in the public sector. For many, it is big enough to offset any recent pay raise.

Matt Anhaiser, a Lexus of Roseville employee, said he and his wife, a nurse, are losing a combined $283 a month.

"That is my truck payment, or all of the extracurricular activities for my children, or a week and a half of groceries," said Anhaiser, 36. "That is significant to me. ... I don't know where it's going to come from at this point."

Economist Jeff Michael said the higher payroll tax will likely curb economic growth in 2013 by one-half of 1 percent. That won't be nearly enough to knock the economy back into a recession – Michael still thinks the economy will expand by about 2 percent – but it will contribute to another year of sluggishness.

"It's part of the reason why we're expecting another year of this ... slow growth," said Michael, director of the University of the Pacific's Business Forecasting Center. "It's going to weigh against some of the benefits we're getting from improving real estate markets and improving job markets."

Michael got a firsthand taste of the impact when he opened his own paycheck. He'll lose about $100 a month – just enough to cancel out his raise for this year.

"Is it going to affect me? Certainly," he said.

Michael said he wasn't shocked at the higher payroll taxes. He said he and most other economists had figured the increases into their growth forecasts for 2013.

Michael and other experts agreed that by resolving the fiscal cliff crisis – and averting significant across-the-board increases in income taxes – Congress avoided doing major damage to the still-fragile economic recovery.

Still, the higher payroll taxes did surprise many wage earners. The high-profile fiscal cliff debate that consumed Congress in the waning days of 2012 mostly centered on income tax rates and government spending cuts.

Little attention was paid to Social Security and Medicare tax increases, which loomed in the background of the debate. When the dust settled, Congress quietly allowed a pair of 2-year-old payroll tax cuts to expire as of New Year's Day.

With that, Social Security taxes have gone back up from 4.2 percent to 6.2 percent. Medicare taxes have gone back up from 1.45 percent to 2.35 percent for higher-wage earners, starting at $200,000 for singles and $250,000 for couples filing joint returns. **Sally Hamilton, a professor at Drexel University's graduate business school in Sacramento, said the expiration of the tax cut was almost inevitable.**

By allowing the taxes to rise, Congress can shore up the finances of two politically popular programs, she said. The main Social Security trust fund is projected to run out of money in 2035, and the Medicare trust fund is expected to run dry in 2024.

"The payroll tax cut was put in as a short-term idea when the economy was still worse than it is," Hamilton said. "It was never intended obviously to last forever. ... It was a fairly easy (issue) for them to find consensus on."

That doesn't make it go down any easier for most taxpayers.

Anhaiser, for one, isn't convinced Social Security will be around when he reaches retirement age, even with the extra tax revenue. The 36-year-old said he might reduce his 401(k) contribution to compensate for the loss in take-home pay.

The nonpartisan Tax PolicyCenter estimated that 77 percent of U.S. households are affected by the higher payroll taxes.

"For someone making $50,000 a year, it's a thousand bucks – that's significant," said Perry Ghilarducci, a principal at Auvant Ltd. certified public accountants in Sacramento.

The higher taxes follow years of income stagnation for most Americans.

"I'm just starting to see people get hired again, get interviews, (but) it's definitely not back to where it was," said Rosanna Venturini of ClearPoint Credit Counseling Solutions in North Highlands. "People are having to take jobs that pay less than what they were used to making."

Wages have grown only about 2 percent a year on average since 2009, according to the Bureau of Labor Statistics. Most years, pay raises for many Americans have barely kept up with inflation. The consumer price index rose 3.2 percent in 2011.

Robert Perrone, a Sacramento labor union official, said he has gone without a raise for five years. He's all in favor of propping up the Social Security trust fund but isn't thrilled about losing about $200 a month in take-home pay.

"That's a chunk," said Perrone, executive director of the Los Rios College Federation of Teachers. "It means I'll have to be much more mindful of my expenses. ... I will have less discretionary spending."

Scott Berenson, a $70,000-a-year state worker, is worried that the higher payroll taxes will add to an already troubled financial picture he's facing.

Berenson is a widowed father who works in the California Community Colleges Chancellor's Office. He has been hurt by state-mandated furloughs, which have cost him 5 percent of his pay since last summer, and are scheduled to last until June.

In addition, he has seen his health care premiums jump and is coping with recent news that his insurance won't cover treatments his daughter needs for seizures.

Losing the 2 percent to the payroll tax was the last thing he needed.

"It's going to take me longer to pay for what I spent on Christmas because I wasn't expecting this," Berenson said. "I had never read the fine print on the fiscal cliff issue.

"Happy New Year, Merry Christmas," he said sarcastically.

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