

December 2010

Dear Client:

It is time to update your payroll files and review your records for Form 1099 requirements.

The 2011 payroll wage bases and withholding rates are as follows:

	<u>Maximum Wage</u>	<u>Rate</u>	<u>Total Withholding</u>
Employee:			
Social Security (FICA)	\$106,800	4.20%	\$4,485.60
Medicare	No maximum	1.45%	No limit
State Disability (SDI)	\$93,316	1.20%	\$1119.79
Employer:			
Social Security	\$106,800	6.20%	
Federal Unemployment (FUTA)	\$7,000	.80%	
State Unemployment	\$7,000	Individual rate	
Federal Income Tax	2011 Circular E		
State Income Tax	2011 California Payroll Guide		

The above schedule for payroll taxes is included on this letterhead so that you may use it as a handy reference. Please note for 2011 the employee withholding rate is 2% less than the employer matching rate. Also note EFTFS enrollment and electronic payments are required beginning January 1, 2011(see next page). The balance of our update is attached. The year-end payroll letter will soon be on our website at www.pccllp.com. As always, please contact us if you have any questions. We are available to assist you.

Best wishes for a happy and prosperous 2011.

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PCC/pjb

SELF-EMPLOYMENT TAX

A tax of 13.3% is imposed on net earnings from self-employment. This rate consists of a 10.4% (6.2% + 4.2%) component for old age, survivors, and disability insurance (OASDI) and a 2.9% component for Medicare. For 2011 the maximum earnings base is \$106,800 for OASDI. There is no earnings base for Medicare. One-half of the tax is deductible in computing adjusted gross income on the individual income tax return.

ELECTRONIC FEDERAL TAX PAYMENT SYSTEM (EFTPS)

EFFECTIVE 1-1-2011 you must enroll and use the Electronic Federal Tax Payment System (EFTPS) to pay your federal liabilities electronically. Enroll at the secure site: <https://www.eftps.gov/eftps/>. Call us for assistance, or contact EFTPS directly at 1-866-528-0687. It typically takes 5-7 business days after enrollment to receive your pin # to pay electronically.

FEDERAL AND STATE REQUIREMENTS FOR DEPOSITS

If an employer's federal income tax withholding and FICA liability is \$50,000 or less during the look-back period, the employer is categorized as a monthly depositor. For the year 2011, the look-back period is July 1, 2009 to June 30, 2010. When the tax liability is greater than \$50,000, the employer is designated as a semi-weekly depositor. Once a depositor's status is determined, that status remains the same for an entire calendar year. Therefore, a semi-weekly depositor will continue that status even if the annual payroll taxes diminish below \$50,000. Also, an increasing payroll tax situation will not change a monthly depositor's status to semi-weekly until the following calendar year. However, in all cases, if an employer has total employment taxes of \$100,000, the next-day rule will apply **IMMEDIATELY**. Use the following rules as appropriate:

<u>Status</u>	<u>Pay Day</u>	<u>Federal Deposit Due</u>	<u>State Deposit Due</u>
Monthly	N/A	15 th of following month	If SWT less than \$350, pay quarterly; 15 th of following month if SWT is \$350 or more
Semi-weekly	Wednesday Thursday Friday	Following Wednesday	Quarterly if less than \$350.00; 15 th of following month if SWT is \$350 to \$500; More than \$500, the following Wednesday
	Saturday Sunday Monday Tuesday	Following Friday	If SWT is more than \$500 pay the following Friday
Next Banking Day	N/A	Next banking day	Same as Federal if SWT is \$500 or more

The FUTA deposit threshold will be \$500. This applies to all FUTA tax deposits reported on Forms 940, 940-EZ and 940-PR.

W-2 PENALTIES

The IRS will penalize employers for each mismatched W-2. Mismatched W-2s are those where the name and social security number do not match IRS files. The Social Security Administration will verify social security numbers at no charge by calling (800) 772-6270. Online verification is available to employers who register with the Social Security Administration. Go to www.socialsecurity.gov/bsowelcome.htm or call EFTPS directly at 1-866-528-0687 to register. A **\$50 penalty** per mismatched W-2 may be assessed.

IRS requires employers who file 250 or more W-2s to file electronically. Penalties may be assessed for failure to file appropriately.

FORM 1099

Form 1099 generally needs to be hand-delivered or mailed first-class to the payee by January 31, 2011 and must be sent, along with transmittal Form 1096 for each different type of Form 1099, to the Internal Revenue Service by February 28, 2011. The Internal Revenue Service due date is longer if the forms are filed electronically. The State of California does not require a copy of Form 1099. Be sure the correct taxpayer's identification number is on the form. In the case of individual persons doing business, be sure the individual's name, not business name, is listed first. **"Account Number Box"** – IRS requires a unique account number for each payee (not a social security or tax ID number) if you have multiple accounts for one recipient for the same type of information return. Also, the IRS requires the payer's telephone number on all 1099s. The completion of a Form W-9 by the recipient will preclude penalty situations for erroneous taxpayer's identification information. The regulation exempting corporations will not apply to payments made to attorneys, law firms or medical corporations. 1099 reporting is also a new requirement for owners of rental properties. **Remember, payments to employees such as Christmas bonuses, unaccounted for reimbursements or allowances for travel and car expenses should not be reported on a Form 1099, but should be included on the Employee's Form W-2 Wage and Tax Statement.**

* Propp Christensen Caniglia LLP is a partnership and therefore, each of our business clients should prepare a 1099 for all payments made in 2010 in excess of \$600. Our federal identification number is 26-2363334.

As current law stands, beginning in 2011 Form 1099 reporting, which will happen in 2012, has dramatically changed. As part of the Patient Protection and Affordable Care Act, which passed on March 23, 2010, businesses will be required to report payments of over \$600 per year for goods or services made to anyone, including corporations. The exceptions are payments to exempt (charitable, non-profit) organizations and payments made to credit card companies. While we were hoping this law would be rescinded it has not yet happened. Therefore, we recommend obtaining a W-9 for each and every vendor that you pay or intend to pay over \$600 to during 2011. We have included a Form W-9 that you are free to photocopy.

MINIMUM WAGE

California minimum wage is \$8.00 per hour. The San Francisco minimum wage of \$9.92 per hour is effective January 1, 2011. The San Francisco minimum wage rate applies to small employers (with less than 10 employees) and non-profit employers.

FEDERAL STANDARD MILEAGE RATE

For the year 2011, the federal standard mileage rate increases to 51¢ per mile.

NEW HIRE REPORTING

All California employers are required to report the name, address and social security number of all newly hired or rehired employees. This information must be sent to the California Employment Development Department within 20 days of hire or rehire.

INDEPENDENT CONTRACTOR REPORTING

All California businesses are required to report on independent contractors. An independent contractor is an **individual** who is not an employee and who receives compensation or executes a contract for services performed. The obligation to report occurs 20 days from either 1) entering into a contract for \$600 or more or 2) when payments of at least \$600 have been made. The Employment Development Department (EDD) reporting form is Form DE-542. Please contact us if you have additional questions or require forms. You can also visit the EDD Web Site at www.edd.ca.gov or call EDD at 916-657-0529 for information.

CALIFORNIA PAID FAMILY LEAVE (PFL)

The PFL now affects all employers. A portion of the SDI rate is intended to establish a fund for the PFL. Employees have a one week wait period, but then will be eligible for six weeks paid family leave. Please contact our office or EDD for specifics as to what constitutes family, qualifying health conditions, benefit duration and coordination with other programs.

There have been many new laws enacted, extended and/or delayed so please contact our office with any questions. We anticipate and look forward to serving you in the coming year.