

PAYROLL TAX UPDATE – 2012



With the beginning of 2012 just around the corner, it is time to take note of changes concerning payroll taxes effective January 1, 2012.

2012 Payroll Highlights

Effective for the first two months of 2012, the employee tax rate for social security returns remains unchanged at 4.2%. Please see page 2 for more information.

Effective July 1, 2011, the FUTA tax rate decreased to .6% for the last 2 quarters in 2011. However, some states including PA did not receive the full credit and therefore our rate is .9%. If something changes throughout the year, we will let you know. Please see page 2 for more information.

Effective January 1, 2012, an employer must disclose on each employee's annual form W-2 the value of the employee's health insurance coverage sponsored by the employer.

Effective immediately, all Subchapter S shareholders owning 2% or more will need to record any health insurance payments made for themselves and their family on a W-2. Please see page 5 for more information.

Effective January 1, 2012, Act 32 becomes effective statewide and reforms the local earned income tax withholding system. The Act also establishes countywide tax collections districts for the remittance and distribution of local earned income taxes. All Employers are **REQUIRED** to withhold the applicable local earned income tax amount from employees' wages.

Federal Withholding and FICA Taxes

Small employers that have an annual tax liability of less than \$1,000 or less, will be able to opt out of filing Form 944 and request to file Form 941.

If you have a tax liability of less than \$2,500 for a quarter, no deposit is required. Pay with Form 941.

If you have a tax liability of zero to \$49,999 for the four quarter lookback period, you will be a monthly filer and must make a tax deposit by the 15th of the following month. Example: \$3,100 liability for December will be due January 15.

If you have a tax liability of \$50,000 or more for the previous four quarters ending in September, December, March and June, you have to file your deposits weekly. If you are new to the Electronic Federal Tax Deposit System, please give us a call so we can help you establish the system. These deposits must be made at least 3 days before Wednesday or Friday, depending on the timing of your payroll. Paydays of Wednesday, Thursday, and Friday are due on or before the following Wednesday. Paydays of Saturday, Sunday, Monday and Tuesday are due on or before the following Friday. If you have not registered for the Electronic Federal Tax Payment System and you fall into this category, please contact our office as soon as possible.

The IRS should notify you in advance as to whether you are a monthly or biweekly filer. If you have not received notification by now, please give our office a call.

Social Security and Medicare Tax Rates

On December 22, both the House and Senate leaders agreed to let the Social Security rate remain unchanged for wages earned through the end of February 2012. Beginning March 2012, the rate will change to 6.2% unless both the House and Senate extend the payroll cut for the full year. However, the medicare rate remains unchanged. The taxable wages for Social Security will increase from \$106,800 to \$110,100. The taxable wages for Medicare tax are still gross earnings. Rates for employees and employers have returned to 6.2% for Social Security and 1.45% for Medicare. For employers the maximum tax for Social Security is \$6,826.20. If and when something changes, we will let you know.

The rate for the self-employed will be 13.3% on the first \$110,100 and 2.9% on earnings "over" \$110,100.



Federal Unemployment Tax

The Treasury Department amended regulations to increase the accumulated FUTA tax deposit threshold from \$100 to \$500. All PA employers will be subject to the same FUTA tax rate; 0.9% on the first \$7,000 of wages for each employee, to be reported on Form 940, except sole proprietors. Please remember, any tax over \$500 per quarter or accumulated, has to be deposited quarterly, even though Form 940 is filed yearly.

State Taxes

The PA income tax rate remains at 3.07%.

PA Department of Revenue is making it easier for you to file and pay your withholding tax by replacing its paper-base system with two free electronic filing options:

- filing via the internet (www.etides.state.pa.us)
- Using a toll free telephone filing system

PA Unemployment Tax

All employees, except sole proprietors, will have the same withholding of .08% of their total gross wages.

The beginning contribution rate for new companies will be 3.7030%. However, if you are a new construction company, the beginning rate is 10.2626%.

PA Sales Tax Filers

PA Department of Revenue is making it easier for you to file and pay your Sales Taxes by replacing its current paper-base system with two free electronic filing options:

- filing via the internet (www.etides.state.pa.us)
- Using a toll free telephone filing system

New Employee Hiring Mandate

As the result of the passage of the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, employers are required to report newly hired or rehired employees following a termination, separation or layoff to the State within 20 days. The State of Pennsylvania and other states will use the New Hiring Reporting Form as a match against child support records to locate non-custodial parents, establish a child support order, or enforce an existing order.

Sole Proprietors Only

1. Child under the age of 18 or the wife of an owner are not taxable for PA Unemployment or Federal Unemployment.
2. Child between the ages of 18 and 21 is not taxable for Federal Unemployment.
3. Child under the age of 18 is not taxable for social security and medicare taxes.
4. Mother and Father of owner are not taxable for Federal and State Unemployment.

Excess Cost of Group Life Insurance

The cost of group life insurance in excess of \$50,000 provided to employees is subject to Federal Income tax. Employers need only pay their half of the FICA tax to the IRS. Employer reports the employee's portion as owed on W-2's. Retirees will pay their portion of the tax with their 1040's.

Simple IRA

If your office contributes to a Simple IRA Plan, please remember that Federal wages are lower than Social Security and Medicare. The employee's contribution to the plan is taxable for all taxes "but" Federal withholding. An employee's contribution to the Simple IRA must also be included in block 12 of their W-2 and coded as either an S or D depending on the type of plan you have. If your office contributes to just the Simple IRA, a code of S should be used. If your office contributes to a Simple IRA that is a 401(k) plan, a code of D should be used. Also, you must check box 13 for a retirement plan. The maximum contribution for 2012 for an individual under age 50 is \$11,500. Over age 50, the maximum contribution is \$14,000.

Cafeteria Plan (Section 125)

Cafeteria plans are employer-sponsored benefit packages that offer employees a choice between taking cash and receiving qualified benefits, such as accident and health coverage, group-term life insurance coverage, or coverage under a dependent care program. No amount is included in the income of a cafeteria plan participant who chooses among the benefits of the plan; however, if a participant chooses cash, it is includible in gross income as compensation. If qualified benefits are chosen, they are excludable to the extent allowed by law. Most benefits are excluded from the wage base for purposes of income tax, FICA, FUTA, Medicare, State, Local and RRTA withholding. It should be noted that coverage under a dependent care program are taxable for PA and Local withholding. However, they are taxable for PA Unemployment. Also, the value of the benefit must be included on the employee's Form W-2.

Subchapter S Shareholder's Hospitalization

All subchapter S shareholders owning 2% or more, who expense health insurance payments on themselves and their family MUST include those payments as federal wages on Line 2 of Form 941. This means that if you normally have NO W-2 and have health insurance payments, you need to do one this year! In addition, you need you to pay for any health insurance in order to take a 100% deduction on your personal tax return in 2010. If your wife covers you on her policy at work and they deduct the cost from her check, you need to issue a corporate check to reimburse her, so you can deduct this cost at 100% on your personal tax return. Those of you on Medicare and that have the cost deducted from your monthly income, need to

reimburse yourself by year end or NO deduction. This then, along with any other health insurance paid for you by the corporation, will be added to your gross wages.

For those of you doing your own W-2, this amount is recorded in Box 1 and Box 14. In Box 14, please use the code HI2%. Note this amount is only used for Federal Wages and not for any other payroll tax. Since it is taxable for Federal wages, you must record this amount also on Line 2 of Form 941 for the 4th quarter of the year.

Early Filing of Payroll Returns and W-2's

Please remember, businesses terminating payroll during the course of a tax year are required to file "FINAL" payroll returns and W-2's in the quarter they terminate. Form 940 however, is still required to be filed at the end of the year.

Form W-2 Wage and Tax Statement

W-2 forms reporting wages are to be completed and forwarded to the recipients by "January 31" and filed with the IRS by "February 28".



Federal Minimum Wage

Minimum Wage	\$ 7.25
Waitress Minimum Wage	2.13

Child Labor Laws

There are certain restrictions placed on employers by the Fair Labor Standards Act in regards to Child Labor Laws. This act is designed to protect minors by restricting the types of jobs and the number of hours they may work. Wages are taxable for Federal Withholding Tax, FICA, Medicare, State, and Local.

Youths 18 or older may perform any job, whether hazardous or not, for unlimited hours, in accordance with minimum wage and overtime requirements.

Youths 16 and 17 years old may perform any non-hazardous job, for unlimited hours.

Youths 14 and 15 years old may work outside school hours in various non-manufacturing, non-mining, non-hazardous jobs up to:

1. 4 hours on a school day
2. 8 hours on a non-school day
3. 18 hours in a school week
4. 40 hours in a non-school week

Also, the work must be performed between the hours of 7 a.m. and 7 p.m., except from June 1 through Labor Day, when evening hours are extended to 10 p.m.

Form 1099 - Information Returns

A person engaged in a trade or business paying **\$600 or more** in the course of the trade or business in any calendar year is required to file information returns (Form 1099). The 1099's must be issued to the recipient by January 31 and be filed with the IRS by February 28.

1099's **DO NOT** have to be issued to the following:

1. A corporation
2. For merchandise, telegrams, telephone, freight, storage and similar charges (such as utilities).
3. Rent payments to a real estate agent.
4. Employees for business travel.
5. Salaries and wages covered by W-2's.

If you are a sole proprietor you **must** show the individual's name on the first line; on the second name line, you may enter the "doing business as (DBA)" name. You may not enter only the DBA name. For the Taxpayer Identification Numbers (TINs) enter either the individual's social security number or the EIN of the business. The IRS prefers that you enter the SSN.

If you are a Single-member LLC (including a foreign LLC with a U.S. owner) that is disregarded entity separate from its owner, enter the individual's name only on the first name line and the LLC's name on the second name line. For the TIN, enter the individual's SSN (or EIN, if applicable). If the LLC is a corporation, partnership, etc., enter the entity's EIN.

Alert for payments made after December 31, 2012, a business must file an information return for all payments aggregating \$600 or more in a calendar year to a single payee. We are hoping that this part of the law gets repealed.

Reporting of Payments to Attorneys on Form 1099

Important change "effective January 1, 2001" - **all** payments, regardless of the amount, made to attorneys after December 31, 2000, by a trade or business in the course of that trade or business, are to be reported. Payments made to law firms are payments made to attorneys and therefore are subject to this provision. Payments made to corporations engaged in providing legal services are reportable.

Social Security Earnings Test

Description	2011	2012
Maximum amount ages 65 and over	No Limit	No Limit
Amount exempt for beneficiaries under 65	14,160	14,640

In the year 2012, recipients who reach age 65 and 4 months, have a limit of \$3,240 per month. In other words, that person will lose \$1 in benefits for each additional \$3 earned. Beneficiaries who are between the ages of 62 and 65 and 4 months will lose \$1 in benefits for each \$2 earned over \$14,640. There is no ceiling for those who are older. Only wages and/or net earnings from self-employment count towards Social Security's earnings limit

State Identification Number

The State of Pennsylvania has assigned an 8-digit number to identify their Employer Withholding Tax accounts. This account number supplements the federal Employer Identification Number (EIN) which has long been used to identify employers.

Pennsylvania will continue to use the federal EIN to identify entities, but within each entity, a taxpayer may have multiple accounts for various taxes, such as Sales Tax and Employer Withholding. Each tax type within an entity (identified with EIN) now requires its own unique account number for reporting and remitting taxes as part of their integrated tax system.

Keeping Our Clients on the Good Side of the IRS

A business that fails to pay the payroll taxes withheld from employees' wages runs a real risk that the IRS will close down its' business. Resume paying current payroll tax liability as soon as possible, before paying any overdue liabilities. You will pay more in penalties if you elect to pay off old one's first. A penalty is imposed on every payment missed. The IRS usually will not close a business if its' current liabilities are being paid. They then will agree to work out a payment schedule for the old liabilities.

The requirements for withholding taxes, properly remitting them and preparing the payroll tax returns, are becoming even more complex. **To avoid penalties**, it is very important that you understand all the requirements. You, as an employer, are primarily liable for the following guidelines, so it is important that you and the person in charge of payroll, understand **all** the rules. We have prepared a payroll tax checklist that highlights payroll bookkeeping rules and regulations. If you would like a copy of this guide, just give our office a call and we will be happy to mail one to you at no cost.

Give Us Time

Since all payroll return filings have a January 31 due date, it is important that our office receive your payroll information as early as possible in January in order for the staff to have enough time to prepare the returns and W-2's before the due date. Your cooperation will only enable us to serve you better.

Change in Address

The post office will not forward your federal tax forms to a new address. You must notify the appropriate governmental offices yourself. In order to change your address on your federal tax coupons, use Form 8109C. However, Form 8109C will only change your address for the federal tax coupons. In order to completely change your address with the IRS, you need to fill out and forward Form 8822, "Change of Address" to the IRS

Can We Be Of Service To Someone You Know?

If you have friends or business associates who you think would like to receive this newsletter, please give us their names and addresses. We'd be happy to send it to them with your compliments.

Sincerely,



Lori J. Zellner

Certified Public Accountant

2012 Payroll Rates Summary

FEDERAL MINIMUM WAGE

Minimum Wage	\$ 7.25
Waitress Minimum Wage	2.13

FEDERAL TAXES

Type of Tax	Taxable Wage Base	Employer Tax Rate	Employee Tax Rate	Maximum Employer Tax	Maximum Employee Tax
Social Security	\$110,100	6.20 %	4.20 %	\$6,826.20	\$6,621.60
Medicare	No Limit	1.45 %	1.45 %	No Limit	No Limit
FUTA	\$7,000	0.90 %	N/A	\$63	N/A

STATE MINIMUM WAGE

Minimum Wage	\$ 7.25
Waitress Minimum Wage	2.83

STATE AND LOCAL TAXES

Type Of Tax	Taxable Wage Base	Tax Rate	Comments
PA	Gross Wages	3.07%	Effective January 1, 2004
PA UC	\$ 8,000.00	Unknown	State assigns the employer a tax rate
PA UC	Gross Wages	.08%	Employee withholding rate
Local	Gross Wages	Most Cases 1%	Locality will assign a rate

*****Please remember that the Employee Social Security rate is 4.2% until February 29, 2012 and then the rate should return to 6.2%*****