

# D·H·SCOTT & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

*a limited liability partnership*

December, 2011

**Payroll Tax and Employment Issues in 2012** *With the new year comes all of the changes in tax rates, payroll tax dates, and all of the sundry "housekeeping" that keeps your business running smoothly. In this update we are emphasizing payroll tax and employment issues. We hope you find the information useful. We have provided a Payroll Tax Calendar on a separate page — keep it in a convenient place for your reference throughout the year. Remember to review all of your Federal and State Withholding Tables to make certain they have been updated for recent law changes.*



### **Forms W-2 & W-4**

Now is the time to send out new W-4's to all employees to verify their name, address, Social Security Number and withholding allowances. Legally, W-4 forms previously provided to you **claiming exemption from withholding** expire on February 15, 2012. Begin withholding for any employee who previously claimed exemption from withholding, but has not given you a new Form W-4 and withhold tax as if he or she is single, with zero withholding allowances. As an employer, you can be charged penalties for incorrect reporting of names and/or Social Security Numbers on Form W-2. Errors not only affect the employer, but the Social Security Administration would be unable to post the earnings' records to the employee's account for benefit purposes. **The deadline for providing your employees Form W-2, for their 2011 earnings, is January 31, 2012.**

### **Federal Earned Income Tax Credit Notification**

All employers are required to notify their employees about the availability of the federal Earned Income Tax Credit (EITC). Written notification must be provided to employees in person or by mail within one week before or after, or at the same time, that you provide an annual wage summary, including, a Form W-2 or a Form 1099. More information can be found at [www.irs.gov](http://www.irs.gov).

### **Important California and Federal Form 940**

For 2011 California has been identified as a **credit reduction state**. Due to the non-repayment within two years of money borrowed from the Federal government for unemployment benefits, employers will pay an additional 0.3% on the first \$7,000 paid to employees to the U.S. Treasury Department. You are **required** to complete **Schedule A for Form 940** to calculate this amount. See IRS website for additional information.

### **Special Points Of Interest**

- ◆ 2012— New Rates & Tables
- ◆ 2012 Calendar of Payroll Tax Deadlines
- ◆ Mileage Rate remains at 55.5 Cents for Business Use
- ◆ California Minimum Wage Remains at \$8.00 Per Hour
- ◆ FICA—Social Security Rate for employees remains at 4.2% through February 29, 2012. The limit increases to \$110,100 and the employer rate remains at 6.2%.
- ◆ Medicare Rate Remains the Same, 1.45% with No Wage Limit
- ◆ SDI Rate decreases to 1.0%, with the limit increasing to \$95,585
- ◆ Reminder: Bonus Wages are to be Withheld at a Flat Rate of 25% for Federal and 10.23% for State Taxes
- ◆ Board of Equalization filing requirements for all businesses with Gross Receipts of \$100,000 and higher.
- ◆ Required Electronic Funds Transfer for all Federal tax deposits began January 1, 2011. See page 4 for details.

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### **Employee Reporting Requirements**

All California employers must report all of their new or rehired employees who work in California to the New Employee Registry **no later than 20 days after their start-of-work-date**. Employers must report the employee's full name, Social Security number, address and start-of-work date as well as the Employer's name, address, California employer account number and Federal employer identification number (FEIN). Visit [www.edd.ca.gov](http://www.edd.ca.gov) for more information and guidance on new employee reporting.

#### **Reporting Requirements (one of the following):**

- \* Form DE 34
- \* A letter with the required information
- \* A copy of the employee's W-4 with the start-of-work date, California employer account number and the FEIN added.

1099's must be distributed to most recipients by January 31, 2012. There are extended due dates for distribution of certain 1099 forms. The annual transmittal of Forms 1099 (Form 1096) must be filed with the IRS by February 29, 2012. For detailed information, please refer to the IRS website www.irs.gov or contact us.

**1099-INT & 1099-DIV** Payments of interest and dividends of \$10.00 or more must be reported.

**1099-MISC** You are required to report any payments made in the course of your trade or business, including those made to federal, state or local government agencies and nonprofit organizations, when **all** of the following conditions are met:

- Non-employee compensation; payment made to someone who is not your employee
- Payment made for services or rent in the course of your trade or business
- Payment to someone other than a corporation
- During the course of the year, payments totaled at least \$600.

The rule that attorneys' fees of \$600 or more must be reported to the IRS on Form 1099-MISC has not changed. However, if you made a payment of any amounts in combination to an attorney in the course of your business in connection with legal services and the attorney's fee cannot be determined, you must report the total amount paid to the attorney on Form 1099-MISC. **The exception for payments to corporations does not apply to payments for legal services. Those payments must be reported on Form 1099-MISC. See the Form instructions at www.irs.gov for more information.**

Attention: Changes Ahead for 2012 and 2013 W-2 Reporting

Beginning in 2012 the Patient Protection and Affordable Care Act require the reporting of employer provided health coverage on form W-2. The amount will be reported in Box 12 with a code of DD. There will be some exemptions for small employers but will be required by all employers in 2013. See the IRS website for details.

**DID YOU KNOW.....** California has a program for employers who need to reduce hours but do not want to lay off employees? The Work Sharing Unemployment Insurance program allows for the payment of benefits to individuals whose wages and hours have been reduced. This program is considered a temporary and practical alternative to layoffs. Please visit [http://www.edd.ca.gov/Unemployment/Work\\_Sharing\\_Claims.htm](http://www.edd.ca.gov/Unemployment/Work_Sharing_Claims.htm) for more information

**Independent Contractor**

*The requirements placed in effect on January 1, 2001, still remain an important part of your reporting requirements. Any business or government entity that is required to file a Federal Form 1099-MISC for services, will be required to report information to the State of California Employment Development Department. **This information must be reported on The Report of Independent Contractors Form DE 542. The information must be reported within 20 days of the earlier of either:***

- **Entering into a contract** which equals or exceeds \$600
- When the aggregate payments to an Independent Contractor equal or exceed \$600

If you have any questions regarding the reporting requirements, you may contact us or the EDD at 916-657-0529 or visit their website at [www.edd.ca.gov](http://www.edd.ca.gov)

Form I-9

Employers are required to determine that all new employees are eligible to work in the United States. Form I-9, Employment Eligibility Verification Form, is used as proof of an individual's identity and eligibility. **You must have a completed Form I-9 for everyone you have hired after November 6, 1986.**

If you are an employee of a business entity, such as a corporation or partnership, the business entity is required to complete a Form I-9 on you. More information can be found at [www.uscis.gov/files/form/i-9.pdf](http://www.uscis.gov/files/form/i-9.pdf)

**JUST FOR FUN**

How is a mugger different from the Internal Revenue Service? Both take your money, but the mugger doesn't make you fill out forms.

**2012 MILEAGE RATES**

IRS mileage rate allowances for 2012 are as follows:

- Standard rate for business usage remains at 55.5 cents a mile.
- Standard rate for medical reasons and for computing deductible moving expenses decreases to 23 cents a mile.
- Standard rate for providing service to a charitable organization decreases to 14 cents a mile.

**Board of Equalization—Registration and Reporting Requirements for Certain Purchasers:** Assembly Bill x4-18 requires a "qualified purchaser" to register with the Board and report and pay use tax directly to the BOE. A "qualified purchaser" is a business with at least \$100,000 in annual gross receipts from business operations. The return for 2011 along with the payment is due by April 16, 2012. Please contact us at (530) 243-4300 for more information or visit the BOE website at [www.boe.ca.gov](http://www.boe.ca.gov)

# 2012 Payroll Tax Calendar

## January 17, 2012

December Federal and State liability should be deposited if you are a monthly depositor.

## January 31, 2012

- Last day to distribute W-2's to employees and 1099's to recipients.
- 2011 1099 Federal Unemployment Tax Return due (Form 940 and 940 Schedule A).
- 2011 DE7 Annual Reconciliation Return due.
- 2011 4th Quarter Employer Payroll Tax Returns due (Forms 941, 943 and DE9 and DE9C).
- 2011 4th Quarter or Annual FUTA and SUTA deposit due.
- 2011 Annual Return of Withheld Federal Income Tax due (Form 945).

## February 15, 2012

January Federal and State liability should be deposited if you are a monthly depositor.

Begin withholding for each employee who previously claimed **exemption** from withholding but has not completed a new W-4 for the current year. If a new W-4 has not been received, withhold at single rates with zero withholding allowances, until a new W-4 has been received.

## February 29, 2012

2011 Wage and Tax Statement Form W-2 and W-2 transmittal due (Form W-3). Also, Form 1099 and Form 1096 transmittals are due to the office indicated on Form 1096.

## March 15, 2012

February Federal and State liability should be deposited if you are a monthly depositor.

## April 16, 2012

March Federal and State liability should be deposited if you are a monthly depositor.

Qualified Purchasers must report and pay Use Tax to the Board of Equalization

## April 30, 2012

2012 1st Quarter Employer Payroll Tax Returns due (Forms 941 & DE9 & DE9C). 2012 1st Quarter FUTA and SUTA deposit due if required.

## May 15, 2012

April Federal and State liability should be deposited if you are a monthly depositor.

## June 15, 2012

May Federal and State liability should be deposited if you are a monthly depositor.

## July 16, 2012

June Federal and State liability should be deposited if you are a monthly depositor.

## July 31, 2012

2012 2nd Quarter Employer Payroll Tax Returns due (Forms 941 & DE9 & DE9C). 2012 2nd Quarter FUTA and SUTA deposit due if required.

## August 15, 2012

July Federal and State liability should be deposited if you are a monthly depositor.

## September 17, 2012

August Federal and State liability should be deposited if you are a monthly depositor.

## October 15, 2012

September Federal and State liability should be deposited if you are a monthly depositor.

## October 31, 2012

2012 3rd Quarter Employer Payroll Tax Returns due (Forms 941 & DE9 & DE9C). 2012 3rd Quarter FUTA and SUTA deposit due if required.

## November 15, 2012

October Federal and State liability should be deposited if you are a monthly depositor.

## December 1, 2012

Request a new Form W-4 from each employee who claimed total exemption from withholding during the year, or whose withholding allowance will change.

## December 17, 2012

November Federal and State liability should be deposited if you are a monthly depositor.

## January 15, 2013

December Federal and State liability should be deposited if you are a monthly depositor.

### *Please Note*

The 2012 Payroll Tax Calendar does not include due dates for employers who fall into the semi-weekly deposit requirements (\$50,000 or more total tax liability for the look-back period of July 1 to June 30 of the prior year). If wages are paid on Wednesday, Thursday or Friday, deposit by the following Wednesday. If wages are paid on Saturday, Sunday, Monday or Tuesday, deposit by the following Friday. If, on any day, an employer's un-deposited federal employment tax liability equals or exceeds \$100,000, taxes must be deposited by the close of the next banking day. Also, refer to the electronic deposit requirements on Page 4.

**Federal:**

Beginning January 1, 2010 the Treasury Department no longer maintained the paper coupon system. This means that all Federal depository taxes (such as employment tax, excise tax, and corporate income tax) must be made using the Electronic Federal Tax Payment System (EFTPS) in 2012. Failure to use EFTPS when required may result in a 10% penalty. Banks are no longer accepting deposit coupons, Form 8109. The due date for submitting payments will depend on the method of transfer you choose. If you use EFTPS Direct, payment must be made one banking day prior to the due date. If your bank or financial institution is an authorized collector, you may be able to submit payments the same day they are due (check with your bank to find out if they offer this service).

**California:**

California also requires electronic funds transfer (EFT) of tax deposits if your state income tax and state disability insurance deposits averaged \$20,000 or more during the prior state fiscal year (July 1-June 30) or your total tax liability exceeds \$80,000 for any income year beginning on or after January 1, 1995. Once you remit a payment that meets the criteria for mandatory participation all future payments must be made via EFT.

**Employer and Hiring Credits**

There are new and continuing credits that may benefit your business during 2011 and 2012.

The **Enterprise Zone Credits** for California remain available for eligible businesses physically located in the Enterprise Zone.

The Federal **Returning Heroes Tax Credit** allows a tax credit of up to \$5,600 per employee for hiring veterans who have been looking for a job for more than six months, as well as a \$2,400 credit for veterans who are unemployed for more than four weeks, but less than six months.

The Federal **Wounded Warriors Tax Credit** allows a tax credit of up to \$9,600 per employee for hiring veterans with service-connected disabilities who have been looking for a job for more than six months.

The **Small Business Health Care Tax Credit** is available to small business employers that pay at least 50% of the employee's premium for employee only coverage. For 2010 through 2013 the maximum credit is 35% of the premium paid. This credit increases to 50% for 2014. To see if you qualify please contact us or visit [www.irs.gov](http://www.irs.gov).

**Read the Guides**

*We cannot overemphasize the need for employers to use the IRS Circular E, Employer's Tax Guide and the California Employer's Guide, both for 2012, as a reference. You should also refer to your income tax withholding tables to be sure they are current. The IRS and the California Employment Development Department will issue new withholding tables in the month of December, which are effective January 1, 2012. These guides and tax tables are available at [www.irs.gov](http://www.irs.gov) and [www.edd.ca.gov](http://www.edd.ca.gov)*

**2012 Retirement Plan Contribution Limits**

	<b>Contribution Limit</b>	<b>Age 50+ Catch Up Contributions</b>
<b>IRA</b>	\$5,000	\$1,000
<b>Simple IRA</b>	11,500	2,500
<b>401(k), 403(b), and 457</b>	17,000	5,500
<b>Defined Contribution</b>	50,000	—

**2012 Tax Rates & Wage Limits**

<b>Tax</b>	<b>Payee</b>	<b>Rate</b>	<b>Wage Limit</b>
<b>Social Security (FICA)</b>	Employer	6.2%	\$110,100
<b>Social Security (FICA) * Through Feb 29, 2012</b>	Employee	4.2%	\$110,100
<b>Medicare (HI)</b>	Employer	1.45%	No Limit
<b>Medicare (HI)</b>	Employee	1.45%	No Limit
<b>State Disability Insurance (SDI)</b>	Employee	1.0%	\$95,585
<b>Federal Unemployment Training Tax (FUTA)</b>	Employer	.6%	\$7,000
<b>Federal Credit Reduction Tax</b>	Employer	.3%	\$7,000
<b>State Unemployment Tax (SUI)</b>	Employer	Varies	\$7,000