



D. H. SCOTT & COMPANY
 CERTIFIED PUBLIC ACCOUNTANTS
 A LIMITED LIABILITY PARTNERSHIP

PAYROLL TAX & EMPLOYMENT ISSUES IN 2020

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With the new year comes all the changes in tax rates, payroll tax dates, and all the sundry "housekeeping" that keeps your business running smoothly. In this update, we are emphasizing payroll tax and employment issues. We have provided a Payroll Tax Calendar for your reference throughout the year. Remember to review all your Federal and State Withholding Tables to make certain they have been updated for recent law changes.

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The DE 44—California Employer's Guide and DE 8829—Household Employer's Guide are no longer automatically mailed to employers. If you would like to receive a mailed paper copy of a guide annually in December/January of each year, visit the Online Forms and Publications page at <https://forms.edd.ca.gov/forms>.

FORMS W-2 & W-4

The W-4 has a new look! The IRS has redesigned the W-4 to increase accuracy and transparency while reducing complexity. Withholding allowances are no longer relevant as tax rates are now based on income and filing status. Legally, W-4 forms previously provided to you that **claim exemption from withholding** expire on February 17, 2020. For any employee who previously claimed exemption from withholding and has not provided a new W-4, the employer should begin withholding tax as if the employee is single. As the employer, you can be charged penalties for incorrect reporting of a name and/or Social Security Number on Form W-2. Errors not only affect the employer, but the employee as well—the Social Security Administration is unable to post the earnings records to the employee's account for benefit purposes.

The deadline for providing your employees' Form W-2 for 2019 earnings is January 31, 2020. Additionally, Forms W-2 and W-3 must be submitted to the Social Security Administration by January 31, 2020.

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.

Form I-9 can be found at <https://www.uscis.gov/i-9>.

2020 IRS Standard Mileage Rates

Business Mileage: 57.5 cents per mile
 Medical or Moving Mileage: 17 cents per mile
 Charity Mileage: 14 cents per mile

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. This information can be found on the back of most W-2 forms. More information can be found at www.irs.gov.

SPECIAL POINTS OF INTEREST FOR 2020

- ◆ New Rates & Tables
- ◆ Mileage Rate decreases to 57.5 Cents for Business Use.
- ◆ California Minimum Wage increases to \$12.00/hour for employers with 25 or fewer employees, and \$13.00/hour for employers with 26 or more employees.
- ◆ FICA—Social Security Rate for employees and employers remains at 6.2% each. The limit increases to \$137,700.
- ◆ Medicare Rate Remains the Same, 1.45% with No Wage Limit plus an additional 0.9% for wages in excess of \$200,000.
- ◆ SDI Rate remains at 1.0%, with the limit increasing to \$122,909.
- ◆ The percentage method on Supplemental Wages remains at 22% for Federal and 10.23% for California. (For employees receiving \$1 million or more in supplemental wages during the year, refer to IRS Pub. 15.)
- ◆ California sales and use tax rate remains at 7.25%. City rates vary. See www.cdtfa.ca.gov.
- ◆ There is State of Emergency tax relief available for some California counties due to emergencies and disasters. For more information visit www.edd.ca.gov and www.cdtfa.ca.gov.
- ◆ For the 2020 tax year, the IRS has redesigned the 1099-MISC to exclude non-employee compensation and reinstated form 1099-NEC to specifically report non-employee compensation. See www.irs.gov for more details.

NEW COLLECTION REQUIREMENTS FOR OUT-OF-STATE RETAILERS' USE TAX

*Applies to sales made on or after
 April 25, 2019*

Retailers located outside of California (remote sellers, including foreign) to register with the CDTFA and collect California use tax if, during the preceding or current calendar year, the total combined sales of tangible personal property for delivery in California by the retailer and all persons related to the retailer exceed \$500,000.

Prior use tax registration requirements still apply!
 Visit www.cdtfa.ca.gov for more information.

IMPORTANT CALIFORNIA AND FEDERAL FORM 940 INFORMATION

Beginning with 2018, California is **NO LONGER** a credit reduction state! California paid back the money borrowed from the Federal government for unemployment benefits, which means that employers will go back to paying just 0.6% on the first \$7,000 paid to each employee to the U.S. Treasury Department. This also means a Schedule A is NOT required to be attached to Form 940. The 2019 Form 940 must be filed by January 31, 2020. See www.irs.gov for additional information.

NEW-HIRE REPORTING REQUIREMENTS

All California employers must report their **new or rehired** (after 60 consecutive days of separation) 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, home 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 for more information and guidance on new employee reporting. Multi-state employers can also submit reports at <https://ocsp.acf.hhs.gov/csp/mser>.

Reporting Requirements (one of the following):

- CA Form DE 34, either by mail or electronically at https://www.edd.ca.gov/Payroll_Taxes/e-Services_for_Business.htm.
- A copy of the employee's W-4 with the start-of-work date, California employer account number and the FEIN added **or** a custom letter with all required information.

INDEPENDENT CONTRACTOR REPORTING

The requirements placed in effect on January 1, 2001, 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, or
- ◆ When aggregate payments to an Independent Contractor reach \$600 in a calendar year.

If you have any questions regarding the reporting requirements, you may contact the EDD by calling 888-745-3886 or visiting their website at www.edd.ca.gov, or you can give us a call.

NEW! INDEPENDENT CONTRACTOR CLASSIFICATION (AB5) TEST

On September 18, 2019, California Governor Gavin Newsom signed legislation outlining a much stricter test for determining when a worker is an independent contractor or an employee. Assembly Bill 5, the "ABC" test, and its exemptions go into effect on January 1, 2020. Under the more restrictive test, an individual is presumed to be an employee, unless the company can prove **all** the following:

- ◆ That the worker is free from control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact; and
- ◆ That the worker performs work that is outside the usual course of the hiring entity's business; and
- ◆ That the worker is customarily engaged in an independently established trade, occupation or business of the same nature as the work performed.

For more information see https://www.edd.ca.gov/pdf_pub_ctr/de38.pdf

2019 FORM 1099

1099's must be distributed to *most* recipients by January 31, 2020. There are extended due dates for distribution of certain 1099 forms. The annual transmittal of Forms 1099-MISC (Form 1096) with non-employee compensation payments in box 7 are also due by January 31, 2020. All other paper 1099's (Form 1096) must be filed with the IRS by February 28, 2020. 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** 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, and
- ◆ Throughout the course of the year, payments totaled at least \$600.

There are some exceptions for payments to corporations. For example, medical and health care payments or payments of attorneys' fees must be reported on Form 1099-MISC. See the Form instructions at www.irs.gov for more details.

MANDATORY E-FILE FOR CALIFORNIA EMPLOYERS

Starting January 1, 2018, ALL employers are required to electronically submit employment tax returns, wage reports, and payroll tax deposits to the Employment Development Department (EDD). Create your payroll tax account at www.edd.ca.gov/e-Services_for_Business. To request a waiver, complete and submit form DE 1245W.

IMPORTANT: Beginning January 1, 2019, noncompliance penalties will be charged on certain forms and payments submitted by paper.

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. For additional information please visit:

http://www.edd.ca.gov/Unemployment/Work_Sharing_Program.htm.

Affordable Care Act

ACA REQUIREMENTS FOR LARGE EMPLOYERS

Beginning in 2015, employers with at least 50 full-time employees (including full-time equivalents) must give Form 1095-C to each employee and the IRS that reports if health insurance coverage was offered, and if offered, the terms and conditions of the coverage.

This still applies in 2020! See www.irs.gov for details.





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PAYROLL TAX CALENDAR

2020

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January 15, 2020

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

May 15, 2020

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

January 31, 2020

Last day to distribute W-2's to employees and 1099's to recipients.

- Copy A 2019 Wage and Tax Statement Form W-2 and transmittal due (Form W-3). Also, Copy A Form 1099-MISC and transmittal (Form 1096) reporting non-employee compensation payments in box 7 due.
- 2019 Federal Unemployment Tax Return due (Form 940).
- 2019 4th Quarter Employer Payroll Tax Returns due (Forms 941, DE9 & DE9C).
- 2019 4th Quarter or Annual FUTA and SUTA deposit due.
- 2019 Annual Employer Payroll Tax Returns due (Forms 943, 945) if required.

June 15, 2020

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

July 15, 2020

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

July 31, 2020

2020 2nd Quarter Employer Payroll Tax Returns due (Forms 941, DE9 & DE9C). 2020 2nd Quarter FUTA and SUTA deposit due if required.

August 17, 2020

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

February 17, 2020

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 or married filing separately status, until a new W-4 has been received.

September 16, 2020

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

October 15, 2020

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

February 28, 2020

Copy A of all paper forms 1099 and transmittal (Form 1096) for vendors **not** reporting non-employee compensation payments in box 7 due.

November 2, 2020

2020 3rd Quarter Employer Payroll Tax Returns due (Forms 941, DE9 & DE9C). 2020 3rd Quarter FUTA and SUTA deposit due if required.

March 16, 2020

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

November 16, 2020

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

April 15, 2020

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

Qualified Purchasers must report and pay Use Tax to the California Dept. of Tax and Fee Administration (CDTFA).

December 15, 2020

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

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

April 30, 2020

2020 1st Quarter Employer Payroll Tax Returns due (Forms 941, DE9 & DE9C). 2020 1st Quarter FUTA and SUTA deposit due if required.

January 15, 2021

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

PLEASE NOTE:

The 2020 Payroll Tax Calendar does **not** include due dates for employers who fall into the semi-weekly deposit requirements (\$50,000 or more total federal tax liability for the look-back period of July 1 to June 30 of the prior year). If wages are paid Wednesday – Friday, deposit by the following Wednesday. If wages are paid on Saturday – Tuesday, deposit by the following Friday. If, on any day, an employer's undeposited federal employment tax liability equals or exceeds \$100,000, taxes must be deposited by the close of the next banking day. If you use EFTPS Direct, the transaction must be processed at least one banking day prior to the due date. If you withhold more than \$350 in California PIT, you may be required to make California tax deposits more frequently. See http://www.edd.ca.gov/Payroll_Taxes/Timely_Payroll_Tax_Deposits.htm for additional guidance.

CALIFORNIA SICK LEAVE REQUIREMENTS

The California Healthy Workplace Healthy Family Act of 2014 (AB1522), as amended by Senate Bill 3 on April 4, 2016, requires paid sick leave for employees who have worked in California for 30 or more days within a year. Employers must accrue sick time at the rate of at least 1 hour for every 30 hours worked, paid at the employee's regular wage rate, or provide at least 24 hours or 3 days at the beginning of a 12-month period of paid sick leave for each eligible employee to use per year. A poster must be displayed in the workplace and a written notice to employees listing their sick leave rights must be provided at the time of hire. Both notices can be found at www.dir.ca.gov/wpnodeb.html.

EMPLOYER & HIRING CREDITS

There are several continuing credits that may benefit your business:

Work Opportunity Tax Credit: Promotes the hiring of individuals from certain target groups who have consistently faced significant barriers to employment by providing a federal tax credit incentive of up to \$9,600 for employers who hire them. This credit is available through December 31, 2019. If an employer believes they have a job applicant that is a member of a targeted group (qualified veteran, qualified long-term unemployment recipient, etc.), the employer must complete Form 8850 before the job offer is made and submit it to the EDD no later than the 28th calendar day after the applicant starts work. To view a list of targeted groups, visit www.irs.gov or www.edd.ca.gov and enter "work opportunity tax credit" in the search box.

Small Business Health Care Tax Credit: Available for two consecutive taxable years to small business employers that pay at least 50% of the employee's premium for employee-only coverage enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement. Beginning in 2014, this credit is 50% for small business employers and 35% for small tax-exempt employers. To see if you qualify visit www.irs.gov and enter "small business health care tax credit" in the search box.

Covered California Small Business Health Options Program (SHOP): Learn about small business tax credits and other advantages the Patient Protection and Affordable Care Act offers small employers. Credits depend on several factors, so for more information you should contact your insurance agent, call Covered CA at 844-332-8384, or visit www.coveredca.com/forsmallbusiness.



We cannot overemphasize the need for employers to use the IRS Circular E, Employer's Tax Guide (Pub. 15) and the California Employer's Guide (DE 44) as a reference. You should also refer to your income tax withholding tables to be sure they are current. Both the IRS and the California Employment Development Department have issued new withholding tables which are effective January 1, 2020. These guides and tax tables are available at:

www.irs.gov &
www.edd.ca.gov

2020 CONTRIBUTION LIMITS

	Contribution Limit	Age 50+ Catch Up Contributions	Age 55+ Catch up Contributions
IRA	\$6,000	\$1,000	\$ -
Simple IRA	\$13,500	\$3,000	\$ -
401(k), 403(b) and 457	\$19,500	\$6,500	\$ -
Defined Contributions	\$57,000	\$ -	\$ -
HSA Individual	\$3,550	\$ -	\$1,000
HSA Family	\$7,100	\$ -	\$1,000
FSA (Flexible Spending Arrangement)	\$2,750	\$ -	\$ -

2020 TAX RATES & WAGE LIMITS

	Payee	Rate	Wage Limit
Social Security (FICA)	Employer	6.2%	\$137,700
	Employee	6.2%	\$137,000
Medicare (HI)	Employer	1.45%	No Limit
	Employee	1.45%	No Limit
Additional Medicare	Employee	0.9%	Over \$200,000
State Disability Insurance (SDI)	Employee	1.0%	\$122,909
Federal Unemployment Training (FUTA)	Employer	0.6%	\$7,000
State Unemployment Tax (SUI)	Employer	Varies	\$7,000