



JANUARY 2012

UPDATE ON PAYROLL, EMPLOYMENT TAXES AND INFORMATION RETURNS

This letter sets forth employee payroll tax withholding rates, employer payroll tax rates in effect for 2012 and some pertinent record keeping issues. Please contact our office if you have any specific payroll or information return related questions. See pages 4 – 5 for the section on information returns (Form 1099's).

PAYROLL AND EMPLOYMENT TAXES-----

SOCIAL SECURITY AND MEDICARE TAX (FICA)

The 2012 FICA tax (social security and medicare) is calculated by using a two-wage basis. Employers must calculate the employee withholding and the employer's matching portion as follows:

<u>Tax Type</u>	<u>Maximum Wage</u>	<u>EMPLOYEE</u>		<u>EMPLOYER</u>	
		<u>Rate</u>	<u>Maximum</u>	<u>Rate</u>	<u>Maximum</u>
Social Security	\$110,100	4.20%	\$4,624.20*	6.20%	\$6,826.20
Medicare	No Limit	1.45%	No Limit	1.45%	No Limit

* As of the date of this publication, the reduced employee social security rate of 2011 has been extended through February 29, 2012.

EMPLOYER PROVIDED GROUP TERM LIFE INSURANCE

The cost of group term life insurance in excess of \$50,000 of coverage that you buy for an employee and, under certain conditions, former employees (including retirees) is includable in gross income and is subject to social security and medicare taxes.

PENNSYLVANIA UNEMPLOYMENT TAX

The **employee** unemployment withholding tax will be calculated at 0.08% (0.0008) or 80 cents per \$1,000 earned and applies to all wages paid. The rate for 2011 was 0.08%.

For **existing employers**, the employer-paid portion of the tax ranges from about 2% to 11% of the first \$8,000 of wages paid to an employee each year. The 2012 PA Unemployment Contribution (UC) rate notices usually mailed on Dec. 31 will be delayed. The rate notices will be mailed prior to April 1, 2012, the beginning of the 1st Quarter 2012 filing period.

For **new employers**, as of the date of this publication initial rates have not been released. Please check the Pennsylvania Department of Labor and Industry at www.dli.pa.us for the current rates.

FEDERAL UNEMPLOYMENT TAX (FUTA)

Due to the Commonwealth having an outstanding balance on the federal loans used to pay UC benefits, employers taking credit for contributing to a state unemployment compensation fund, such as is required in Pennsylvania, must calculate federal unemployment tax (FUTA) at 1.1% (0.011) on wages paid through June 30, 2011 and 0.9% (0.009) for wages paid through December 31, 2011, up to \$7,000 maximum per employee. This tax is an employer tax; nothing is to be withheld from employees. In 2012, the FUTA rate for Pennsylvania employers will remain at 0.9% until its debt to the federal government is repaid.

FEDERAL INCOME TAX

An employer can elect to withhold tax at a flat rate on supplemental wages such as bonuses, commissions and overtime pay that are not paid concurrently with wages or that are paid concurrently but are separately stated. The withholding rate for supplemental wages is 25%. If the flat rate method is not elected, supplemental wages are added to regular wages for withholding purposes. Regardless of the method that you use to withhold income tax on supplemental wages, they are subject to Social Security, Medicare and FUTA taxes.

Remind employees who wish to continue claiming exemption from withholding to submit a new Form W-4 by February 15, 2012. Beginning February 16, 2012, you must withhold based on a marital status of "single" with zero withholding allowances for employees who claimed exemption from withholding in 2011, but who have not submitted a 2012 Form W-4.

PENNSYLVANIA INCOME TAX

The Pennsylvania income tax withholding rate will remain at 3.07% (0.0307) for 2012.

LEBANON AND LANCASTER COUNTY TAXES

Effective January 1, 2012, Act 32 EIT Collection System will be fully implemented. Employers are required to withhold the higher of the employee's resident earned income tax amount (rate of total resident EIT where they reside) or the employee's municipal non-resident earned income tax amount (rate of non-resident EIT where they are employed).

The Local Services Tax (LST) varies by municipality across all of Pennsylvania. The tax ranges from \$10 – \$52 per individual per year and is based on where you work, not where you live.

Any questions regarding local taxes and exceptions can be directed to our office or for Lebanon County issues, contact Keystone Collections Group's Employer Hotline at (888) 328-0558 or online at www.keystonecollects.com.

For Lancaster County issues, contact Lancaster County Tax Collection Bureau at (717) 569-4521 or online at www.lctcb.org. Please note, Lancaster County Tax Collection Bureau now requires employers with more than 15 employees to remit quarterly returns electronically.

EMPLOYMENT ELIGIBILITY VERIFICATION (Form I-9)

Employers must verify that newly-hired employees are authorized to work in the U.S. by examining documents that show: (1) the identity of the individual, and (2) the individual's right to work in the United States. Employers are to attest on Form I-9 that the documents appear genuine. An informational copy of the revised Form I-9 and other employment eligibility information can be found at www.uscis.gov.

STANDARD AUTO MILEAGE REIMBURSEMENT

Effective January 1, 2012, the standard mileage rate is 55.5 cents per mile on all business miles. The rates for 2011 were as follows: 1/1/11 – 6/30/11 @ 51.0 cents per mile; 7/1/11 – 12/31/11 @ 55.5 cents per mile.

EMPLOYEE BUSINESS EXPENSES

Unsubstantiated business expenses or advances in excess of documented expenses are subject to all employer and employee taxes, and thus are treated as any other wage.

If you currently do not have a company policy regarding expense reimbursements, we recommend that one be adopted, documented and distributed to all employees. In addition, standardized reports should be required in order for reimbursements to be made to employees. We can assist in the adoption of this policy and also in the drafting of the expense report.

RECORD KEEPING

Remember the IRS requires employers to maintain employment tax records for at least four (4) years. These records should include:

- 1) Employer Identification Number;
- 2) Employee information such as name, address, social security numbers, occupation, Forms I-9, W-2's and employment dates;
- 3) Amounts and dates of all wages, and other payments, such as tips reported annually, and pension payments; and,
- 4) Additionally, keep copies of Forms 940, 941, W-4, W-4S, and dates and amounts of tax deposits made by the employer.

SOCIAL SECURITY EARNINGS LIMITATIONS

In 2012, full retirement age is 66. For 2012, employees ages 62-65 can earn \$14,640 before social security benefits are reduced \$1.00 for every \$2.00 earned over \$14,640. In the year employees reach full retirement age, benefits are reduced \$1.00 for each \$3.00 earned over \$38,880 until the month the employee reaches full retirement age. Benefits are not reduced when employees are full retirement age or older, no matter how much they earn. Please visit www.ssa.gov for additional information.

INCOME TAX CREDIT FOR RESTAURANT EMPLOYERS

A tax credit is available to food and beverage establishments effective for taxes paid after December 31, 1993. The employer social security credit is an amount equal to the employer's portion of social security tax paid on employee tip income, which exceeds the minimum wage rate. Amounts used to determine this credit cannot also be deducted as business expenses. We remind you that adequate record keeping is paramount to enable us to calculate this credit properly.

MINIMUM WAGE

Effective July 24, 2009 the minimum wage for both Federal and Pennsylvania became \$7.25. The training wage is no longer allowed after July 23, 2009.

The PA minimum tip wage remains \$2.83 per hour to an employee who makes \$30.00 per month in tips, which is higher than the Federal minimum tip wage. Exceptions also exist under specific circumstances for workers with disabilities, full-time students, and student learners.

Non-Pennsylvania employers should check with their states for the appropriate in-state rates.

FAMILY AND MEDICAL LEAVE ACT (FMLA)

Generally, if you employ 50 or more employees for each working day during each of 20 or more calendar work weeks in the current or preceding calendar year, you are considered a covered employer under FMLA and are subject to its requirements. The requirements include job-protected unpaid leave and certain benefits. Please call our office for more details if you believe you will become subject to FMLA.

PA UNCLAIMED PROPERTY ANNUAL FILING

If you are a holder of an uncashed payroll check, an accounts payable check, a credit balance, uncashed refund checks or similar items, and you have had no activity or contact with the other party for about five years (two years for uncashed payroll checks), you must file an annual form with PA. The due date is April 15 to report on the prior calendar year. Please visit www.patreasury.org or call our office for more details.

INFORMATION RETURNS (Form 1099's-----)

2011 Information Returns (**Form 1099, 1098 and 1096, etc.**) must be filed with the IRS on or before February 29, 2012. Each person whose name is set forth in the return must be furnished a copy of the Form 1099 by January 31, 2012. We urge you to comply with these requirements. Noncompliance carries a penalty of up to \$50 per Form 1099/1096 to a maximum of \$250,000 per year. The complete filing requirements are found in Package 1099. This letter sets forth some of the general filing requirements. If you have any questions relating to the reporting of a specific transaction, please call our office.

If you would like us to print these forms for you, please contact our office by January 18, 2012. All 1099's issued by PA businesses or PA individuals are to be mailed to Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301.

If you intend to prepare these forms in-house, we have a limited supply of the necessary forms available.

Form 1099-MISC for reporting all payments totaling \$600 or more (in the aggregate) made in the course of your trade or business or nonprofit, which fall into one of the following categories:

- 1) Salaries and wages (paid to non-employee);
- 2) Commissions and fees (paid to non-employee);
- 3) Rents;
- 4) Professional fees for services (**Garcia Garman & Shea, PC** is a corporation and does not require a 1099-MISC form);

- 5) Directors' fees;
- 6) Fees (including parts & materials) to subcontractors;
- 7) Medical and health care services (i.e. payments to physicians or physicians' corporation);
- 8) Prizes and awards; and,
- 9) Attorney fees, even if paid to a corporation.

- B. **Form 1099-DIV** issued to report dividends of \$10 or more.
- C. **Form 1099-INT** must be used to report interest paid in the course of a trade or business when the amount totals \$10 or more, \$600 or more in some cases, to any person or entity.
- D. **Form 1099-K** is new for 2011. It is used to report merchant card payments and third-party network transactions to participating payees. Please contact our office if you are unsure if you are subject to this requirement.
- E. **Form 1099-R** is used to report periodic and total distributions of \$10 or more from pensions, annuities, profit sharing, PS 58 costs and other retirement plans. Report distributions to plan participants from nonqualified plans on **Form W-2**. The **Form 1099-R** is the only information return that is also required to be filed with the Pennsylvania Department of Revenue. Please contact our office for the proper mailing address.
- F. The information usually needed to complete each **Form 1099** is:
- 1) Recipient's name and address;
 - 2) Amount and kind of payment; and,
 - 3) Recipient's/taxpayer identification number (TIN). **Form W-9** can be used to request the recipient of any payments to furnish his TIN. Failure to include a TIN or reporting an incorrect TIN on **Form 1099** will result in a \$50 penalty for each **Form 1099** unless due diligence has been exercised.
- G. Withholding requirements – If the recipient fails to provide you with their federal identifying number, you are required to withhold 28% of all payments to them and remit to the federal government on **Form 945** as backup withholding.
- H. If you received mortgage interest of \$600 or more from an individual for the calendar year, you are required to file **Form 1098** and furnish a statement to the individual who paid you.
- I. Any person in a trade or business who receives **CASH** of more than \$10,000 in a single transaction or related transactions must file **Form 8300** with the IRS within 15 days of receipt, and provide the payer with a statement on or before January 31 of the following year.

HELP IS AVAILABLE

We know that compliance with these rules and requirements may be difficult for small businesses. We can help you meet your obligation.

Please visit us at www.G2Scpa.com. We have links to information you can use to help you.

Please call us at our main office at (717) 274-5600. We can help you set up payroll and information reporting systems for you to maintain yourself or we can provide these services for you for a fee.

We are glad to help you and we wish you a healthy and prosperous 2012!

The information contained herein is accurate at the time of printing and is subject to change without further notice.

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