



Vincent M. Garcia, CPA  
 Matthew P. Garman, CPA  
 James J. McCarthy, CPA, J.D.  
 Angela K. Shea, CPA  
 William D. Oyster, CPA

Michael P. Furjanic, CPA  
 James F. Faren, CPA (retired)

[www.G2MScpa.com](http://www.G2MScpa.com)

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**UPDATE ON PAYROLL, EMPLOYMENT TAXES, AND INFORMATION RETURNS**

This letter sets forth employee payroll tax withholding rates, employer payroll tax rates in effect for 2011 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 2011 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	\$106,800	4.20%	\$4,485.60	6.20%	\$6,621.60
Medicare	No Limit	1.45%	No Limit	1.45%	No Limit

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 2010 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. Pennsylvania sends notices to all existing employers each December to announce the applicable tax rate in effect for the following year and also explains how the rate was calculated.

For **new employers**, FOR 2010 the initial rate for non-construction employers was set at 3.703%, for a maximum tax of \$296.24 for each employee earning \$8,000 or more. The corresponding rate and maximum tax for new construction employers was 10.2626% and \$821.00. Please check the Pennsylvania Department of Labor and Industry at [www.dli.pa.us](http://www.dli.pa.us) to get the current rates, or call our office.

## **FEDERAL UNEMPLOYMENT TAX (FUTA)**

Employers taking credit for contributing to a state unemployment compensation fund, such as is required in Pennsylvania, must calculate federal unemployment tax (FUTA) at 0.8% (0.008) on wages up to \$7,000 maximum per employee. The total maximum tax due for an employee paid \$7,000 would be \$56. This tax is an employer tax; nothing is to be withheld from employees.

## **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.

## **PENNSYLVANIA INCOME TAX**

The Pennsylvania income tax withholding rate will remain at 3.07% (0.0307) for 2011.

## **ELECTRONIC PAYMENTS**

The IRS no longer accepts payments using Form 8109. All employers **must** remit their payments electronically. To register, go to [www.eftps.com](http://www.eftps.com), or call our office for assistance.

With limited exceptions, Pennsylvania requires most employers to remit their taxes and forms electronically. All employers are currently able to file and pay Employer Withholding Taxes by using the Internet based e-TIDES system at [www.etides.state.pa.us](http://www.etides.state.pa.us) or by calling the Department's Business Tax TeleFile system at 1-800-748-8299.

## **LEBANON AND LANCASTER COUNTY TAXES**

Residents of Lebanon City and Fairview Heights (Annex) Earned Income Tax rate will remain at 1.9% for 2011. Residents of Annville Township, Cleona Borough, North Annville Township and South Annville Township Earned Income Tax rate will remain at 1.4% for 2011. All other Lebanon County residents will continue to have a 1.0% Earned Income Tax rate.

The Earned Income Tax rates for the residents of most municipalities in Lancaster County remain at 1.0%, although some townships have rates as high as 1.65%.

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 at (866) 539-1100 or at [www.keystonecollects.com](http://www.keystonecollects.com). For Lancaster County issues, contact Lancaster County Tax Collection Bureau at (717) 569-4521 or at [www.lctcb.org](http://www.lctcb.org).

## **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](http://www.uscis.gov).

## **STANDARD AUTO MILEAGE REIMBURSEMENT**

Effective January 1, 2011, the standard mileage rate is 51.0 cents per mile on all business miles. The rate for all of 2010 was 50.0 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 expenses 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 2011, full retirement age is 66. For 2011, employees ages 62-65 can earn \$14,160 (same as 2010) before social security benefits are reduced \$1.00 for every \$2.00 earned over \$14,160. In the year employees reach full retirement age, benefits are reduced \$1.00 for each \$3.00 earned over \$37,680 (same as 2010) until the month the employees reach full retirement age. Benefits are not reduced when employees are full retirement age or older, no matter how much they earn.

## **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](http://www.patreasury.org) or call our office for more details.

## **INFORMATION RETURNS (Form 1099's)**

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2010 Information Returns (**Form 1099, 1098 and 1096, etc.**) must be filed with the IRS on or before February 28, 2011. Each person whose name is set forth in the return must be furnished a copy of the Form 1099 by January 31, 2011. 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 20, 2011. 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 McCarthy & 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-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.
- E. 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.
- F. 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.
- G. 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.
- H. 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.
- I. Beginning in 2011, lessors of property are required to issue Forms 1099 for any and all service providers who are paid \$600 or more during 2011. There are some limited exceptions to this new rule. We urge you to prepare for this change by gathering the current name, address, and tax ID number for all your vendors now.
- J. Please be aware that current law also expands the 2011 reporting definition to include certain "goods" along with "services" already required to be reported. We urge you to prepare for this change by gathering the correct name, address, and tax I.D. number for all your vendors now.

***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.G2MScpa.com](http://www.G2MScpa.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 2011!

IRS Circular 230 Disclosure: Any tax advice included in this written or electronic communication, including attachments and enclosures, was not intended or written to be used, and it may not be used by the taxpayer, for the purpose of avoiding any tax-related penalties that may be imposed on the taxpayer by any governmental taxing authority or agency, or for promoting, marketing or recommending to another party any tax-related matters.