

### 2012 PAYROLL RATES AND LIMITS

<u>Employee Withholding</u>	<u>Rate</u>	<u>Gross Wage Base</u>	<u>Maximum Dollar Amount</u>
FICA/Social Security	4.20% *	\$110,100	\$4,624.20
FICA/Medicare Portion	1.45%	No Limit	No Limit
Total FICA	7.65%		
State Disability Insurance SDI	1.0%	\$95,585	\$955.85
<b><u>Employer Tax</u></b>			
FICA/Social Security	6.20%	\$110,100	\$6,826.20
FICA/Medicare Portion	1.45%	No Limit	No Limit
Federal Unemployment Tax (FUTA) 0..60%		\$7,000	\$42.00
ETT	**	\$7,000	**
SUI	**	\$7,000	**

Self-employed individuals social security wage base for 2012 is \$110,100 with the social security tax rate remaining at 12.4%\* there is no Medicare wage limit, and the Medicare tax rate remains at 2.9%. The tax applies to the net earnings from self-employment

**\*Rate is currently set to expire as of February 29, 2012. We will keep you informed if the tax cut is extended beyond that date.**

**Minimum Wage:** California minimum wage is \$8.00 per hour

**Standard Mileage Rate** 2012 new mileage reimbursement rate is \$0.555 per mile

**401(k)** The 2012 limit for 401(k) pre-tax contribution and deferred compensation plans 403(b), 457(b) is \$17,000. The catch-up contribution limit under these plans for those aged 50 and over remains at \$5,500 for a total of \$22,500.00

The basic limit for a **SIMPLE IRA** plan is \$11,500 or 100% of the employee's compensation, which ever is less and over age 50 is \$14,000. Maximum (regular and Roth) **IRA** contribution is \$5,000 up to age 50 with additional \$1,000 for over age 50.

## DEPOSIT REQUIREMENTS FOR 2012

### **Federal**

Taxpayers are classified as either monthly or semi-weekly for determining when you deposit social security, Medicare and withheld income taxes. The classification for a calendar year is determined from the total taxes reported on line 8 of your Forms 941 in a 4-quarter lookback period. For 2012 your Look-back Period is from July 2010 to June 2011. The IRS should inform employers by November of each year which schedule they are to follow for the upcoming year.

#### *Monthly Depositor*

If you reported \$50,000 or less of employment taxes for the Look-Back Period, you are a monthly depositor; the amount due must be deposited by the 15<sup>th</sup> of the following month. If the 15<sup>th</sup> falls on a holiday or weekend, the due date is extended to the next banking day.

#### *Semiweekly Depositor*

If you reported more than \$50,000, you are a semiweekly depositor. Under the semi-weekly deposit schedule, if the liability is incurred on Wednesday, Thursday and/or Friday, deposit on or before the following Wednesday. If the liability is incurred on Saturday, Sunday, Monday and/or Tuesday, deposit on or before the following Friday.

*\*Note – Semiweekly schedule depositors must complete Schedule B (Form 941) of Tax Liability for Semi-weekly Schedule Depositors, and submit it with Form 941.*

#### *Next Banking Day Depositor*

If total accumulated tax reaches \$100,000 or more on any day during a monthly or semiweekly deposit period, you must deposit the tax by the close of the next banking day, whether you are a monthly or semiweekly depositor.

*\*If you are a monthly schedule depositor and accumulate a \$100,000 tax liability on any day, you become a semiweekly schedule depositor on the next day and remain so for at least the rest of the calendar year and for the following calendar year.*

*Form 941 Employers with accumulated liability of less than \$2,500 for the entire quarter may deposit or remit the amount with a timely filed Form 941, Employer's Quarterly Federal Tax Return.*

#### *Form 944*

Employers with an accumulated liability of less than \$2,500 for the entire year, may deposit or remit the amount with a timely filed Form 944, Employer's Annual Federal Tax Return.

Additional information can be found in Circular E (Publication 15) Employer's Tax guide and on the internet:  
[www.irs.gov](http://www.irs.gov).

### **State of California**

The Annual Reconciliation Statement (DE 7) has been eliminated. Instead beginning in 2011 California requires you to file a DE9 Quarterly Contribution Return and Report of Wages and a DE9C Quarterly Contribution Return and Report of Wages (Continuation). The DE 9 reconciles wages reported and taxes paid each quarter. The DE 9C reports individual employee wages for each quarter.

**DO NOT mail your Payroll Tax Deposit (DE 88) with the DE 9 and DE 9C, this may cause delays in processing.**

- If the State tax withheld is more than \$350, deposit both SIT & SDI withheld using the Federal deposit rules for Monthly, Semi-weekly and Next Banking Day.

- If the State tax withheld is less than \$350, deposit all SIT, SDI, SUI and ETT by the filing date for each quarter's return.
- Quarterly Depositors
  - If the State tax withheld is \$350 or more, deposit by the 15<sup>th</sup> of the following month.
  - If the State tax withheld is less than \$350, deposit all SIT, SDI, SUI and ETT by filing date for each quarter's return.

State deposit due dates are generally the same as Federal due dates; however, all deposits must be made using a DE88 coupon.

Additional information can be found in California Employer's Guide (DE 44) and on the internet at [www.edd.ca.gov](http://www.edd.ca.gov)

### MAGNETIC MEDIA REQUIREMENTS

The IRS and FTB require large volumes of 1099 information returns and W-2s to be filed on magnetic media. You can, at least 45 days before the due date of each year, apply for a hardship waiver if you feel you cannot reasonably meet this requirement. If you missed the deadline and you will be required to submit information on magnetic media, you may contact us for assistance in filing the returns for you. You will be required to file on magnetic media as follows:

1099 Information Returns	250 or more of one type of 1099
W2's	250 or more

The IRS will assess a penalty per return for each W-2 or 1099 Information return not properly filed on magnetic media.

### Electronic Deposit Requirements

#### Federal

Most employers are required to make deposits electronically through the Electronic Federal Tax Payment System (EFTPS). The primary exception will be employers that have \$2,500 or less in quarterly payroll tax liability and that pay their liability when filing their employment tax returns (e.g. Forms 941 or 944).

As soon as possible, you will need to sign up for EFTPS. It's easy and free. You can go to [www.irs.gov](http://www.irs.gov) and on the right hand side of the page, click on the EFTPS logo. This contains a brief description and a link which allows you to register for the program. Some of the items you will need besides the company name and address include your company's Federal I.D. number and banking information. You will also need to assign a designated individual as the primary contact.

Once your company is enrolled, you can make any of your federal tax deposits via the internet by 8:00 p.m. (ET) at least one calendar day in advance of the due date.

## State

Each year your account is reviewed to determine if you are required to make tax deposits EFT. First time mandatory EFT participants will be notified of their status by October 31 prior to the year of EFT participation. Employers, who do not meet the mandatory EFT requirement, may participate on a voluntary basis. If you have received the notification or think you will be subject to EFT requirements, you should contact your banking institution for information to get set up for EFT. You can also visit [www.edd.ca.gov](http://www.edd.ca.gov) for more information on registering.

### **NEW HIRE REPORTING**

All California employers must report all their new or rehired employees who work in **California** to the New Employee Registry within twenty (20) days of their start-of-work date. The start-of-work date is the first day services were performed for wages. Employers who file electronically must submit two files each month.

#### How to Report

You may use any of the following to report new employee information

- Submit a Report of New Employee(s) (DE 34) electronically with e-Services for Business
- Submit a paper Report of New Employee(s) (DE3 34).
- Submit a copy of the employee's W-4 form, but you must add the employee's start-of-work date, your California employer account number and Federal employer Identification number (FEIN) to the W-4.
- You may create your own form with the required information:

To report new employees, mail or fax information to:

Employment Development Department  
PO Box 997016 MIC 23  
West Sacramento, CA 95799-7016  
Fax: (916) 319-4400

Or you may file your DE 34, Report of New Employee(s) by e-filing

[www.edd.ca.gov](http://www.edd.ca.gov)

Choose online services/Report of New Employee(s), DE34 and register to report on line

### **REPORT OF INDEPENDENT CONTRACTOR(S) DE 542**

**California law requires that any business entity that is required to file a federal Form 1099-MISC for personal services performed must also report specific information to EDD regarding any independent contractor providing services to you or your business.**

You may use any of the following to report independent contractor information:

- Submit a Report of Independent Contractor(s) (DE 542) electronically with e-Services for Business; or
- Submit a paper DE 542. A fill-in DE 542 can be downloaded; or
- You may create your own form with the required information.

To report independent contractors, mail or fax information to:

Employment Development Department  
PO Box 997350 MIC 99  
West Sacramento CA 95899-7350

Fax: (916) 319-4410

Filing Options for Reporting Independent Contractors are:

- File online at <https://eddservices.edd.ca.gov>.
- Obtain DE 542 forms from EDD's Web site at [www.edd.ca.gov/pdf\\_pub\\_ctr/de542.pdf](http://www.edd.ca.gov/pdf_pub_ctr/de542.pdf)
- Order DE 542 forms by contacting Taxpayer Assistance Center at 888-745-3886

Independent contractor information must be reported to EDD within 20 days of either making payments total \$600 or more, or entering into a contract for \$600 or more with an independent contractor in any calendar year. This is in addition to requirements of reporting total annual payments to the IRS on Form 1099-MISC.

You can use form W-9, Request for Taxpayer Identification Number and Certification, to obtain information from an independent contractor.

#### **W-9 OR BACKUP WITHHOLDING**

Backup withholding is when the payer is required to withhold Federal income taxes at the rate of 28% from payments to non-employee persons.

Additionally, ALL payments from retirement plans are subject to backup withholding with two exceptions; (1) If the distribution is structured as a "trustee to trustee" transfer (meaning the person receiving the distribution does not receive the funds); or (2) If distributions for the year will not exceed \$200.

Incorrect information on 1099's is a serious issue as the payer has a potential liability to the IRS for backup withholding (whether or not tax was withheld), and the payer may be assessed substantial penalties.

Backup withholding will apply if:

- \* The payee fails to furnish his or her taxpayer ID number to you.
- \* The IRS notifies you to impose backup withholding because the payee furnished an incorrect taxpayer ID number.

You can use form W-9, Request for Taxpayer Identification Number and Certification, to obtain this information.

#### **1099 INFORMATION – FILING TRANSMITTAL & BACKUP WITHHOLDING FORMS**

You must first determine if you are required to file information returns and if so, to whom. The Tax Code states that "all persons engaged in a trade or business must file information returns if applicable." It goes on to define "persons" as any individual, partnership, estate, trust or corporation and "trade of business" as any endeavor entered into for the purpose of gain or profit. In short, every "business" entity (including rental operation) falls under these definitions.

Payments to be reported are:

- Services, rents, interest, fees, commissions, advertising, repairs, etc. \$600 or more
- Dividends or royalties \$10 or more
- Retirement plan disbursements \$10 or more

- There are exceptions. The largest exception is that payments made to corporations are exempt from the filing requirements, unless the corporation is an attorney or physician or other providers of health care services. Please note limited liability companies (LLC) and limited liability partnerships (LLP) are not exceptions.

In order to avoid a liability for backup withholding, we recommend that you obtain a form W-9, Request for Taxpayer Identification Number and Certification before any payments are made and verify that there are no obvious errors. If the payee will not provide their identification number, all payments are subject to 28% backup withholding.

If a business name is being used with an individual social security number, you must also list the individual's name with d.b.a. and the business name on the 1099.

For additional information, refer to IRS Publication 1281, Backup Withhold or Missing and Incorrect TIN's.

## **DESCRIPTION OF FEDERAL INFORMATION RETURNS MOST COMMONLY USED**

### 1099 DIV – Dividends

A statement for recipients of dividends and distributions for each person to whom you have paid gross dividends and other distributions on stock of \$10 or more.

### 1099 INT – Interest

A statement for recipients of interest income for each person to whom you have paid gross interest of \$600 or more.

### 1099- MISC – Miscellaneous

A statement for recipients of miscellaneous income for each non-corporate entity to whom you have paid \$600 or more in rents, fees, commission, contract labor or other payments reported. You must also provide a statement of recipients of royalties of at least \$10. (Excluded from rent paid by a tenant is to a real estate agent.)

### 1099 R Profit Sharing and Retirement Plan Distribution

A statement for recipients of any distribution from profit sharing and retirement plans of \$10 or more.

### 1098 – Mortgage Interest Statement

Use form 1098 to report mortgage interest of \$600 or more received by you during the year in the course of your trade or business from an individual, including a sole proprietor.