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DO NOT DISCARD - FORWARD TO PAYROLL/PERSONNEL DEPARTMENT

Dear Client:

We wish to bring to your attention certain pertinent payroll tax and withholding information as follows:

1. INFORMATION RETURNS:

Beginning in 2011, recipients of rental income from real estate will be subject to the same information reporting requirements as corporations. Under the new Small Business Jobs Act of 2010, owners of real property who receive rental income will be required to issue a Form 1099-MISC to report payments to service providers totaling \$600 or more during the course of the year for any expenses related to their rental properties. The provisions will apply to payments made after December 31, 2010, and will include payments made to plumbers, carpenters, exterminators, etc. in the course of generating rental income.

The penalties for failure to file a required Form 1099 not more than 30 days late will be in effect for the year 2011 will increase from \$15 to \$30 (per form) with a maximum of \$250,000. Penalty for filing a Form 1099 more than 30 days late and before August 1 increases from \$30 to \$60 (per form), with a maximum of \$500,000. Penalty for filing a Form 1099 on or after August 1 increases from \$50 to \$100 (per form), with a maximum of \$1,500,000 and penalty for intentional failure to file increases from \$100 to \$250 (per form).

Beginning in 2012, Form 1099 requirements are scheduled to change for all businesses. We will alert you to these changes and possible repeal of these requirements as more information becomes available.

Do not use Form 1099 series to report wages and other compensation you paid to employees, report these on Form W-2. See the separate instructions for Forms W-2 for details.

The above referenced information returns are due to the payee no later than January 31. Be sure to have Form W-9 completed by all individuals to whom you issue a 1099.

You are required to furnish your phone number on each recipient's copy of Form 1099 so they can contact you if there are any questions. The phone number is to be placed in the same box as your name and address.

1. **INFORMATION RETURNS (Continued):**

The Internal Revenue Service is no longer using Form W-2P for pension distributions. All Distributions of this type should be reported on Form 1099-R.

Electronic filing of Forms 1099 & Forms W-2 is required if a business exceeds 250 forms per year.

If you require assistance in preparing the necessary 1099 forms please contact our office.

2. **FEDERAL TAX DEPOSIT CHANGES:**

Businesses may no longer make required tax deposits to their local banks using Forms 8109/8109-B starting January 1, 2011, you will have to make your required Federal Tax Deposit electronically via EFTPS. Penalty for continuing to file Form 8109/8109-B with your local bank will result in a 10% penalty for each deposit. You may register at www.eftps.com or call our office for assistance.

3. **PENNSYLVANIA UNEMPLOYMENT COMPENSATION:**

The Department of Labor & Industry announced that in 2011 the department will require electronic filing of quarterly unemployment compensation tax and wage reports via the Unemployment Compensation Management System (UCMS). This system will replace the filing of the quarterly unemployment returns via E-Tides. The new UCMS site is not available as this time but is expected to be soon. Once UCMS is implemented, employers must log in to register prior to filing their quarterly returns. Paper quarterly reporting forms will no longer be mailed to employers effective with the fourth quarter, 2010. If you find that you may need a blank form you may go to their website at www.portal.state.us or contact our office.

Rate: (per UC-2 Report) - For your new rate please watch for your 2011 contribution tax rate notice.

Employer - Taxable wage base will remain at \$8,000. (Same as 2010)

Employee - 0.08% tax on employee wages or .80 cents for each \$1,000 earned. Employee withholding is not limited to the \$8,000 taxable wage base for employer contributions, all wages are subject to the employee .08% tax.

4. **OVERTIME CALCULATION:**

Calculation of overtime pay can be complex. Please consult with Department of Labor for specific questions.

5. **SOCIAL SECURITY TAX/MEDICARE - FICA:**

Effective January 1, 2011 there is no change in the Social Security taxable wage base of \$106,800.00. Social Security taxes employee withholding has changed to 4.2% and the employer portion is unchanged at the rate of 6.2%. The taxing rates is as follows:

Employee taxable base 2011	\$ 106,800.00	
	X 4.20%	
	<u>\$ 4,485.60</u>	- maximum 2011 social security tax

Medicare taxes remain at the taxing rate of 1.45% for both employee and employer. All wages remain subject to the medicare tax. No maximum limit applies.

6. **SELF-EMPLOYMENT TAX:**

The ceiling for self-employed Social Security tax increases to \$106,800 at a taxable rate of 10.4% for 2011. The medicare tax on all earnings, without limitation, remains at 2.9% (same as 2010).

Note: For income tax purposes self-employed individuals can deduct one-half of their self-employment tax in computing adjusted gross income.

7. **STANDARD MILEAGE RATE:**

The standard business auto mileage reimbursement rate for 2011 is \$0.51 cents per mile.

8. **MINIMUM WAGE:**

Federal minimum wage increased July 24, 2009 to \$7.25 per hour. No scheduled increase in minimum wages exists at this time. In cases where an employee is subject to both the state and federal minimum wage laws, the employee is entitled to the higher of the two minimum wages.

9. **PENNSYLVANIA INCOME TAX WITHHOLDING:**

The Pennsylvania withholding rate is currently at 3.07%.

Beginning in 2006, the PA Department of Revenue has made it a requirement to file all returns via the Internet (e-Tides) or over the telephone (TeleFile). This is true for most all other Pennsylvania taxes as well. If you need assistance in setting your account up on either e-Tides or TeleFile, please contact our office.

10. **FEDERAL UNEMPLOYMENT COMPENSATION:**

The FUTA rate for 2010 remains at 0.8% (.008).

Employer - Taxable wage base will remain at \$7,000. (Same as 2010)

Accumulated quarterly FUTA tax liability over \$500 **must be paid via EFTPS** (see Federal Tax Deposit changes #2) as required to avoid late payment penalties.

11. **LOCAL INCOME TAX WITHHOLDING:**

Employers must withhold from their employees the appropriate school district tax that the employer's business is located in.

12. **LOCAL SERVICES TAX (FORMERLY OCCUPATIONAL PRIVILEGE TAX / EMERGENCY AND MUNICIPAL SERVICES TAX)**

Effective January 1, 2008, the Local Services Tax replaces the Emergency & Municipal Services Tax or Occupational Privilege Tax. The new tax, up to \$52, is assessed on each employed individual by the political subdivision of the individual's place of employment on wages of \$12,000 or greater. The Local Service Tax shall be assessed at a pro rata share of the tax for each payroll period and should be remitted to the taxing authorities each quarter.

If you need assistance or have any questions, please contact our office.

13. **PENALTIES:**

The federal penalties for failure to make timely deposits of taxes are based on applicable percentages of the amount of the underpayment determined by the number of days the deposit is late. Please contact our office for specific requirements or refer to the applicable Internal Revenue Service instructions for information regarding these requirements.

14. **PAYROLL DEPOSIT REQUIREMENTS - 2011:**

The Internal Revenue Service will notify you as to the review of your account and if you are required to deposit monthly or semi-weekly. However, both the monthly and semi-weekly rules are overridden if any day an employer has \$100,000 or more in accumulated taxes. At this point the accumulated tax of \$100,000 or more must be deposited by the next business day. Any monthly depositor who becomes subject to the \$100,000 next-day rule becomes a semi-weekly depositor for the remainder of the current year, as well as for the following calendar year.

If you are a monthly depositor your tax liability is due by the 15th of the following month (e.g. April's liability is due by May 15th). If you are a semi-weekly depositor then your due date depends on your pay date. If you pay wages on Wednesday, Thursday or Friday your deposit is due by the following Wednesday. If your pay date is on a Saturday, Sunday, Monday or Tuesday the deposit is due the following Friday.

As mentioned above the Internal Revenue Service is requiring all tax deposits to be made electronically via EFTPS. You may no longer submit payments to your local bank.

At the end of the quarter, if your total tax liability is less than \$2,500 no deposit is required. You may pay the taxes to the Internal Revenue Service with Form 941, or you may deposit them via EFTPS (see **Federal Tax Deposit changes #2**).

The above deposit rules must be followed to avoid late penalties. If you are unaware of your deposit status please contact our office and we can help determine your deposit requirements.

15. **INTEREST RATES - 4TH QUARTER - 2010:**

Interest rates for the calendar quarter beginning October 1, 2010 will be as follows: for non-corporate taxpayers, the rate for both under payments and overpayments is at 4%, for corporations the overpayment rate is at 5%, however; corporations will receive 1.5% for overpayments exceeding \$10,000; corporation will be charged 6% for under payments, and 6% for large corporate under payments.

The next rate adjustment, for the calendar quarter beginning January 1, 2011 will be based on the short-term applicable federal rate for October, 2010.

16. **WAGES PAID TO DOMESTIC/HOUSEHOLD EMPLOYMENT:**

You are required to pay social security taxes for all household workers whose cash wages are in excess of \$1,700 during the 2011 calendar year. In addition, FUTA taxes are due for any household worker whose cash wages are in excess of \$1,000 for any calendar quarter during 2011. Household workers are exempt for federal withholding purposes. The IRS requires the reporting and payment of FICA, FUTA and withholding taxes, if any, on Schedule H of your annual individual income tax return. If you are currently employing or intend to employ domestic workers please contact our office for further information and assistance in the correct filing of taxes.

17. **FORM 945 - ANNUAL RETURN OF WITHHELD FEDERAL INCOME TAX AND 945-A - ANNUAL RECORD OF FEDERAL TAX LIABILITY:**

The Internal Revenue Service uses Form 945 and 945-A in reporting all non-payroll items, including backup withholding. This is an annual form due by January 31, 2011. Form 945 filers who are required to deposit on a semi-weekly deposit schedule will be required to attach Form 945-A. Separate deposits are required for non-payroll (Form 945) income tax withholding payments. Be sure to pay Form 945 via EFTPS (see **Federal Tax Deposit changes #2**). Do not combine these deposits with Form 941 tax liabilities.

18. **FORM W-5:**

Please be advised that employers who are advancing earned income credit payments to employees thru payroll must stop if the employee has not submitted a new 2010 Form W-5 by January 1, 2011.

19. **FEDERAL MANDATED NEW HIRE REPORTING PROGRAM:**

This program requires all employers to submit new hire information to the State government as indicated by the New Hire Reporting package. If you do not have the necessary reporting information or have questions please feel free to contact our office.

In accordance with IRS Circular 230, this letter is not to be considered a "covered opinion" or other written tax advice and should not be relied upon for an IRS audit, tax dispute, or any other purpose.

If you have any questions and/or problems in complying with these changes please contact our office.

Very truly yours,

REILLY, CREPPAGE & CO., INC.

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