

REILLY, CREPPAGE & CO., INC.

*A Professional Corporation
Certified Public Accountants*

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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. **MINIMUM WAGE:**

Pennsylvania increased the minimum wage to \$7.15 per hour on July 1, 2007.

Small employers, whose employment complement is composed of the equivalent of 10 or fewer full-time employees, should increase their employees' minimum wage to \$7.15 per hour effective on July 1, 2008, increasing from \$6.65.

The federal government increased its minimum wage from \$5.15 to \$5.85 per hour effective July 23, 2007. There are two scheduled increases, one in 2008 to \$6.55 and finally increasing to \$7.25 by 2009.

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

Effective January 1, 2008 there will be an increase in the Social Security taxable wage base from \$97,500 in 2007 to \$102,000. Social Security taxes remain at the taxing rate of 6.2% for both employee and employer. The taxing rates is as follows:

Employee taxable base 2008	\$ 102,000.00	
	X 6.20%	
	<u>\$ 6,324.00</u>	- maximum 2008 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.

3. **STANDARD MILEAGE RATE:**

The standard business auto mileage reimbursement rate for 2008 is \$0.505 cents per mile.

4. **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.

5. **PENNSYLVANIA UNEMPLOYMENT COMPENSATION:**

Rate: (per UC-2 Report) - For your new rate please watch for your 2008 contribution tax rate notice.

Employer - Taxable wage base will remain at \$8,000. (Same as 2007)

Employee - 0.06% tax on employee wages or .60 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 .06% tax.

Employers with 250 or more employees are **required** to submit wage tax data on Form UC-2A to the Department of Labor & Industry via magnetic media. However, the UC-2 portion and payment of taxes should be submitted in the usual manner. Non-compliance may result in penalty charges of \$250 for each quarter of non-compliance.

Starting in the year 2010 Labor & Industry will require the submission of all employer UC forms to be electronically filed.

6. **FEDERAL UNEMPLOYMENT COMPENSATION:**

The FUTA rate for 2008 is .8% (.008).

Employer - Taxable wage base will remain at \$7,000. (Same as 2006)

Please note that Form 940-EZ is available for use by many employers.

Accumulated quarterly FUTA tax liability over \$500 must be paid to the bank using a deposit coupon marked accordingly or via EFTPS as required to avoid late payment penalties.

7. **LOCAL INCOME TAX WITHHOLDING:**

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

8. **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.

8. **LOCAL SERVICES TAX (FORMERLY OCCUPATIONAL PRIVILEGE TAX / EMERGENCY AND MUNICIPAL SERVICES TAX) (Continued):**

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

9. **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.

10. **INFORMATION RETURNS:**

You may have to file information returns to report certain types of payments made during the year. For details about forms of the 1099 series and for information about required magnetic media filing, please see the instructions for Forms 1099, 1098, 5498 and W-2G provided by the Internal Revenue Service. 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.

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.

A penalty may be imposed if a person either fails to file an information return or files with incorrect information. These penalties range from \$15 to \$50. For more details contact our office or see Internal Revenue Service Publication 393, Federal Employment Tax Forms.

Higher penalties of at least \$100 per document may be imposed for intentional disregard of the filing and correct information return requirements.

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

11. **PAYROLL DEPOSIT REQUIREMENTS - 2008:**

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.

11. **PAYROLL DEPOSIT REQUIREMENTS - 2008 (Continued):**

If you are a monthly depositor your tax liability is due by the 15th of the following month (ex. 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

Some business taxpayers are required to use EFTPS because they have met certain criteria. If a business's total deposits of all federal taxes (including employment taxes, income taxes, Railroad Retirement taxes, Social Security taxes, and various other types of non-payroll withholding taxes) during a calendar year exceed \$200,000, the business is required to use EFTPS beginning in the second succeeding calendar year. For example: if more than \$200,000 in federal tax deposits were made in the calendar year 2007, you are required to use EFTPS beginning January 2008.

If you were required to deposit by electronic funds transfer in prior years, you must continue to do so throughout 2008.

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 by the due date of the return.

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.

12. **INTEREST RATES - 4TH QUARTER - 2007:**

Interest rates for the calendar quarter beginning October 1, 2007 will be as follows: for non-corporate taxpayers, the rate for both under payments and overpayments is at 8%, for corporations the overpayment rate is at 7%, however; corporations will receive 5.5% for overpayments exceeding \$10,000; corporation will be charged 8% for under payments, and 10% for large corporate under payments.

The next rate adjustment, for the calendar quarter beginning January 1, 2008 will be based on the short-term applicable federal rate for October, 2007.

13. **SELF-EMPLOYMENT TAX:**

The ceiling for self-employed Social Security tax increases to \$102,000 at a taxable rate of 12.4% for 2008. The medicare tax on all earnings, without limitation, remains at 2.9% (same as 2007).

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

14. **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 \$1,500 during the calendar year. In addition, FUTA taxes are due for any household worker whose cash wages are in excess of \$1,000

14. **WAGES PAID TO DOMESTIC/HOUSEHOLD EMPLOYMENT
(Continued):**

for any calendar quarter during 2008. 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.

15. **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, 2008. 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 mark Form 945 on the revised Form 8109, Federal Tax Deposit Coupon or file as required by EFTPS. **Do not** combine these deposits with Form 941 tax liabilities.

16. **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 2008 Form W-5 by January 1, 2008.

17. **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.

