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A Professional Corporation
Certified Public Accountants

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DO NOT DISCARD - FORWARD TO PAYROLL/PERSONNEL DEPARTMENT

Please visit our website at www.reillycreppage.com for important information

Dear Client:

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

1. SOCIAL SECURITY TAX/MEDICARE - FICA

Effective January 1, 2021 the Social Security taxable wage base was increased to \$142,800.00. Social Security taxes employee withholding will remain the same at 6.2% and the employer portion is unchanged at the rate of 6.2%. The taxing rates is as follows:

Employee taxable base 2021	\$ 142,800.00	
	X	6.20%
	<u>\$ 8,853.60</u>	- maximum 2021 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.

2. INFORMATION RETURNS

Payments to non-employees over \$600, that were previously reported on Form 1099-MISC, Box 7, should now be report on new Form 1099-NEC.

All Informational forms are now due by January 31. Extension of time will no longer be permitted.

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.

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.

Be sure to have Form W-9 completed by all individuals to whom you issue a 1099.

The penalties for failure to file a required Form 1099 not more than 30 days late is \$50 (per form) with a maximum of \$536,000 (\$187,500 for small businesses) per year. Penalty for filing a Form 1099 more than 30 days late and before August is \$100 (per form), with a maximum of \$1,609,000 (\$536,000 for small businesses) per year. Penalty for filing Form 1099 on or after August 1 is \$260 (per form), with a maximum of \$3,218,500 (\$1,072,500 for small businesses) and penalty for intentional failure to file remains the same at \$530 (per form).

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

All businesses that accept credit cards payments will receive a Form 1099-K which will report the gross amount of merchant card or third-party payments. These forms should be forwarded to your tax preparers in order to properly prepare your returns.

3. **STANDARD MILEAGE RATE**

The standard business auto mileage reimbursement rate for 2021 is \$0.56 cents per mile.

4. **CITY OF ALTOONA ACT 47 - LOCAL EARNED INCOME TAX**

The City of Altoona local earned income rate for all City of Altoona Residents will remain 1.6% for the year 2021. City of Altoona Non-Residents will remain at 1.4% for the year 2021.

5. **MINIMUM WAGE AND OVERTIME**

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.

New overtime regulations will take effect starting January 1, 2020. Under the new rule all hourly employees and, in addition, salaried employees who earn less than \$684 per week (equivalent to \$35,568 per year for a full-time employee) must be paid overtime if they work more than a 40 hour week.

On October 3, 2021 the rule changes to \$780 per week (equivalent to \$40,560 per year for a full-time employee).

Then on October 3, 2022 it will change to \$875 per week (equivalent to \$45,500 per year for a full-time employee).

6. **REPORTING HEALTH CARE COVERAGE in 2020**

Employers that have 50 or more full time employees are required to report the amount of health care coverage you and your employees provided during the year. The reporting should include both the amount you paid during 2020 and the amount the employee paid. This amount is to be reported in Box 12 of the Form W-2, using Code DD to identify the amount.

In addition to the above, employers that offer healthcare coverage with 50 or more full-time equivalent employees during the prior year are required for file Form 1095-B, Health Coverage and/or Form 1095-C, Employer-Provided Health Insurance Offer and Coverage. These forms are required to be filed with the Internal Revenue Service by February 28, 2021 but provided to employees by March 1, 2021.

7. **ADDITIONAL MEDICARE TAX**

Employers must withhold Additional Medicare Tax from wages paid to any employee that may exceed gross wages of \$200,000 in a calendar year if the employee files Single or Head of Household. If filing Married Filing Jointly the withholding would be on wages that exceed \$250,000. The additional medicare tax rate is 0.9% (.009). This is an employee withholding only and no employer match is required.

8. **FEDERAL UNEMPLOYMENT COMPENSATION**

The FUTA rate was reduced July 1, 2011 and remains at 0.6% (.006).

Employer - Taxable wage base will remain at \$7,000. (Same as 2020)

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.

9. **PENNSYLVANIA UNEMPLOYMENT COMPENSATION**

The Pennsylvania Unemployment quarterly tax forms are required to be filed using the Unemployment Compensation Management System (UCMS). Employers must register to use the UCMS for filing of future returns. Paper filing is no longer being accepted.

Rate: (per UC-2 Report) - For your new rate please watch for your 2021 contribution tax rate notice.

Employer - Taxable wage base remains at \$10,000 (same as 2020).

Employee - 0.06% tax on employee wages or .60 cents for each \$1,000 earned. Employee withholding is not limited to the \$10,000 taxable wage base for employer contributions, all wages are subject to the employee 0.06% tax.

Credit Week - A calendar week in which and employee earns \$100 or more must be reported as a credit week for an employee.

Payments - any payments over \$1,000 must be made electronically using the Unemployment Compensation Management System.

10. ACT 32 - LOCAL EARNED INCOME TAX

Act 32 of 2008, which became effective statewide on January 1, 2012 reforms the local earned income tax withholding system and establishes countywide tax collection districts for the remittance and distribution of local earned income taxes. Every business that employs individuals within Pennsylvania is required to withhold the higher of the local tax rate at the employee's place of residence or employment from the employee's wages and remit the tax to the appropriate tax office.

11. SELF-EMPLOYMENT TAX

The ceiling for self-employed Social Security tax increases to \$142,800 at a taxable rate of 15.3% for 2021. The medicare tax on all earnings, without limitation, remains at 2.9% (same as 2020).

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

12. PENNSYLVANIA INCOME TAX WITHHOLDING:

The Pennsylvania withholding rate is currently at 3.07% (Same as 2020).

Beginning in 2006, the PA Department of Revenue 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.

13. 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.

14. 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.

15. PAYROLL DEPOSIT REQUIREMENTS

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.

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.

16. INTEREST RATES - 1st QUARTER - 2021

Interest rates for the calendar quarter beginning January 1, 2021 will be as follows:

- Three (3) percent for overpayments (two (2) percent in the case of a corporation)
- Three (3) percent for underpayments
- Five (5) percent for large corporate underpayments; and
- One-half (0.5) percent for the portion of a corporate overpayment exceeding \$10,000

Generally, in the case of a corporation, the underpayment rate is the federal short-term rate plus 3 percentage points and the overpayment rate is the federal short-term rate plus 2 percentage points. The rate for large corporate underpayments is the federal short-term rate plus 5 percentage points. The rate on the portion of a corporate overpayment of tax exceeding \$10,000 for a taxable period is the federal short-term rate plus one-half (0.5) of a percentage point.

The next rate adjustment, for the calendar quarter beginning March 1, 2021 will be based on the short-term applicable federal rate for January, 2021.

17. 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 \$2,100 during the 2021 calendar year, this wages remains the same at 2020. In addition, FUTA taxes are due for any household worker whose cash wages are in excess of \$1,000 for any calendar quarter during 2021. 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.

18. 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, 2021. 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.

19. FORM W-4

Employees who are eligible for the earned income credit can still receive the credit in advance by making the adjustment on their Form W-4.

20. 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.

21. SELECTED RETIREMENT PLAN CONTRIBUTION LIMITATIONS

The IRS and Social Security Administration released the 2021 retirement plan limitations. The are as follows:

401(k)/403(b) Deferrals	\$ 19,500.00
401(k)/403(b) Plan Catch up	\$ 6,500.00
SIMPLE Deferrals	\$ 13,500.00
SIMPLE Plan Catch up	\$ 3,000.00

The annual compensation limit has increased to \$290,000 for 2021 from \$285,000 for 2020. This is the amount that may be used in figuring any employer matching contribution.

If you are calculating your payroll using your own software (ie: quickbooks) make sure you update your software for any changes that are applicable to your business.

Please check our website for any future developments in regards to COVID-19.

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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