



Employers' Guide

Summary of Payroll Tax Guidelines

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Income Tax

Federal Withholding

The IRS Circular E, Employer's Tax Guide, provides the tax tables for the calculations of Federal Income Tax withholding. The 2011 Circular E will soon be available for download at the IRS website, www.irs.gov/pub/irs-pdf/p15.pdf.

The IRS usually issues the 2011 federal withholding tables and Circular E in November; however, this year the tables will not be issued until Congress decides whether to adjust the tax rates. The IRS is considering releasing this publication without the tables, and then issuing a supplemental publication at a later date that includes the tables.

FICA Tax

Social Security

A sweeping tax package negotiated by the White House and the Republican leaders included a one-year reduction in the payroll tax rate for individuals. The employer's contribution, however, remains unchanged. The wage base also remains unchanged for 2011.

| | Employee withholding | Employer's contribution |
|-------------------|----------------------|-------------------------|
| Maximum Wage Base | \$106,800 | \$106,800 |
| Tax Rate | 4.2% | 6.2% |

| Self Employed | |
|-------------------|-----------|
| Maximum Wage Base | \$106,800 |
| Tax Rate | 10.4% |

Medicare

The wage base and tax rate will remain unchanged for 2011.

| | Employee withholding | Employer's contribution |
|-------------------|----------------------|-------------------------|
| Maximum Wage Base | Unlimited | Unlimited |
| Tax Rate | 1.45% | 1.45% |

| Self Employed | |
|-------------------|-----------|
| Maximum Wage Base | Unlimited |
| Tax Rate | 2.9% |

State Income Tax

| | |
|--------------|-------------------------|
| Pennsylvania | 3.07 |
| New Jersey | Graduated Rate Schedule |
| Delaware | Graduated Rate Schedule |

Local Tax

All employers with work sites within a taxing jurisdiction are required by law to deduct the Earned Income and Local Services Taxes (LST) from their employees. The City of Philadelphia falls under the Sterling Act and requires employers to withhold and remit earned income taxes for all employees who reside in Philadelphia even if they are employed at a site outside of Philadelphia.

Act 32 of 2008 ushered in significant reforms to Pennsylvania's earned income tax collection system. Act 32 streamlines the tax collection through standardization of forms, definitions and the consolidation of the number of tax collectors from about 560 to no more than 69. Act 32 goes into full effect on January 1, 2012.

Philadelphia Earned Income Tax

The City of Philadelphia has not issued any new rate change updates for 2011, at this time. Please continue to withhold taxes at these rates until the City issues the updates relating to 2011 on their website at www.phila.gov/revenue.

Resident 3.928%

Non-resident 3.4985%

An employer who withholds City Wage Tax of greater than \$350 and less than \$16,000 a month is required to remit the amount of tax withheld to the Department of Revenue on or before the fifteenth day of the following month. Any employer who withholds an amount greater than \$16,000 of City Wage Tax monthly is required to remit such tax to the City within three banking days following the pay period for which the tax was withheld.

Local Earned Income Tax

Various municipalities throughout the state of Pennsylvania have an earned income tax which is typically levied by the municipality and the local school district. Since the number of municipalities with an earned income tax is fairly extensive we recommend employers refer to the following website (<http://munstatspa.dced.state.pa.us/MunicipalTaxInfo.aspx>) to determine if they have a responsibility to withhold and remit local earned income tax.

Local Services Tax (formerly the Emergency and Municipal Services Tax)

This is a \$52 annual tax which is deducted evenly from employee paychecks throughout the year. This tax is remitted quarterly to the appropriate taxing authority.

If an employee earns less than \$12,000 annually they are exempted from this tax.

Various municipalities throughout the state of Pennsylvania have enacted the local services tax. Since the number of municipalities with a local services tax is fairly extensive we recommend employers refer to the following website (<http://munstatspa.dced.state.pa.us/MunicipalTaxInfo.aspx>) to determine if they have a responsibility to withhold and remit local services tax.

City of Wilmington Wage Tax

If an employer is located in Wilmington the city wage tax must be withheld regardless of where the employee lives. If the employer is located in Delaware, other than in Wilmington, the local tax must be withheld if the employee lives in Wilmington. If the employer is located outside of Delaware and the employee lives in Wilmington the employer has the option to withhold the Wilmington tax for the convenience of their employee.

The city wage tax that is due is calculated as the product of 1.25% times the applicable wages. The tax is payable monthly if the amount withheld is greater than \$50.00. If the tax owed is less than \$50.00 per month, it is payable quarterly.

Unemployment Taxes

Federal Unemployment Tax (FUTA)

The FUTA tax rate is 6.2% of taxable wages. The taxable wage base is the first \$7,000 paid in wages to each employee during a calendar year. Employers who pay the state unemployment tax will receive an offset credit of up to 5.4%. The net FUTA tax rate is generally 0.8% (6.2% - 5.4%).

Pennsylvania Unemployment Tax

Employers will continue to withhold from their employees' gross wages for unemployment. The tax rate remains unchanged for 2011 at 0.08%. There is no wage limit for the employee withholding.

The employer contribution rate is reviewed by the state each year. Notices will be issued after December 31 providing you with your 2011 rate. The wage limit for 2011 remains unchanged at \$8,000.

If you do not receive your contribution rate notice for 2011, please call 412-565-2400.

New Jersey Unemployment Tax

Employers will continue to withhold from their employees' gross wages for unemployment. The tax rate is 0.985% (0.3825% unemployment fund, 0.0425% workforce development, 0.5% disability, 0.06% family leave insurance). The wage limit for the employee withholding decreases to \$29,600, thus the maximum employee contribution is \$291.56.

The employer contribution rate is reviewed by the state each year. Notices will be issued after December 31 providing you with your 2011 rate. The wage limit for 2011 has decreased to \$29,600.

If you do not receive your contribution rate notice for 2011, please call 609-633-6400.

Delaware Unemployment Tax

There is no employee withholding for unemployment.

The employer contribution rate is reviewed by the state each year. Notices will be issued after December 31 providing you with your 2011 rate. The wage limit for 2011 remains unchanged at \$10,500.

If you do not receive your contribution rate notice for 2011, please call 302-761-8484.

Federal Tax Deposit Coupons - (Form 8109) Discontinued

Beginning on January 1, 2011, Federal tax deposits made at your bank using paper coupons (Form 8109) will no longer be processed. All taxpayers currently using Form 8109 coupons for their federal tax deposits will have to deposit their federal taxes through the Electronic Federal Tax Payment System (EFTPS) after December 31, 2010. According to the Department of the Treasury, the new rule will apply to payment of corporate income taxes, corporate estimated taxes, excise and employment taxes, but not to payment of individual estimated income tax payments.

Enrollment is required prior to using this system. To enroll:

- Gather the following information
 - Employer Identification Number (EIN) or Social Security Number
 - Bank account number and routing number
 - Address and name as they appear on your IRS tax documents.
- Visit www.eftps.gov
 - Select the “Enrollment” tab
 - Enter the requested information
 - Select “Business Entity” or “Individual”
 - Click “Submit”
- Obtain your PIN and your Internet Password
 - Your PIN will be mailed to you within 7 business days after your enrollment
 - After you obtain your PIN, call 1-800-982-3526 to obtain a temporary Internet Password
 - You will need both your PIN and your temporary Internet Password the first time you log in to the website to make a tax payment. You will then be required to select a new Internet Password.
 - You will need both your PIN and your new Internet Password for future website access.

Once you are enrolled you can make deposits via the automated EFTPS phone system or the EFTPS website www.eftps.gov. To make deposits by phone requires your federal identification number (EIN) and PIN. To make deposits by internet requires your federal identification number (EIN) and both the PIN and the Internet Password.

Pennsylvania Electronic Payments

Pennsylvania also requires electronic payment and filing for state withholding and unemployment taxes. This is done by using the current system, Electronic Tax Information and Data Exchange (e-Tides), which is an internet filing system (www.etides.pa.us).

Enrollment is required prior to using this system. To enroll:

- Make sure you have established tax accounts by registering with the Department of Revenue and/or the Department of Labor and Industry.
- Visit www.etides.pa.us
 - Create a User ID and on-line Password.
 - Select “Register an Enterprise for Electronic Filing” from navigation bar
 - Enter the requested information
 - Click “Submit”
- You will need to retain the user ID and on line Password for future website access.

Pennsylvania Unemployment

Implementation of the electronic filing requirement is scheduled to begin with the quarter ending March 31, 2011, at which time paper forms will no longer be mailed to employers. It is strongly encouraged that all employers begin now to adequately prepare for electronic filing, which is currently available via e-TIDES at www.etides.state.pa.us.

Form W-2

General

When to File

You must furnish Form W-2 to employees by January 31, 2011.

Copy A of Forms W-2, along with Form W-3, are due by February 28, 2011 if filing paper forms. If filing electronically, the due date is March 31, 2011.

If you are required to file 250 or more Forms W-2, you must file them electronically, unless granted a waiver by the IRS (Form 8508).

Extension of time to file

You may request an automatic extension of time (30 days) to file Form W-2 with the SSA by sending Form 8809 before the due date of the Forms W-2. However, you must still furnish Form W-2 to employees by January 31, unless a separate letter request is sent to the IRS. Specific information is available on the IRS website on where to send the request.

New Reporting Situations for Box 12

HIRE wages and tips paid to qualified employees

Report the amount of wages and tips paid to the qualified employee for whom you claimed the payroll tax exemption in Box 12, using code CC.

Adoption Benefits

Amounts paid or incurred under an adoption assistance program, or adoption benefits paid under a Sec. 125 cafeteria plan are not subject to federal income tax withholding, and are not reportable in Box 1. Such amounts are, however, subject to Social Security and Medicare taxes and reportable in Box 3 and 5. Also, the total amount must be reported in Box 12 with code T.

Preparing the W-2

Listed below are the common types of W-2 reporting. For a complete list of instructions please refer to the Internal Revenue Service at <http://www.irs.gov/instructions/iw2w3/ch01.html#d0e1471>.

Box 1 - Wages, tips, other compensation. Show the total taxable wages, tips, and other compensation (before any payroll deductions) that you paid to your employee during the year. However, do not include elective deferrals (such as employee contributions to a section 401(k) or 403(b) plan) except section 501(c)(18) contributions.

Box 2 - Federal income tax withheld. Show the total federal income tax withheld from the employee's wages for the year (do not reduce the wages by any advance EIC payments made to the employee).

Box 3 - Social Security wages. Show the total wages paid (before payroll deductions) subject to employee Social Security tax but not including Social Security tips and allocated tips. Generally, noncash payments are considered to be wages. Include employee business expense reimbursements reported in box 1, if you paid the employee's share of Social Security and Medicare taxes rather than deducting them from wages. The total of boxes 3 and 7 cannot exceed \$106,800 (2010 maximum Social Security wage base).

Report in box 3 elective deferrals to certain qualified cash or deferred compensation arrangements and to retirement plans described in box 12 (codes D, E, F, G, and S) even though the deferrals are not includible in box 1. Also report in box 3 designated Roth contributions made under a section 401(k) plan or under a section 403(b) salary reduction agreement described in box 12 (codes AA and BB).

Amounts deferred (plus earnings or less losses) under a nonqualified or section 457(b) plan must be included in boxes 3 and/or 5 as Social Security and/or Medicare wages as of the later of when the services giving rise to the deferral are performed or when there is no substantial forfeiture risk of the rights to the deferred amount. Include both elective and nonelective deferrals for purposes of section 457(b) plans.

Box 4 - Social Security tax withheld. Show the total employee Social Security tax withheld, including Social Security tax on tips. Do not reduce this amount by any advance EIC payments made to the employee. For 2010, the amount should not exceed \$6,621.60 (\$106,800 × 6.2%).

Box 5 - Medicare wages and tips. The wages and tips subject to Medicare tax are the same as those subject to Social Security tax (boxes 3 and 7) except that there is no wage base limit for Medicare tax. Enter the total Medicare wages and tips in box 5. Be sure to enter tips that the employee reported even if you did not have enough employee funds to collect the Medicare tax for those tips.

Box 6 - Medicare tax withheld. Enter the total employee Medicare tax withheld. Do not reduce this amount by any advance EIC payments made to the employee.

Box 7- Social Security tips. Show the tips that the employee reported to you even if you did not have enough employee funds to collect the Social Security tax for the tips. The total of boxes 3 and 7 should not be more than \$106,800 (the maximum social security wage base for 2010). Report all tips in box 1 along with wages and other compensation. Include any tips reported in box 7 in box 5 also.

Box 8 - Allocated tips. If you are a food or beverage establishment, show the tips allocated to the employee. See the Instructions for Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips. Do not include this amount in boxes 1, 3, 5, or 7.

Box 9 - Advance EIC payment. Show the total paid to the employee as advance earned income credit (EIC) payments.

Box 10 - Dependent care benefits. Show the total dependent care benefits under a dependent care assistance program (section 129) paid or incurred by you for your employee. Include the amounts paid or incurred for dependent care assistance in a section 125 (cafeteria) plan. Report all amounts paid or incurred (regardless of any employee forfeitures), including those in excess of the \$5,000 exclusion.

Box 11 - Nonqualified plans. The purpose of box 11 is for the SSA to determine if any part of the amount reported in box 1 or boxes 3 and/or 5 was earned in a prior year. The SSA uses this information to verify that they have properly applied the Social Security earnings test and paid the correct amount of benefits.

Box 12 - Codes. Enter in this box any code listed below that is applicable. Do not include in box 12 any items that are not listed as codes A through CC.

Do not enter more than four items in box 12. If more than four items need to be reported in box 12, use a separate W-2 form.

Box 12 codes

| Code | Description |
|-------------|---|
| A | Uncollected Social Security or RRTA tax on tips. Amount not included in box 4 |
| B | Uncollected Medicare tax or RRTA Medicare tax on tips not collected due to a non-deductible amount of funds. Do not include in box 4. |
| C | Taxable cost of group-term life insurance over \$50,000. Include amount in boxes 1, 3(up to the social security wage base), and 5. |
| D | Elective deferrals to a section 401(k) cash or deferred arrangement. Do not report amounts for other types of plans. |
| E | Elective deferrals under a section 403(b) salary reduction agreement |
| F | Elective deferrals under a section 408(k)(6) salary reduction SEP. |
| G | Elective deferrals and employer contributions (including non-elective deferrals) to any governmental or nongovernmental section 457(b) deferred compensation plan. |
| H | Elective deferrals under section 501(c)(18)(D) tax exempt organization plan. |
| J | Nontaxable sick pay. |
| K | 20% excise tax on excess golden parachute payments. |
| L | Substantiated employee business expense reimbursements. Use this code only if you reimbursed the employee using per diem or mileage allowance and the amount you reimbursed exceeds the amount treated as substantiated under IRS rules. Report in Box 12 only what was substantiated, and include the excess amount in boxes 1, 3 & 5. |
| M | Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (for former employees). |
| N | Enter the amount of uncollected Medicare tax or RRTA Medicare tax on coverage for any former employees who received more than \$50,000 of group-term life insurance coverage. |
| P | Excludable moving expense reimbursements paid to employee directly. (not included in boxes 1, 3, or 5). |
| Q | Nontaxable combat pay for military employers. |
| R | Employer contributions to your Archer MSA. |
| S | Show deferrals under a section 408 (p) salary reduction SIMPLE retirement account. If the SIMPLE is part of a section 401 (k) arrangement, use code D. |
| T | Show the total that you paid or reimbursed for qualified adoption expenses furnished to your employee under an adoption assistance program. |
| V | Income from exercise of non-statutory stock option(s). Include this amount in boxes 1, 3 (up to the social security wage base), and 5. |
| W | Employer contributions (including amounts the employee elected to contribute using a section 125 (cafeteria) plan) to an HAS. |
| Y | Deferrals under a section 409A nonqualified deferred compensation plan. Deferrals not necessary in box 12 with code Y. |
| Z | Income section 409A on a nonqualified deferred compensation plan. Subject to an additional 20% tax plus interest. |
| AA | Designated Roth contributions under a section 401(k) plan. (Not meant for reporting elective deferrals under Code D). |
| BB | Designated Roth contributions under a section 403(b) plan. (Not meant for elective deferrals under code E). |
| CC | HIRE exempt wages and tips |

Box 13 - Checkboxes. Check all boxes that apply.

Box 14 - Other. If you included 100% of a vehicle's annual lease value in the employee's income, it should also be reported here or on a separate statement to your employee. You may also use this box for any other information that you want to give to your employee. Label each item.

Boxes 15 through 20 - State and local income tax information. Use these boxes to report state and local income tax information. Enter the two-letter abbreviation for the name of the state. The employer's state ID numbers are assigned by the individual states. The state and local information boxes can be used to report wages and taxes for two states and two localities. Keep each state's and locality's information separated by the broken line. If you need to report information for more than two states or localities, prepare a second Form W-2.

Fringe Benefits

Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it. Listed below are some of the common fringe benefits.

| Taxability of Fringe Benefits | | | | | | | | | |
|--|------|------|---|----------|---------------------|-------|---------------------|-------|--|
| Federal Income Tax Withhold- ing | FICA | FUTA | PA Income Tax Withhold- ing | PA UC | DE Income Tax | DE UC | NJ Income Tax | NJ UC | |

| | | | | | | | | | |
|---|---|-----|-----|-----|-----|---|---|---|---|
| Bonus | T | T | T | T | T | T | T | T | T |
| Company Cars - Personal Use | T | T | T | N | T | T | T | T | T |
| > 2% Shareholder Health Insurance - S Corps | T | N | N | N | N | N | N | N | N |
| Group-Term Life Insurance for coverage up to \$50,000 per employee | N | N | N | N | N | N | N | N | N |
| Group-Term Life Insurance - Premiums for coverage in excess of \$50,000 per employee (refer to IRS uniform premium table based on employees' ages for amount to be included) | T | T | N | N | N | T | N | T | N |
| Third Party Sick Pay or Temporary Disability Benefits - When premiums paid by employer | T | (a) | (a) | N | (a) | T | N | N | N |
| Expense Reimbursement | N | N | N | N | N | N | N | N | N |
| Elective Deferrals under qualified 401(k) cash or deferred arrangement | N | T | T | T | T | N | T | N | T |
| Section 125 Cafeteria Plans with employees choosing qualified benefits instead of cash (FSA, HAS and MSA) | N | N | N | (b) | T | N | N | T | T |
| Auto allowances - accountable plan | N | N | N | N | N | N | N | N | N |
| De Minimis (Minimal) Benefits - A de minimis benefit is any property or service you provide to an employee that has so little value that accounting for it would be administratively impracticable. | N | N | N | N | N | N | N | N | N |
| Auto allowances - non-accountable plan | Y | Y | Y | Y | Y | Y | Y | Y | Y |

T - TAXABLE

N - NONTAXABLE

(a) Taxable up to six months

(b) Non-taxable only if benefit is for hospitalization, sickness, disability, death, supplemental unemployment benefit or strike benefit. All other Section 125 benefits are taxable.

Worker Classification

Employers can expect increased enforcement efforts from federal, state and local labor and tax authorities over what is believed to be a rising tide of misclassification of employees as “independent contractors”. Employers that misclassify workers as independent contractors face potential liability for:

- Minimum wage and overtime premiums.
- Unpaid Medicare and Social Security contributions.
- Unpaid workers’ compensation premiums.
- Unpaid pension payments or 401 (k) contributions.
- Medical benefits.
- Penalties and interest.

To avoid misclassification an employer should understand what how to properly classify workers.

Generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. It is the right to control, not whether that right is exercised, that governs whether there is an employer/employee relationship.

These are ALL considered Employees:

- Temporary workers.
- Part-time or short-term workers.
- Seasonal workers.
- Household workers (nannies, housekeepers).
- Former employees hired back as “consultants”.
- Anyone subject to your direction and/or control.

If an employer-employee relationship exists, it does not matter what it is called.

Relief provisions - If you have a reasonable basis for not treating a worker as an employee, you may be relieved from having to pay employment taxes for that worker. To get this relief, you must file all required federal tax returns, including information returns, on a basis consistent with your treatment of the worker. You (or your predecessor) must not have treated any worker holding a substantially similar position as an employee for any periods beginning after 1977.

Careful consideration should be given when deciding a workers classification as employee or independent contractor. If unsure of the correct status, classify the worker as an employee.

Form W-9

Form W-9 is the IRS form used by a company to request the taxpayer identification number (TIN) which may be required to complete IRS information returns. The company should request to have the form W-9 completed at the time the services begin and before any payment is made for services rendered. By submitting a W-9 form the independent contractor is certifying that:

- The tax ID number provided is correct and accurate.
- They are not subject to backup withholding.
- They are a U. S. citizen.
 - For federal purposes, a U. S. person includes but is not limited to:
 - An individual who is a U.S. citizen or U. S. resident alien
 - A partnership, corporation, company or associated organized in the United States or under the laws of the United States
 - Any estate (other than a foreign estate)
 - A domestic trust.

Note: Nonresident aliens and foreign entities must use IRS Form W-8, not Form W-9.

If an individual or business fails to supply a valid TIN, you might have to institute backup withholding on certain payments made to that person or business. Backup withholding also occurs when the person or business has failed to report taxable payments on an income tax return. The backup withholding rate is 28 percent of reportable payments.

Household Employees

A Household Employee is someone hired to do work in your home

- If you control what work is done.
- If you control how the work is done.

They can be paid hourly, weekly, or by the job.

Some examples of Household Employees:

- Caretakers
- Domestic workers
- Maids
- Nannies
- Private Nurses

Examples of individuals not considered Household Employees:

- Repairmen
- Plumbers
- Contractors

Social Security and Medicare Tax

If you pay cash wages of \$1,700.00 or more in 2011 to any one household employee, then you are required to withhold and pay Social Security and Medicare taxes as follows:

- Withhold 7.65% (6.2% for Social Security tax and 1.45% for Medicare tax)
- You, as the employer match this amount 7.65% (6.2% for Social Security tax and 1.45% for Medicare tax)

If you prefer to pay your employee's Social Security and Medicare taxes from your own funds, do not withhold them from your employee's wages. The Social Security and Medicare taxes you pay to cover your employee's share must be included in the employee's wages for income tax purposes. However, they are not counted as Social Security and Medicare wages or as federal unemployment (FUTA) wages.

Federal Tax

You are not required to withhold federal income tax, but if your employee asks you to withhold you can.

Federal Unemployment

If you pay cash wages of \$1,000.00 or more in any calendar quarter of 2010 or 2011 to household employees, then you need to pay Federal Unemployment tax as follows:

- The tax is usually 0.8% of cash wages (timely state unemployment contributions required for rate)
- Only the first \$7,000 of wages are taxed

Pennsylvania Unemployment

If you pay cash wages of \$1,000.00 or more in any calendar quarter of 2010 or 2011 to household employees, then you need to pay Pennsylvania Unemployment tax as follows:

- The tax rate is determined by the State.
- Only the first \$8,000 of wages are taxed

Pennsylvania Withholding

You are not required to withhold Pennsylvania income tax, but if your employee asks you to withhold you can.

Remitting Household Employee Taxes

Federal

All the federal taxes (federal withholding, Social Security & Medicare, and unemployment) are paid to the United States Treasury

- Report wages and taxes on Schedule H, which is part of your individual income tax return.
- You may need to make estimated tax payments during the tax year to remit the tax throughout the year.

State

The State taxes are paid as follows:

- PA unemployment
 - Quarterly to the PA Unemployment Department
 - E-file forms UC2 & UC2A
- PA withholding
 - Quarterly if the amount due is less than \$300 a month
 - Monthly if the amount is more than \$300 but less than \$1,000
 - E-file forms PA 501 and/or Pa W-3

Form 1099

General

Payments made in the course of a trade or business to nonemployees are subject to the Form 1099 reporting rules. Non-profit organizations are considered to be engaged in a trade or business and are subject to these reporting requirements.

In order to facilitate the reporting of these payments, IRS has developed the Form 1099 Series, which is a group of forms used to report ordinary kinds of payments made by an employer, such as dividends, interest, retirement distributions, and miscellaneous income payments. Although each Form 1099 has its own specific reporting requirements, there are several filing requirements that apply uniformly to each of these forms.

- Returns must be furnished to recipients either in person or by first-class mail by January 31.
- Returns must be furnished to the Internal Revenue Service by February 28, (if filing electronically, they are due March 31).
- Transmittal Form 1096, "Annual Summary and Transmittal of U. S. Information Returns" must accompany the Form 1099's.
- Separate 1096 Forms are required for each type of 1099 Form.
- If filing 250 or more of one type of Form 1099, they must be filed electronically.
- Forms are mailed to Internal Revenue Service. The applicable service center addresses can be found in the instructions for the Form 1099.

Penalties

If you fail to provide correct information returns by the due date without showing reasonable cause you may be subject to a penalty. This penalty applies if you fail to file timely, fail to include all required information or you include incorrect information. A penalty also applies if you file paper documents when you are required to file electronically.

Civil and criminal penalties can be imposed for failing to comply with the reporting and filing requirements associated with the Form 1099 Series.

TIN Matching

The IRS has established a TIN matching program. For additional information please refer to the IRS “General Instructions for Certain Information Returns” or call our office for guidance.

Backup Withholding

Certain payments may be subject to federal income tax withholding of 28%. This is known as backup withholding. Backup withholding will apply if:

- The payee fails to furnish a taxpayer identification number to you.
- The IRS notifies you to impose backup withholding.
- Special rules apply for interest and dividends. For additional information please refer to the IRS “General Instructions for Certain Information Returns” or call our office for guidance.

Form 1099-MISC

General Rule

Form 1099-MISC, “Statement for Recipients of Miscellaneous Income,” is the most common Form 1099 required to be filed by most businesses in the course of a trade or business. Listed below are the common types of payments reported in the normal course of a trade or business. Payments to corporations are not required to be reported except as otherwise noted. For other types of payments please refer to the IRS “General Instructions for Certain Information Returns” or call our office for guidance.

Rents – Box 1

Enter amounts of \$600 or more for all types of rent paid. These include rents paid for:

- Office space.
- Machine rental.

Other Income – Box 3

Enter amounts of \$600 or more required to be reported on Form 1099-MISC and that is not reportable in one of the other boxes.

Federal Income Tax Withheld - Box 4

Enter the backup withholding.

Medical and Health Care Payments – Box 6

Enter amounts of \$600 or more to physicians or other suppliers or providers of health care services in connection with medical assistance programs, or health, accident, and sickness insurance programs. Include payments made to corporations.

Nonemployee Compensation – Box 7

Enter amounts of \$600 paid for services rendered as a nonemployee. These include:

- Independent contractor/subcontractor fees.
- Fees for services rendered.
- Commissions.
- Director fees.
- Attorney fees paid in the course of your trade or business. Include payments made to corporations.
- Nonqualified deferred compensation income (Section 409A). Includes deferrals plus earnings.
- Prizes and awards for services performed as a non employee.

Direct Sales of \$5,000 or more – Box 9

If a business makes sales of \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other commission basis for resale (by the buyer or any other person), such amounts must be reported on Form 1099-MISC. Sales made to a permanent retail establishment do not fall within this rule.

Attorney Gross Proceeds – Box 14

Enter gross proceed payments of \$600 or more for payments to an attorney in connection with legal services, unless the attorney's fees are reportable in Box 7. For example, amounts paid under a settlement agreement should be included in box 14. Include payments made to corporations.

Nonqualified Deferred Compensation (Section 409A) – Box 15a and 15b

There is still no requirement to enter the deferral amount in Box 15a.

Enter the amount includible in gross income because the nonqualified deferred compensation plan fails to satisfy the requirements of Section 409A. The amount included in this box is also includible in Box 7 and generally is subject to self-employment tax.

Payments Not Reported on Form-MISC

Payments that do not have to be reported on Form 1099-MISC include:

- Payments for merchandise and inventory, including freight storage and similar charges;
- Payments of rent to real estate agents;
- Payments to corporations, except for certain medical payments and attorney fees (see above);
- Income earned outside the United States and excludible under the law; and
- Employee expense reimbursements (if not, an accountable plan may be reportable on W-2 form).

Standard Mileage Rates

2011 IRS Mileage Rates

| Mileage Type | Rate/per Mile |
|-------------------------|---------------|
| Business Mileage Rate | .51 |
| Charitable Mileage Rate | .14 |
| Moving Mileage Rate | .19 |
| Medical Mileage Rate | .19 |

Minimum Wage

| | |
|--------------|-----------------|
| Pennsylvania | \$7.25 per hour |
| New Jersey | \$7.25 per hour |
| Delaware | \$7.25 per hour |

States establish a fixed minimum wage rate for employees. There are special allowances for students, learners and people with disabilities upon application only.

Tipped Employees: An employer may pay a minimum wage of \$2.83 per hour to an employee who makes \$30.00 per month in tips. The employer must make up the difference if the tips and the \$2.83 do not meet the regular Pennsylvania minimum wage.

Pension Plan Limits for the Tax Years 2010 - 2011

The Internal Revenue Service announced on October 28, 2010, cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2011. In general, these limits will either remain unchanged, or the inflation adjustments for 2011 will be small.

Chart of Selected Limits:

| 401(k) Plan Limits | 2011 | 2010 |
|---|-------------|-------------|
| 401(k) Elective Deferrals | \$ 16,500 | \$ 16,500 |
| Annual Defined Contribution Limit | \$ 49,000 | \$ 49,000 |
| Annual Compensation Limit | \$245,000 | \$245,000 |
| Catch-up Contribution Limit (50 or older) | \$ 5,500 | \$ 5,500 |
| Highly Compensated Employees ⁽¹⁾ | \$110,000 | \$110,000 |
| Non 401(k) Related Limits | 2011 | 2010 |
| 403(b)/457 Elective Deferrals | \$ 16,500 | \$ 16,500 |
| SIMPLE Employee Deferrals | \$ 11,500 | \$ 11,500 |
| SIMPLE Catch-Up Deferral | \$ 2,500 | \$ 2,500 |
| SEP Minimum Compensation | \$ 550 | \$ 550 |
| SEP Annual Compensation Limit | \$245,000 | \$245,000 |

- (1) The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are active participants in an employer-sponsored retirement plan and have modified adjusted gross incomes (AGI) between \$56,000 and \$66,000, unchanged from 2010. For married couples filing jointly, in which the spouse who makes the IRA contribution is an active participant in an employer-sponsored retirement plan, the income phase-out range is \$90,000 to \$110,000, up from \$89,000 to \$109,000. For an IRA contributor who is not an active participant in an employer-sponsored retirement plan and is married to someone who is an active participant, the deduction is phased out if the couple's income is between \$169,000 and \$179,000, up from \$167,000 and \$177,000.

The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$169,000 to \$179,000 for married couples filing jointly, up from \$167,000 to \$177,000 in 2010. For singles and heads of household, the income phase-out range is \$107,000 to \$122,000, up from \$105,000 to \$120,000. For a married individual filing a separate return who is an active participant in an employer-sponsored retirement plan, the phase-out range remains \$0 to \$10,000.

Other Information

PA Unemployment

During 2011, the Pennsylvania Unemployment Compensation will have their own electronic system (UCMS) which has not yet been implemented. Until the site becomes operational e-Tides will continue to accept transactions.

We will provide information on the new site once it is up and running.

W-2 reporting of Group Health Coverage

On October 12, 2010, in Notice 2010-69, the IRS announced that employers will not be required to report the cost of employer-sponsored group health coverage on Forms W2 issued for 2011. Further guidance is anticipated before the end of 2010, as the Treasury Department and IRS have determined that this relief will provide employers with additional time to make any necessary changes to their payroll system.

Originally, the Patient Protection and Affordable Care Act of 2010 (PPACA) amended the Internal Revenue Code to require, beginning 1/1/2011, that employers report the aggregate cost of "applicable employer-sponsored coverage" on Forms W2 issued to employees. Applicable employer-sponsored coverage includes the entire cost of coverage, without regard to whether the employer or employee pays for the coverage. It does not include coverage for long-term care, coverage only for accident or disability income insurance, supplemental or other liability insurance, workers compensation, coverage for specified disease or illness, coverage under a separate policy that provides dental or vision benefits, or other similar insurance coverage under which benefits for medical care are secondary or incidental to other insurance benefits.

Also, the IRS continued to stress that the reporting requirement is intended for informational purposes only to provide employees with transparency into overall health care costs, and that the amounts reportable are not taxable.

1099 Reporting (Prepare now for compliance)

The passage of the Healthcare reform bill included some of the most drastic changes to 1099 information reporting in over a decade. The bill included revenue raising provisions meant to seek greater compliance of the tax code via 1099 information reporting. General provisions included:

- The elimination of the corporate exemption from 1099-MISC reporting.
- The requirement to report payments for property (goods, materials, merchandise and supplies).
- A doubling of penalties per 1099 from \$50 to \$100

Beginning for payments made after December 31, 2011, companies will be required to furnish and file form 1099-MISC for payments made to all for-profit companies regardless of corporate status. In addition all payments for goods, materials, merchandise, supplies, and other property will need to be reported as well. Early indications reveal that these changes will likely cause the 1099 reporting volume to increase significantly for most companies as well as the associated B-Notices.

While the law applies to payments made after December 31, 2011 companies need to make broad changes to:

- W-9 procedures to include all vendors.
- Solicit W-9's for corporate vendors.
- Prepare for larger 1099 year-end printing, mailing, and filing
- Make the appropriate budgetary and system updates to accommodate these changes.

Senate Finance Committee Chairman Max Baucus failed for a third time to garner sufficient support for his bill to repeal these new requirements. Congress is open to changing these rules but has yet to come to an agreement on how to for the changes. Stay tuned for further guidance as Congress continues to debate this issue.

New Rules Require Rental Property Owners to Issue 1099s

The recently enacted Small Business Jobs Act contains a provision where owners of property who receive rental income will be required to issue Forms 1099 to service providers for payments of \$600 or more during the year.

The act subjects recipients of rental income from real estate to the same information reporting requirements as taxpayers engaged in a trade or business. This provision will apply to payments made after December 31, 2010.

While rental property owners will not actually issue the required 1099s until early 2012, they need to start keeping adequate records of payments starting January 1, 2011. They will need to obtain a Form W-9.

Separate Deposit Requirements for Non Payroll (Form 945) Tax Liabilities

Separate deposits are required for non-payroll and payroll tax withholding. Do not combine deposits for Form 941 and Form 945 tax liabilities. Generally, the deposit rules for non-payroll liabilities are the same as for payroll liabilities, except that the rules apply to an annual rather than a quarterly return period.

Form 945

Form 945 and accompanying Form 945-A will continue to be used to report non-payroll items, including backup withholding, withholding for pensions, annuities and gambling winnings. These forms must be filed annually, and are due on or before January 31 of the following year. Although the returns are filed annually, taxpayers are required to deposit the taxes in accordance with the regulations existing for payroll withholding taxes.

New Hire Reporting Requirements

You must continue to report new employees within 20 days of their hire date. This can be submitted on-line at www.panewhires.com. The first time you submit information on-line, the site asks you for your Federal EIN and a password. The password is your EIN backwards without the dash.

Payroll Tax Holiday

To help stimulate the hiring of workers by the private sector, a new law was passed during 2010 that exempts any private-sector employer that hires a worker who had been unemployed for at least 60 days from having to pay the employer's 6.2% share of the Social Security payroll tax on that employee for 2010. This could potentially save an employer \$6,621 in payroll taxes.

As an additional incentive, for any qualifying worker hired under this initiative who remains on the payroll for a continuous 52 weeks, the employer is eligible for an additional non-refundable tax credit of up to \$1,000 after the 52-week threshold is reached. This credit would be taken on the 2011 tax return. In order to be eligible, the employee's pay in the second 26-week period must be at least 80% of the pay in the first 26-week period.

Workers hired after the date of introduction of the legislation (February 3, 2010) are eligible for the payroll tax forgiveness and the retention bonus, but only wages paid after the date of the new law's enactment (March 18, 2010) receive the exemption for payroll taxes.

Additional features of the new hiring incentive:

- Puts money into a business' cash flow immediately, since the tax is not paid in the first place.
- Applies to for-profit and nonprofit organizations.
- No minimum weekly number of hours that the new employee must work for the employer to be eligible.
- Hiring of family members does not qualify.
- The new hire must sign an affidavit, under penalties of perjury, stating that he or she has not been employed for more than 40 hours during the 60-day period ending on the date the employment begins.