

Dear Client:

We have enclosed for your information the most *important payroll tax provisions which took effect on January 1, 2012*. Although this letter is typically produced in the December proceeding the year the payroll tax rates go into effect, the 2012 FICA rates were still being ironed out until months into 2012. We are aware that this is a delayed packet, but felt it was important to relay the information to our valued clients.

Items that you should note are:

- The Social Security (FICA) tax should be withheld at a rate of 4.2% (.042) from employee's wages up to a maximum wage base of \$110,100. The Medicare tax should be withheld at 1.45% (.0145) on all wages. For 2012, the employer matches the Medicare taxes withheld from employees' wages, and must pay FICA tax at a rate of 6.2% (.062) from employee's wages up to a maximum wage base of \$110,100.
- The Self-Employment tax rates are the same as the FICA and Medicare rates; however, a self-employed taxpayer pays both the employer and employee share of these taxes. (FICA at 10.4% of earnings up to \$110,100 and 2.9% on all earnings from self-employment).
- **You must make your deposits electronically in 2012.** See exception below. **When making EFTPS payments always initiate the payment at least one business day prior to the due date.**
- \$100,000 Next-Day Deposit Rule – If your accumulated Form 941 tax liability reaches \$100,000 on any day during a deposit period, your deposit is due by the next banking day. If you are a monthly schedule depositor and accumulate a \$100,000 tax liability on any day, you become a semi-weekly depositor on the next day and remain so for at least the rest of the calendar year and for the following calendar year.
- \$2,500 Rule – If your total liability for the quarter is less than \$2,500, you can pay the amount when you file your Form 941 instead of making deposits electronically. If you are not sure your total tax liability for the quarter will be less than \$2,500, deposit electronically using the monthly rule so you will not be subject to failure-to-deposit penalties.
- Mileage rate for 2012 has increased to 55.5 cents.

Please contact Brian or Roberta at (775) 882-3201 or via email at brian@fwcpas.com or roberta@fwcpas.com if you have any questions.

Sincerely,

Freeman & Williams, LLP

PAYROLL TAX SUMMARY

	2012	2011
<u>Social Security (FICA)</u>		
Base Amount	\$ 110,100.00	\$ 106,800.00
Percentage:		
Employer	6.20%	6.20%
Employee	4.20%	4.20%
Self-Employed	10.40%	10.40%
Maximum Payment:		
Employer	\$ 6,826.20	\$ 6,621.60
Employee	\$ 4,624.20	\$ 4,485.60
Self-Employed	\$ 11,450.40	\$ 11,107.20
<u>Medicare</u>		
Base Amount	Unlimited Wages	Unlimited Wages
Percentage:		
Employer	1.45%	1.45%
Employee	1.45%	1.45%
Self-Employed	2.90%	2.90%
<u>FUTA (Unemployment - Fed):</u>		
Base Amount	\$ 7,000.00	\$ 7,000.00
Percentage (net of state tax rate of 5.4%)	0.60%	0.80%
Plus Credit Reduction Penalty (may change before year-end)	0.30%	0.30%
Maximum Payment as a Credit Reduction State	\$84.00	\$77.00
<u>SDI (Disability - CA):</u>		
Base Amount	\$ 95,585.00	\$ 93,316.00
Percentage	1.00%	1.20%
Maximum Payment	\$ 955.85	\$ 1,119.79
<u>State Unemployment (CA):</u>		
Base Amount	\$ 7,000.00	\$ 7,000.00
Percentage	Various	Various
<u>State Unemployment (NV):</u>		
Base Amount	\$ 26,400.00	\$ 26,600.00
Percentage	Various	Various
<u>Modified Business Tax (NV):</u>		
Base Amount (less health insurance paid by employer)	Unlimited	Unlimited
Percentage:	.5% on first \$62,500; 1.17% thereafter	.5% on first \$62,500; 1.17% thereafter
<u>Federal Mileage Rate</u>		
	\$ 0.555	\$ 0.51

2012 FEDERAL AND NEVADA PAYROLL TAX INFORMATION

Form 941 - FICA: Social Security tax 6.2% employer rate, 4.2% employee rate WAGE LIMIT \$110,100 plus Medicare Tax of 1.45% rate for employee and employer on all wages. Form 941 quarterly reports are due by the last day of the month following the end of the quarter: April 30, 2012; July 31, 2012; October 31, 2012; and January 31, 2013.

Form 945: This form is used to report federal income tax withholding from non-payroll payments.

Form 940 - FUTA: Rate .6% [0.006] for 2012. WAGE LIMIT \$7,000

FUTA deposits are due by the last day of the month following the quarter in which your liability exceeds \$500.

Form 940 [or 940 EZ] is due January 31, 2012.

Federal Tax Deposits: There are two deposit schedules -MONTHLY AND SEMI-WEEKLY. Your deposit requirement is determined by your total tax liability reported on Form 941 during a lookback period. The IRS will notify you of your deposit category. If they do not, you can find a lookback period calendar in IRS Publication 15, Circular E at www.irs.gov.

Deposit Rules:

Monthly Depositors: Deposit payroll taxes by the 15th day of the next calendar month.

Semi-Weekly Deposit Schedule:

Payment Days/Deposit Periods

Wednesday, Thursday, and/or Friday

Saturday, Sunday, Monday, and/or Tuesday

Deposit By:

Following Wednesday

Following Friday

New Employers: Monthly depositor for first year.

Exceptions:

\$2,500 Rule: Tax may be paid with tax return if the liability for the QUARTER is less than \$2,500. [If you make a mistake and the amount is more than \$2,500 you are subject to penalties.]

\$100,000 Rule: If accumulated tax reaches \$100,000 or more on any day during a deposit period, DEPOSIT BY THE END OF THE NEXT BANKING DAY.

Self-Employment Tax: Social Security tax of 10.4% EARNINGS LIMIT \$110,100 plus Medicare Tax of 2.9% on all earnings. This tax is paid on the individual's Form 1040.

Form 1099: These forms must be provided to each vendor if the amount paid to the vendor is for services greater than \$600, the vendor is not incorporated, and not treated as an employee. An exception is: Forms must be provided to all attorneys paid more than \$600, even if they are incorporated. You must have on file a completed Form W-9 from each vendor. Send Form 1099 to the vendor by January 31, 2013. Send 1099s to the Internal Revenue Service no later than February 28, 2013. If you have more than 250 Form 1099s you must file on magnetic media or electronically.

Form W-2: 2012 W-2's must be given to your employees by January 31, 2013. Send Copy A of all W-2s with Form W-3 to the Social Security Administration by February 28, 2013. If you have more than 250 W-2s you must file on magnetic media or electronically.

Nevada State Unemployment: Various rates; WAGE LIMIT \$26,400.

Reminder – All new employees must be reported to Nevada Employment Security Division within 20 days of hire or rehire.

Nevada Modified Business Tax: .5% on first \$62,500 of wages, 1.17% thereafter

This tax is based on gross payroll after deductions for health insurance paid by the employer. All employers excluding those exempt by statute (non-profits, Indian tribes, and political subdivisions) are required to file quarterly.

Nevada Workers' Compensation: With few exceptions, all business owners must obtain and maintain workers' compensation coverage. You can find approved self-insured associations at <http://doi.state.nv.us>. Those failing to comply face up to \$10,000 in fines and may even have their businesses ordered closed until rectified. Contact your insurance provider for additional details.

Traditional or Safe Harbor 401(k): The maximum deferral for 2012 is \$17,000 for participants under age 50. The maximum deferral for 2012 is \$22,500 for participants age 50 or over if the 401(k) plan permits this additional "catch-up" contribution. These are IRS limits; you may be subject to additional limits imposed by your company's 401(k) plan. Contact your plan administrator for additional details.

FREEMAN & WILLIAMS, LLP

Certified Public Accountants

Carson City

(775) 882-3201

2012 CALIFORNIA PAYROLL TAX INFORMATION

SUI: Various rates; LIMIT \$7,000. State unemployment insurance (SUI) experience rate is stated on your report.

SDI: 1.0% on wages up to \$95,585. Maximum \$955.85.

ETT: 0.1% LIMIT \$7,000 per employee per calendar year.

CALIFORNIA'S MINIMUM WAGE: \$8.00, effective January 1, 2008.

FEDERAL MINIMUM WAGE: \$7.25 effective July 24, 2009

New Employee Registry: All employers are required to report new employees to the New Employee Registry (NER) Program. Within 20 days of the start of work date all employees newly hired, rehired or returning to work from a furlough, separation, leave of absence without pay, or termination must be reported.

Employers may use (1) The Employment Development Department Form DE 34 *Report of New Employee(s)*, (2) a copy of the IRS Form W-4 *Employee(s) Withholding Allowance Certificate*, (3) or their own reporting form. Magnetic media reporting may also be used to report new employees. Multistate employers, who report new hires on magnetic media, can select one state that they have employees in to report all new hires.

Personal Income Tax (PIT) Withholding: The California PIT withholding deposit threshold is \$350.

Although employer UI and ETT taxes are due quarterly, withholdings taken from employees' wages for SDI and California PIT may need to be deposited more often. State deposit due dates are generally the same as federal deposit due dates. Penalty and interest are charged on late deposits.

Independent Contractor Reporting Requirements: Any business and government entity that is required to file Form 1099-MISC for services performed by an independent contractor must also file Form DE 542 with the EDD within 20 days of either entering into a contract for \$600.00 or more, or making payments totaling \$600.00 or more in any calendar year.

Internet Filing Available: For current status of internet filing capability, please visit the Employment Development Department web site at www.edd.ca.gov, or check the latest *California Employer* quarterly newsletter.

Overtime Pay: These provisions are effective January 1, 2000:

Overtime – Time-and-a-half must be paid for hours worked:

- In excess of 8 hours in a day up to and including 12 hours in a workday
- In excess of 40 hours in a week
- On the seventh consecutive day of work in any workweek (for the first 8 hours)

Double Time – Double time must be paid for hours worked:

- In excess of 12 hours in a day
- In excess of 8 hours on the seventh consecutive day of work

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