

December 9, 2002

## IMPORTANT

### Dear Client:

Effective **January 1, 2003**, new payroll rates go into effect, changing deductions on all payroll checks and increasing the self-employment tax wage base. Also, again in 2003, there is no wage limit on the Medicare tax (1.45 percent of salary for employees and 2.9 percent of salary for self-employed).

### **Payroll Tax Deposits**

For 2003, you are **required** to use the Electronic Federal Tax Payment System (**EFTPS**) by January 1, 2003 for payroll tax deposits to the Internal Revenue Service ("IRS") if the total of **all** your Federal tax deposits (such as deposits for employment taxes, excise tax and corporate income tax) in 2001 exceeded \$200,000. Failure to deposit correctly will result in a 10 percent penalty. If you have been using **EFTPS**, you **must** continue to do so.

If the Internal Revenue Service has not mailed you notification of your deposit category (monthly or semi-weekly) prior to your first payroll for 2003, you must determine which of the two deposit categories you are required to use. This will be the category you use for every payroll tax deposit made in 2003 (excluding FUTA deposits). Your deposit category for a calendar year is determined from taxes reported on your Forms 941 (line 11) in a four-quarter lookback period. The lookback period begins July 1, 2001 and ends June 30, 2002. If you reported \$50,000 or less in taxes for the lookback period, you are a monthly schedule depositor, if you reported more than \$50,000, you are a semi-weekly schedule depositor.

Under the monthly deposit schedule, deposit taxes on payments made during a month by the 15<sup>th</sup> day of the following month. Under the semi-weekly deposit schedule, deposit taxes within three banking days. If you do not know what deposit category your business falls into, please contact this office.

If you are a monthly schedule depositor the threshold for deposit requirement is \$2,500. If your total tax liability (line 13 of Form 941) is less than \$2,500, you are not required to make deposits and may pay the taxes with the return. However, if you are unsure that you will accumulate less than \$2,500, deposit under the appropriate rules so that you will not be subject to failure to deposit penalties.

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If you **accumulate** a tax liability of \$100,000 or more on any day, you must deposit the tax by the next banking day, whether you are a monthly or semi-weekly depositor.

If you are a monthly schedule depositor and accumulate a \$100,000 tax liability on any day during a month, you become a semi-weekly schedule depositor on the next day and remain so for at least the rest of the calendar year and for the following calendar year.

State payroll tax deposits continue to be made using form DE 88 unless you have been notified by the state that you meet the Electronic Funds Transfer (**EFT**) requirements. **EFT** is the State's version of electronic filing and operates the same as the federal **EFTPS**. Deposits must be made using **EFT** if your average (per payment) deposit was \$20,000 or more for the prior state fiscal year (July 1 to June 30). Employers who meet the requirements for the first time have been notified by October 31, 2002. Mandatory **EFT** participants are subject to a noncompliance penalty if deposits are paid with a DE 88 coupon. Employers who do not meet the mandatory **EFT** requirements may deposit by **EFT** on a voluntary basis. State payroll tax deposits are due the same date as Federal payroll tax deposits.

### Social Security Tax

#### F.I.C.A. Tax Portion

<b>Maximum taxable wages for Social Security</b>	<b>\$ 87,000.00</b>
<b>Maximum employee deduction</b>	<b>5,394.00</b>
<b>Tax Rate</b>	<b>6.2%</b>

#### Medicare Tax Portion

<b>Maximum taxable wage base</b>	<b>Unlimited</b>
<b>Maximum employee deduction</b>	<b>Unlimited</b>
<b>Tax Rate</b>	<b>1.45%</b>

### State Disability Insurance (SDI)

<b>Maximum taxable wages for State Disability</b>	<b>\$ 56,916.00</b>
<b>Maximum employee deduction</b>	<b>512.24</b>
<b>Tax Rate</b>	<b>.9%</b>

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### **Federal Withholding Tax**

Use the new tax deduction charts issued January 1, 2003.

### **California Withholding Tax**

Use the new tax deduction charts issued January 1, 2003.

### **Form W-4 Withholding Allowances**

Employees *should* file a new Form W-4 for 2003.

Employers **MUST** submit to the IRS copies of any Form W-4 on which the employee either 1) claims more that 10 withholding allowances or 2) claims exemption from withholding and his or her wages would normally be more than \$200 per week.

### **Eligibility for Employment**

You will have to verify that each new employee is legally eligible to work in the United States.

New employees must complete I-9 Employment Eligibility Verification Form.

### **Self-Employment Tax**

#### **Social Security Tax Portion**

<b>Maximum taxable income for Self Employment Tax</b>	<b>\$ 87,000.00</b>
<b>Maximum tax</b>	<b>10,788.00</b>
<b>Tax Rate</b>	<b>12.4%</b>

#### **Medicare Tax Portion**

<b>Maximum taxable income for Medicare Tax</b>	<b>Unlimited</b>
<b>Maximum tax</b>	<b>Unlimited</b>
<b>Tax Rate</b>	<b>2.90%</b>

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**California Form DE-34**

Employers must file Form DE-34 with the Employment Development Department to report newly hired employees. This form is due within 20 days of the start-to-work date of a new employee and supports the state's effort to locate parents and enforce payment of delinquent child support.

Please call our office if you have any questions.

**FISHMAN, BLOCK + DIAMOND**