



January 1, 2012

2012 PAYROLL TAX UPDATE

Dear Client:

Please be aware, due to the **Federal Unemployment Tax Rate** reduction of .8% to .6% that took effect on July 1, 2011, California employers will have two important changes to their **annual Form 940** reporting for **2011**. First, there will be separate lines for computing the tax; one for the pre-July 1 subject wages and one for the post-June 30 subject wages. Thus, employers will need to segregate wages paid to employees for the first and second halves of the year. Second, California employers will have to attach Form 940 Schedule A, (Multi-State Employer and Credit Reduction Information). On this form, they will compute the amount of the credit reduction and carry the number to the Form 940, line 11 as an addition to tax.

Effective **January 1, 2012**, new payroll rates go into effect, changing deductions on all payroll checks and increasing the social security and self-employment tax wage base. The employee-share of the social security tax and the self-employment tax will be 4.2% until February 29, 2012, and 6.2% after February 29, 2012, while the employer share remains at 6.2%. Again in 2012, 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

Continuing in 2012, Federal tax deposits made by paper coupons (Form 8109) will no longer be processed. All taxpayers must deposit their federal taxes through the Electronic Federal Tax Payment System (**EFTPS**). According to the Department of the Treasury, this applies to payment of corporate income taxes, corporate estimated taxes, excise and employment taxes, but not to payment of estimated individual income tax payments. Failure to deposit correctly will result in a 10 percent penalty.

If the Internal Revenue Service has not mailed you notification of your deposit category (monthly or semi-weekly) prior to your first payroll for 2012, 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 2012 (excluding FUTA deposits). Your deposit category for a calendar year is determined from taxes reported on your Forms 941 (line 10) in a four-quarter lookback period. The lookback period begins July 1, 2010 and ends June 30, 2011. 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.



January 1, 2012
Page Two

Under the monthly deposit schedule, deposit taxes on payments made during a month by the 15th 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.

Additionally, this new EFTPS requirement does not change the existing rules that permit monthly schedule depositors paying a minimal amount of tax, \$2,500 or less, to make their payments with the related tax return. For example, employers with \$2,500 or less in quarterly payroll tax liability will still have the option to remit employment taxes with a timely filed quarterly or annual payroll tax 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.

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 should have been notified by October 31, 2011. 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.

Again for 2012, employers will report total subject wages, Unemployment Insurance (UI) and Disability Insurance (DI) taxable wages and contributions, by filing a *Quarterly Contribution Return and Report of Wages* (**DE 9**).

Employers will continue to report employee wages and personal income tax withheld **quarterly** on the *Quarterly Contribution Return and Report of Wages (Continuation)* (**DE 9C**).



January 1, 2012
Page Three

Social Security Tax**F.I.C.A. Tax Portion**

Maximum taxable wages for Social Security	\$110,100.00
Maximum employee deduction until February 29, 2012	4,624.20
Maximum employee deduction after February 29, 2012	6,621.60
Employee Tax Rate until February 29, 2012	4.2%
Employee Tax Rate after February 29, 2012	6.2%
Employer Tax Rate	6.2%

Medicare Tax Portion

Maximum taxable wage base	Unlimited
Maximum employee deduction	Unlimited
Tax Rate	1.45%

State Disability Insurance (SDI)

Maximum taxable wages for State Disability	\$ 95,585.00
Maximum employee deduction	955.85
Tax Rate	1.0 %

Federal Withholding Tax

Use the new tax deduction charts issued January 1, 2012

California Withholding Tax

Use the new tax deduction charts issued January 1, 2012

Form W-4 Withholding Allowances

Employees *should* file a new Form W-4 for 2012

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.



January 1, 2012
Page Four

Self-Employment Tax**Social Security Tax Portion**

Maximum taxable income for Self-Employment Tax	\$110,100.00
Maximum tax	13,652.40
Tax Rate	12.4%

Medicare Tax Portion

Maximum taxable income for Medicare Tax	Unlimited
Maximum tax	Unlimited
Tax Rate	2.90%

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, LLP