



## CLIENT MEMO 2011 PAYROLL TAX UPDATE

Effective **January 1, 2011**, new payroll rates go into effect, changing deductions on all payroll checks. The social security & self-employment tax wage base will not change for 2011. The employee-share of the social security tax & the self-employment tax will be decreased to 4.2% while the employer share remains at 6.2%. Again in 2011, 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

Beginning January 1, 2011, Federal tax deposits made by paper coupons (Form 8109) will no longer be processed. All taxpayers that currently use form 8109 coupons for their federal tax deposits will have to deposit their federal taxes through the Electronic Federal Tax Payment System (**EFTPS**) after the end of 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 estimated individual income tax payments. 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 2011, 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 2011 (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, 2009 and ends June 30, 2010. 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.

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, 2010. 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.

Effective January 1, 2011, employers will report total subject wages, Unemployment Insurance (UI) and Disability Insurance (DI) taxable wages and contributions, by filing a **New Quarterly Contribution Return and Report of Wages (DE 9) quarterly** instead of annually.

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

These forms will replace the Annual Reconciliation Statement (DE 7) and the Quarterly Wage and Withholding Report (DE 6).

**Social Security Tax**

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

<b>Maximum taxable wages for Social Security</b>	<b>\$106,800.00</b>
<b>Maximum employee deduction</b>	<b>4,485.60</b>
<b>Employee Tax Rate</b>	<b>4.2%</b>
<b>Employer 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>\$ 93,316.00</b>
<b>Maximum employee deduction</b>	<b>1,119.79</b>
<b>Tax Rate</b>	<b>1.2%</b>



**Federal Withholding Tax**

Use the new tax deduction charts issued January 1, 2011

**California Withholding Tax**

Use the new tax deduction charts issued January 1, 2011

**Form W-4 Withholding Allowances**

Employees *should* file a new Form W-4 for 2011

**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>\$106,800.00</b>
<b>Maximum tax</b>	<b>11,107.20</b>
<b>Tax Rate</b>	<b>10.4%</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>

**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.

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