



December 12, 2016

2017 PAYROLL TAX UPDATE**Dear Client:**

Please be aware, due to the **Federal Unemployment Tax Act**, the **FUTA** tax rate paid on the first \$7,000 of wages per employee will increase from 2.1% to 2.4% for the tax year ended 2016. Once again, California employers will have to attach Form 940 Schedule A, (Multi-State Employer and Credit Reduction Information) to their **annual Form 940** reporting for 2016.

In an effort to reduce fraud, a provision in the Consolidated Appropriations Act passed by Congress has changed the filing deadlines for **employer** copies of Forms W-2/1099-MISC. Starting in tax years 2016, the deadline for filing Forms W-2 to the Social Security Administration and 1099-MISC to the Internal Revenue Service will be January 31 of the following year, rather than February 28 as it was in the past. This new deadline is for all employer W-2/1099-MISC returns, both electronic and paper returns.

The 2016 employer W-2/1099-MISC filing deadline is Tuesday, January 31, 2017.

Effective **January 1, 2017**, new payroll rates go into effect, changing deductions on all payroll checks. The employee-share of the social security tax and the self-employment tax, along with the employer share, remain at 6.2%. In 2017, there is no taxable wage limit on the Medicare tax for employees or employers. Continuing in 2017, an additional 0.9% employee Medicare tax is assessed on wage income over \$200,000 for individuals and \$250,000 for married couples.

Payroll Tax Deposits

Continuing in 2017, 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 2017, 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 2017 (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, 2015 and ends June 30, 2016. 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.



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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 our office.

Additionally, the 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, 2016. 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 2017, employers will report the 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)*.



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Social Security Tax

F.I.C.A. Tax Portion

Maximum taxable wages for Social Security	\$127,200.00
Maximum employee deduction	7,886.40
Employee tax rate	6.2%

Medicare Tax Portion

Maximum taxable wage base	Unlimited
Maximum employee deduction	Unlimited
Tax rate for taxable wages UP to \$200,000 for individuals and \$250,000 for married couples	1.45%
Tax rate for taxable wages OVER \$200,000 for individuals and \$250,000 for married couples	2.35%

State Disability Insurance (SDI)

Maximum taxable wages for State Disability	\$110,902.00
Maximum employee deduction	998.12
Tax rate	.9%

Federal Withholding Tax

Use the new tax deduction charts issued January 1, 2017

California Withholding Tax

Use the new tax deduction charts issued January 1, 2017

Form W-4 Withholding Allowances

Employees *should* file a new Form W-4 for 2017

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.



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Self-Employment Tax

Social Security Tax Portion

Maximum taxable income for Self Employment Tax	\$127,200.00
Maximum tax	15,772.80
Tax rate	12.4%

Medicare Tax Portion

Maximum taxable income for Medicare Tax	Unlimited
Maximum tax	Unlimited
Tax rate for taxable income <u>UP</u> to \$200,000 for individuals and \$250,000 for married couples	2.9%
Tax rate for taxable income <u>OVER</u> \$200,000 for individuals and \$250,000 for married couples	3.8%

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