



December 12, 2017

## 2018 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 2.4% to 2.7% for the tax year ended 2017. 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 2017.

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 2018 employer W-2/1099-MISC filing deadline is Wednesday, January 31, 2018.**

Effective **January 1, 2018**, 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 2018, there is no taxable wage limit on the Medicare tax for employees or employers. Continuing in 2018, 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 2018, 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 2018, 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 2018 (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, 2016 and ends June 30, 2017. 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 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 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.

New state law mandates electronic submission of tax returns, wage reports and payroll tax deposits for all employers. Effective January 1, 2018, employers are required to electronically submit employment tax returns, wage reports and payroll tax deposits to the Employment Development Department (EDD). Employers can use e-Services for Business to comply with the E-file and E-pay mandate. With e-Services for Business, you can file, pay and manage your payroll tax account online. You may enroll at [www.edd.ca.gov/e-Services\\_for\\_Business](http://www.edd.ca.gov/e-Services_for_Business).

Employers will report the total subject wages, Unemployment Insurance (UI) and Disability Insurance (DI) taxable wages and contributions **quarterly** by **e-filing** a **Tax Return**, formerly a *Quarterly Contribution Return and Report of Wages (DE 9)*.

Employers will report employee wages and personal income tax withheld **quarterly** by **e-filing** a **Wage Report**, formerly a *Quarterly Contribution Return and Report of Wages (Continuation) (DE 9C)*.

State payroll tax deposits will be made by **e-filing** Form DE 88. State payroll tax deposits are due on the same day as Federal payroll tax deposits.

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Penalties of up to \$50.00 per tax return and wage report will be charged for not complying with the E-file mandate. Penalties for not complying with the E-pay mandate will be 15% of taxes due.

**Social Security Tax**

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

Maximum taxable wages for Social Security	\$128,400.00
Maximum employee deduction	7,960.80
Employee tax rate	6.2%

**Medicare Tax Portion**

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

**State Disability Insurance (SDI)**

Maximum taxable wages for State Disability	\$114,967.00
Maximum employee deduction	1,149.67
Tax rate	1.0%

**Federal Withholding Tax**

Use the new tax deduction charts issued January 1, 2018

**California Withholding Tax**

Use the new tax deduction charts issued January 1, 2018

**Form W-4 Withholding Allowances**

Employees *should* file a new Form W-4 for 2018



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**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>\$128,400.00</b>
<b>Maximum tax</b>	<b>15,921.60</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 for taxable income <u>UP</u> to \$200,000 for individuals and \$250,000 for married couples</b>	<b>2.9%</b>
<b>Tax rate for taxable income <u>OVER</u> \$200,000 for individuals and \$250,000 for married couples</b>	<b>3.8%</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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