

Summary of 2010 Payroll Taxes

The following is a summary of payroll tax provisions that may affect your business.

- **Social Security (OASDI)**

The tax rate will remain unchanged for 2010 at a rate of 6.20%. Additionally, the Social Security wage base will also remain unchanged from 2009 to 2010 at a limit of \$106,800 as a result of no increase occurring in the Consumer Price Index from the third quarter of 2008 to the third quarter of 2009. Accordingly, the maximum social security withholding for 2010 will remain \$6,621.60. This marks the first time the social security taxable wage base has not increased from one year to the next since 1971.

- **Medicare (HI)**

The tax rate will remain unchanged for 2010 at a rate of 1.45%. The Medicare wage base will also remain unlimited.

- **401(k) Elective Deferrals**

Traditional / safe harbor plans - Employees participating in formal 401(k) plans may elect to defer up to \$16,500 during 2010. This limitation is unchanged from 2009. Individuals age 50 and over can contribute an additional \$5,500 again in 2010. These limits will be subject to cost-of-living increases after 2010.

- **SIMPLE Plans**

SIMPLE plans – Employees participating in SIMPLE plans may elect to defer up to \$11,500 during 2010. Again, this limit is unchanged from 2009. Individuals age 50 and over can contribute an additional \$2,500 again in 2010. These limits will be subject to cost-of-living increases after 2010.

- **Federal Tax Deposits**

IRS reviews deposit requirements annually. It is possible that your deposit frequency could have been changed for 2009. Notification by the IRS for such changes began in November. If you did not receive any correspondence from the IRS, please continue using the same deposit schedule that you are currently using.

If your federal tax deposit liability equals or exceeds \$100,000, please remember that this liability is due by the next business day rather than your normal deposit date.

The EFTPS on-line payment system has proven to be a great time-saver for many employers and provides you with printed confirmation of payments made. If you are not currently utilizing this system, we would like to encourage you to do so. We believe that you would find this to be a great management tool.

- **Federal Unemployment Tax (FUTA – 940)**

The taxable wage base for the federal unemployment tax remains unchanged at \$7,000 annually per employee. At this time, the FUTA tax rate is slated to remain at 6.2% in 2010. There is still a credit of 5.4% against this tax if your state unemployment tax is paid by its due date—provided that you are not in a state that has been assigned the “Credit Reduction” status. Therefore, the net tax rate will remain at .8%. (Note: a state’s status is subject to change at any time.)

Since the distribution of our 2009 payroll tax update letter, the State of Michigan has been determined to be a “Credit Reduction” state for the 2009 calendar year. Accordingly, all Michigan employer’s will be required to pay an additional .3% for the 2009 FUTA taxes, resulting in a net tax of 1.10%. The additional taxes incurred as a result of this reduction will be due by February 1, 2010 and must be deposited in the same manner as all other 940 payments made by the employer throughout the year.

Michigan employers that have paid Michigan unemployment taxes for five years or more and have a “positive reserve balance” on their Michigan unemployment accounts are entitled to a credit from the State of Michigan which will reimburse them at a later date for a portion of the “credit reduction” assessed for FUTA tax purposes. If you fall into that category, please contact our office for additional details.

- **Ohio Unemployment Tax**

The taxable wage base applicable to Ohio employees will remain at \$9,000 for 2010. The rate your business has been assigned for the new calendar year can be found on the 2010 Contribution Rate Determination letter that you received in November from the Ohio Department of Job and Family Services.

Employers that utilize an outside payroll service need to remember to notify their service provider of the new rate they have been assigned.

While the State of Ohio has been able to maintain their taxable wages base at \$9,000 for several years, it is likely that an adjustment will be made before too long. In 2010, more than twenty states are experiencing taxable wage base increases—many of those with wage bases substantially higher than that of the State of Ohio.

- **Workers’ Compensation**

The maximum taxable wage base for officers for the 2010 calendar year was increased to \$60,476 (or \$30,238 per half). This is an increase from 2009, which was only \$59,852 (or \$29,926 per half).

If an officer’s wages exceed the \$30,238 for the first six month period, but does not equal or exceed the \$30,238 for the second half, you must increase the reportable wages beyond the actual wages paid during the second half until you reach the \$60,476 maximum for the calendar year. But in no case should the amount of taxable wages reported for the calendar year exceed the amount of the wages actually paid during the year. Since this “catch-up” computation is not straightforward, you may want to contact Jackie Roberts of our office if you feel it may apply to you.

Discount Limits for Group Rating Plans – Progress has continued on the plan for adequacy and equity in the Ohio BWC’s group rating program. For the plan year beginning July 1, 2010, employers can only be offered up to a 51% savings in premiums from group rating administrators. Proposals submitted to an employer by any group administrator boasting a higher rate of discount is a violation of Ohio law.

\$15,000 Medical Only Plan / Medicare Secondary Payer (MSP) Mandatory Reporting – In short, the bottom line is that employers participating in the \$15,000 Medical Only Plan for workers compensation purposes are going to be required to report payments of medical expenses that have been made on behalf of any worker that receives Medicare benefits to the Centers for Medicare and Medicaid Services (CMS).

The Bureau of Workers' Compensation mailed out bulletins in 2008 regarding this subject to its policy holders for informational purposes only. This act, and its subsequent enforcement, is actually totally under the control of the CMS. Therefore, the Bureau of Workers Compensation is unable to assist with any questions an employer would have regarding this requirement.

Employers participating in the medical plan that do not comply with reporting requirements established by the CMS can be fined up to \$1,000 per claim, per day.

According to the timeline posted on the CMS's official website dated May 12, 2009, the registration process for compliance with these filing requirements has already begun. The "Claim Input File" testing period is scheduled to run from January 1 – March 31, 2010 and the mandatory reporting of qualified payments is scheduled to begin after that time frame.

If you have not already done so, and you participate in the \$15,000 Medical Only Plan, our recommendation is that you contact your third-party administrator for group rating purposes (TPA) to determine what services they are currently providing to their clients to assist them in complying with this requirement. Some TPA's have chosen to outsource this service to another provider at an additional fee to the employer, some are choosing to provide assistance directly under your current contract, and others may leave a customer only the option of registering and reporting this information on their own.

- **State of Ohio Income Tax**

There has been no change to the 2010 state withholding tables. Current tax tables will not be mailed out to employers. However, they remain available on the state's website at:

http://tax.ohio.gov/divisions/employer_withholding/employer_withholding_tables_010109.stm

State withholding tax return packets have been mailed out for 2010. Please be certain to check the packet to determine if your filing status has remained the same. If there are changes to your state withholding filing status, there will also be a change in your school district filing status.

- **School District Income Taxes**

New school district income tax levies are added every year. We encourage you to review the updated list of school districts that was included in the withholding packet you received from the State of Ohio to determine what changes might effect your employees for the year.

Employers are required to withhold school district income taxes from wages for any employees who reside in a school district that has an income tax.

Some of the local additions / changes that are effective as of January 1, 2010 include:

North Baltimore LSD (SD8705)	1.25%	Increased rate
Swanton LSD (SD2606)	0.75%	Decreased rate

- **Minimum Wage**

While the federal required minimum wage increased on July 24, 2009, it still remained lower than the minimum wage required by the State of Ohio and Michigan.

State of Ohio – Minimum wage remains at \$7.30 per hour (effective since January 1, 2009)

State of Michigan – Minimum wage remains at \$7.40 per hour (effective since July 1, 2008)

- **Personnel Documentation**

To avoid potential penalties for noncompliance, please be certain to obtain the following completed forms from all new employees prior to allowing them to begin work for your organization:

IRS Form W-4

Ohio Form IT-4

INS Form I-9

These forms can not only be found on the appropriate governmental websites, but can also be downloaded from our website at www.radelsmith.com.

Additionally, it is of great importance that employers make certain that employees complete the most current version of the form available on the employee's date of hire. Earlier versions are not considered valid.

Potential penalties for noncompliance regarding the above listed forms and procedures can range anywhere from \$25 - \$1,000 for each violation.

- **Ohio New Hire Reporting Program**

Employers should also be certain to continue to submit appropriate information to the Ohio New Hire Reporting Program in Cleveland within 20 days of either the employee's hire date, or the date he/she returns to work after a lapse in employment. A photocopy of a completed IRS Form W-4 faxed or mailed to the Ohio New Hire office—along with the date of birth and hire date added to the bottom of the form will sufficiently meet the requirements. Newly hired employees can also be reported via the website at www.oh-newhire.com or fax the information toll-free at 888-872-1611.

Employers are even required to report "re-hires" or "recalled" employees who return after being laid off, furloughed, separated, granted a leave without pay or terminated from employment and then return to work. This includes teachers, seasonal workers, etc.

Businesses are also required to submit information to the Ohio New Hire Reporting Program for all independent contractors that they hire that will receive more than \$2,500 per year for the services provided. Similar to employees, this information must be submitted to the Ohio New Hire Reporting Program within 20 days.

Independent contractor information should be submitted to the Ohio New Hire Reporting Program utilizing the same methods you utilize for reporting new employees hired, only on a form W-9 rather than a W-4. You should be obtaining a form W-9 form from independent contractors anyway so that you will have the information available as required at the end of the year for forms 1099-MISC.

RADEL, SMITH & ASSOCIATES