

Summary of Payroll Taxes **December, 2010**

The recent passage of the "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" has everyone scrambling to implement the changes made. This late passage has even delayed the release of 2011 Circular E and 2011 W-4 forms, among other items. Accordingly, the IRS has given taxpayers until January 31, 2011 to implement the withholding changes that fall under their authority.

Given that no increase has occurred in the Consumer Price Index from the third quarter of 2008 to the third quarter of 2010, taxpayers are going to find that several payroll-related rates, wage base limits and contribution limits will remain unchanged for 2011.

However, we ask that you carefully read through this newsletter as there have been many important changes related to payroll of which you should be aware.

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

- **Social Security (OASDI)**
The **withholding tax rate for 2011 has been reduced to a rate of 4.20%** with the Social Security wage base remaining unchanged at a limit of \$106,800. Accordingly, the maximum social security withholding for 2011 will be \$4,485.60. This is scheduled to be a one-year decrease only. **It is important to note that the employer's portion of social security tax will remain at 6.2% for 2011.**
- **Medicare (HI) - Unchanged**
The tax rate will remain unchanged for 2011 at a rate of 1.45% with the Medicare wage base remaining unlimited.
- **401(k) Elective Deferrals - Unchanged**
Traditional / safe harbor plans - Employees participating in formal 401(k) plans may still only elect to defer up to \$16,500 for 2011. Individuals age 50 and over can still contribute an additional \$5,500 for 2011.
- **SIMPLE Plans - Unchanged**
SIMPLE plans – Employees participating in SIMPLE plans may again elect to defer up to \$11,500 during 2011. Individuals age 50 and over can still contribute an additional \$2,500 in 2011.
- **Health Saving Accounts (HSA)**
Employer contributions to an HSA must be reported in box 12 of Form W-2 with code W. The handling of employee contributions to an HSA in regards to how they are reported on a W2 is dependent upon whether or not the contributions were made as part of a cafeteria plan.

- **Health Saving Accounts (HSA) - continued**

For 2011 the maximum contribution for self-only High Deductible Health Plan (HDHP) participants is \$3,050. The contribution limit for family HDHP participants is \$6,150. The contribution amounts listed above are increased by \$1,000 for a qualified individual who is age 55 or older at any time during the year. (For two qualified individuals who are married to each other and who each are age 55 or older at any time during the year, each spouse's contribution limit is increased by \$1,000 provided each spouse has a separate HSA.)

It should be noted that when calculating the level of employer and employee contributions that the maximum contributions listed above must include the both amounts.

No contributions can be made to an individual's HSA after he becomes enrolled in Medicare Part A or Part B.

- **Auto Standard Mileage Allowance**

The IRS standard mileage allowance will increase for 2011 to \$.51 for each business mile (up from the 2010 \$.50 per mile).

- **Federal Tax Deposits**

A new ruling announced by the IRS in 2010 advises taxpayers that paper coupons will no longer be accepted for federal tax payments beginning January 1, 2011. Taxpayer's still utilizing paper forms should take steps as soon as possible to register to use the EFTPS System (Electronic Federal Tax Payment System.) This process usually takes 7-10 days to complete.

Additionally, it remains important for taxpayers to make timely deposits of their payroll taxes to avoid costly penalties for any delinquencies or underpayments. Detailed instructions for deposit requirements can be found in IRS Publication 15 (Circular E).

- **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 has been extended for at least the first six months in 2011 at the rate of 6.2%.** There is still a credit of 5.4% against this tax **if** your state unemployment tax is paid by its due date—**and** provided that you are not in a state that has been assigned the "Credit Reduction" status. Therefore, the net tax rate will remain at 0.8%. (Note: a state's status is subject to change at any time.)

Federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit is 0.3% for the first year, and will be an additional 0.3% for each succeeding year until the loan is paid in full. For the calendar year 2010, three states have been determined to be subject to the credit reduction—Indiana, Michigan and South Carolina.

Since the State of Michigan has been determined to be a "Credit Reduction" state for the second year in a row (2009 and 2010 calendar years), all Michigan employers will be required to pay an additional .6% for the 2010 FUTA taxes, resulting in a net tax of 1.40%. The additional taxes incurred as a result of this reduction will be due by January 31, 2011 and must be deposited in the same manner as all other 940 payments made by the employer throughout the year. The State of Michigan expects that an additional .3% reduction will be necessary for 2011 as well.

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

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 2011. The rate your business has been assigned for the new calendar year can be found on the 2011 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.

- **Workers’ Compensation**

The maximum taxable wage base for officers for the 2011 calendar year was increased to \$61,100 (or \$30,550 per half). This is an increase from 2010, which was only \$60,476 (or \$30,238 per half).

If an officer’s wages exceed the \$30,550 for the first six month period, but does not equal or exceed the \$30,550 for the second half, you must increase the reportable wages beyond the actual wages paid during the second half until you reach the \$61,100 maximum for the calendar 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.

Additionally, taxpayers need to remember that the Ohio BWC has also established a “minimum reportable wage” for officers. Taxable wages for Ohio Workers’ Compensation for an active officer must be reported at a minimum of \$10,192 per half—even if the officer did not receive that amount in compensation. The same “catch-up” computation is applied as mentioned above.

\$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).

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.

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 (TPA) for group rating purposes 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**

Ohio no longer requires copies of W-2's be submitted to them by an employer with form IT-3. However, you are required to maintain these records for a period of four years from the due date. The state may request to see them from time to time when conducting compliance programs.

There has been no change to the 2011 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 2011. 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, 2011 include:

Hopewell-Loudon LSD (Seneca County)	0.50%	New tax
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- **City of Bowling Green**

Effective January 1, 2011, the income tax rate for the City of Bowling Green is 2.0%

- **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 increases to \$7.40 (\$3.70 for tipped employees) per hour effective January 1, 2011

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. (At this time the 2011 Form W-4 has not yet been released. It will be added to our site once it becomes available.)

- **Personnel Documentation - continued**

Employers must make certain that employees complete the most current version of the forms 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**

Both the State of Ohio and the State of Michigan continue to enforce their "new hire" reporting requirements. Employers must submit appropriate information within 20 days of either the employee's hire date, or the date he/she returns to work after a lapse in employment.

Ohio 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. 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