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2009 PAYROLL NEWSLETTER

- The FICA/Medicare tax rate for tax year 2010 will remain at a combined rate of 7.65% (6.2% for Social Security and 1.45% for Medicare). **The maximum wage base for Social Security remains at \$106,800.00. All wages are subject to Medicare.**
- **Federal withholding tax rates for 2010 have changed.** Please be sure to update your tax tables if you prepare payroll through a computerized system. If you prepare your payroll manually, please be sure to reference Publication 15 (Circular E) Employer's Tax Guide for use in 2010 revised December 17, 2009 which is available on our website. Go to www.phbcpa.com and select Downloads/Links.
- **The IRS mailed out notices relating to the 2010 Federal Tax Deposit Requirements.** Your deposit frequency is based on the total taxes you reported on Form 941 for the four quarter lookback period for the quarters ending September 30, 2008, December 31, 2008, March 31, 2009 and June 30, 2009. **Please review your notice and make your payroll tax deposits accordingly in 2010.** If you have questions relating to your deposit requirements, please contact us or refer to IRS Publication 15 - Circular E, Employer's Tax Guide which is available on our website.
- **There are two methods of depositing employment taxes – electronically using the Electronic Federal Tax Payment System (EFTPS) or with FTD coupons.** The methods and requirements for both are explained in Publication 15 – Circular E, Employer's Tax Guide. **We were informed from the IRS that some banks are no longer accepting FTD coupons because of related expenses they incur. You may want to consider enrolling with EFTPS and start making your employment tax payments electronically.** Please contact us if you have questions.
- **Electronic Deposit Requirement** – you must make your deposits electronically in 2010 if your total taxes during the 2008 calendar year exceeded \$200,000, or if you were required to use the Electronic Federal Tax Payment System (EFTPS) in 2009 or any prior year.

If you are currently required to deposit taxes using EFTPS or if you received a notice stating you are required to make your Federal tax deposits electronically in 2010, do not use paper coupons and checks for any tax deposit obligations incurred. All taxes paid to the IRS are required to be paid electronically whether for payroll taxes, corporate taxes, corporate tax estimates, etc. If you are required to make deposits via electronic transfer and fail to do so, you may be subject to a 10% penalty.

Once you meet the requirements to use EFTPS, you are required to continue using the system even if your deposits in future years drop below the threshold amount unless you are notified differently from the IRS.

- **IMPORTANT REMINDER:** To timely deposit taxes electronically through EFTPS, please remember to **initiate the transaction at least one business day before the date the deposit is due!**

- **If you are using Form 8109 – Federal Tax Deposit Coupon, to make your deposits at an authorized financial institution, it is important to clearly mark the correct type of tax and tax period on each FTD coupon.** This information is used by the IRS to credit your account.

Please use only your preprinted FTD coupons or complete a blank coupon (Form 8109-B) which you can pick up at our offices. If you use someone else’s FTD coupon, you may be subject to the “failure to deposit” penalty because your account will be underpaid by the amount of the deposit credited to the other person’s account.

- **IRS Form 944 – Employer’s Annual Federal Tax Return** – Beginning with tax year 2010, employers that would otherwise be required to file Form 944 can notify the IRS if they want to file quarterly Form 941 instead of annual Form 944.

Remember: If you file Form 944 with the IRS as an annual filer, you are still required to meet the quarterly filing requirements for MN Revenue and MN UI, if applicable.

- **If you discover an error on a previously filed Form 941, 943 or 944,** make the correction using Form 941-X, 943-X or 944-X . **If you are amending Form 940,** check the box indicating “amended return” in the upper right hand corner of the return – there is not a separate form to be used.
- **Form 940** – you are no longer required to list your state reporting number(s) on Form 940. The U.S. Department of Labor (DOL) determines the credit reduction states. For 2009, Michigan is the only credit reduction state, so do not complete Lines 2 and 11 on Form 940. If you have questions, refer to the 2009 Instructions for Form 940 or contact us.
- **The Federal Unemployment gross wage limit for tax year 2010 remains at \$7,000.** When the FUTA tax liability for any calendar quarter in 2010 is over \$500 (including any FUTA tax carried forward from an earlier quarter), you are required to deposit the tax using EFTPS or at an authorized financial institution using Form 8109.

The Federal Unemployment (FUTA) rate has not changed for 2010. The rate is 6.2% less a maximum credit of 5.4% for amounts you paid into state unemployment funds. If you are entitled to the maximum credit, your FUTA tax rate after the credit is 0.8%.

- **MN Revenue withholding tax tables were revised effective January 1, 2010.** If you do not receive the Minnesota Income Tax Withholding Instructions and Tax Tables Booklet from MN Revenue, you can download the booklet at www.taxes.state.mn.us or go to our website at www.phbcpa.com and download the booklet selecting Downloads/Links. Please refer to the Minnesota Income Tax Withholding Instructions and Tax Tables Booklet for answers to your MN withholding tax questions or contact us.

Contact MN Revenue at (651) 282-9999 or 1-800-657-3594 with Withholding tax questions.

Contact MN Revenue at (651) 282-5225 or 1-800-657-3605 with Business Registration questions.

- **Receive withholding e-mail updates and due date notifications by email.** Go to the Minnesota Revenue website at: www.taxes.state.mn.us and click “Withholding tax” on the Tax Information menu and then select to sign up for e-mail updates. New to the MN Revenue website is an Informational Video Series which you may be interested in reviewing.
- **Minnesota Unemployment Insurance (UI) tax rates for 2010 were to be mailed to all registered employers by December 15, 2009.** The minimum Total Due Estimator rate is 0.69%. This consists of the base rate of 0.50%, an additional assessment of 14% of the quarterly tax due and the Workforce Development Fee (also referred to as Workforce Enhancement Fee) of 0.12%.

Please be sure to change your MN UI tax rate before processing payroll for year 2010. Please read down your notice to the Total Due Estimator paragraph to find your 2010 rate which will give you a result very near to your actual costs. Please contact our office if you have questions relating to updating your MN UI tax rate.

The MN UI taxable wage base for year 2010 increased to \$27,000.

- **MN UI tax payment timeliness is based on receipt date, not postmark date.** Payments can be made electronically or by payment voucher and paper check, however **payment must be received by the due date to be considered timely.**
- Go online to view **MN UI** payment history, wage detail information, make changes to your account information, view “benefits paid” charges to your account. Be sure to check the **View Inbox** when online to see if there is information in it. The best way to get answers to questions is online through **FAQ** or **Contact MN UI.**

OTHER IMPORTANT PAYROLL RELATED INFORMATION FOR 2009 & 2010

- **Be sure your business information is always kept current.** If you have address changes or any other changes to your business, please be sure to **make these changes with the IRS, MN Revenue, MN UI and the Secretary of State, if applicable.**
- **Federal Minimum Wage Increases** – Effective July 24, 2009, the federal minimum wage for covered, non-exempt employees increased to \$7.25 per hour.

Required posters and other compliance assistance materials concerning the minimum wage increase are available from the Department of Labor’s Wage and Hour Division website at www.wagehour.dol.gov or calling the U.S. Department of Labor’s toll-free help line at 1-866-487-9243.

How the federal minimum wage increase impacts Minnesota Businesses is available at the Minnesota Department of Labor and Industry website at www.doli.state.mn.us/fedminwage.html.

- **Many states also have minimum wage laws. Covered employers must comply with both.**

WHEN HIRING NEW EMPLOYEES

- **Complete Form I-9:** Verify that each new employee is legally eligible to work in the United States by completing the Department of Homeland Security, U.S. Citizenship and Immigration Services **Form I-9, Employment Eligibility Verification** for your files. Be sure to use the new Form I-9 (Rev. 08/07/09) which is available at www.uscis.gov or at our website at www.phbcpa.com. Instructions to complete the form are included with the form.
- **Form W-4 - Employee's Withholding Allowance Certificate:** Must be completed by each employee when hired. **It is very important that the Social Security number and name match because the IRS will assess penalties on employers filing Forms W-2 with mismatched names and Social Security numbers.** We suggest that you **verify this information through SSNVS as new employees are hired.** Form W-4 also provides you with other information you need when preparing payroll, whether Married, Single, or Married, but withhold at a higher Single rate, and how many allowances they claim.

Refer to IRS Publication 15 – Circular E, Employer's Tax Guide and/or the Minnesota Income Tax Withholding Instructions and Tax Tables for Quarterly and Annual Filers for further information relating to Form W-4 which can be accessed through our website at www.phbcpa.com.

- **New Hire Reporting:** Employers must **report all newly hired employees** who reside or work in the State of Minnesota, even if they worked only one day and were terminated. Employers must report re-hires, or employees who return to work (recalled employees) after being laid off, furloughed, separated, granted a leave without pay, or terminated from employment after 90 days. Employers must also report any employee who remains on the payroll during a break in service or gap in pay, and then returns to work after 90 days. **New Hire Reporting must be done within 20 days.** There are a variety of ways to report new hires, including online reporting, electronic reporting, or by mail or fax. For detailed instructions, contact us or contact the MN New Hire Reporting Center at (651) 227-4661, toll free at (800) 672-4473 or visit their website at www.mn-newhire.com.
- **Other States New Hire Reporting** - Please contact the state to find out the new hire reporting requirements.

TIPS TO REVIEW BEFORE PREPARING W-2S

- **Christmas and/or year-end bonuses are considered wages.** Bonuses are subject to withholding taxes and are reportable on the employee's W-2, even if the bonus is paid in cash. If you paid bonuses in cash and do not know how to report the bonus on the employee's W-2, please call us for assistance.
- **Addresses and social security numbers for all employees should be carefully reviewed for accuracy before printing the W-2s.** Verify names and Social Security numbers for all your employees through Business Services Online at www.ssa.gov/bsa before you file your W-2s. The IRS will assess penalties on employers filing Forms W-2 with mismatched names and Social Security numbers.
- The following information is reportable on Form W-2. If you have questions, please refer to the 2009 Instructions for Forms W-2 and W-3 which are included in the Internal Revenue Service Publication 393 for 2009. **If we prepare your W-2s, please provide us with the following information if it applies to your company.**
 - Employee's elective deferrals to a Section 401(k) cash or deferred arrangement including a SIMPLE retirement account that is part of a Section 401(k) arrangement, 403(b) salary reduction agreement, and 408(k)(6) salary reduction SEP.
 - The taxable cost of group-term life insurance coverage over \$50,000 provided to an employee, determined by using the table in section 2 of Pub. 15-B relating to Group-Term Life Insurance Coverage.
 - Non-cash payments including fringe benefits provided to an employee, such as a vehicle.
 - Adoption benefits.
 - Non-job related education expenses provided to an employee, unless excludable under an Education Assistance Program.
 - Employer's contributions (including an employee's contributions through a cafeteria plan) to an employee's health savings account (HSA).
 - Employee business expense reimbursements for mileage allowance and/or per diem paid in excess of the amount treated as substantiated under IRS rules.
 - Designated Roth contributions.

“Important Reminders” Relating to Form W-2 Filing

- **Reconcile Form 941/943/944 and Form W-3 before filing your forms with the Internal Revenue Service and/or Social Security Administration!!! This will eliminate notices from the IRS and SSA at a later time.**
- **If you mailed Forms W-2 to an employee and it comes back to you “undeliverable” & you have no other address for them, keep the employee copies of Forms W-2 that you tried to deliver but could not for four years. Do not send undeliverable Forms W-2 to SSA.**
- **Prepare and file Forms W-2 either alphabetically by employee’s last name or numerically by employee’s social security number.**
- **Do not staple or tape Form W-3 to the related Forms W-2 or Forms W-2 to each other. The forms are machine read so staple holes and tears interfere with machine reading. Do not fold Forms W-2 and W-3. Send the forms in a flat mailing.**
- **Provide employee’s with their copies of the W-2s by February 1, 2010.**
- **If you paper file your W-2s, file the entire Copy A of Form W-2 with the entire page of Form W-3 by March 1, 2010. Mail to the Social Security Administration, Data Operations Center, Wilkes-Barre, PA 18769-0001.**
- **If you are required to file 250 or more Forms W-2, you must file them electronically unless the IRS granted you a waiver. If you file electronically, the due date is March 31, 2010. Electronic filing is encouraged even if you are filing fewer than 250 Forms W-2.**
- **Send Copy 1 of Form W-2 to the Minnesota Department of Revenue, PO Box 64439, St. Paul, MN 55164-0439 unless you are required to submit your W-2s electronically. Whichever method is used, they are due to be submitted by ~~February 2, 2010~~. **CORRECTION: February 28, 2010.****
- **You must file W-2s electronically with the MN Department of Revenue for:**
 - **Tax year 2009 if you have more than 50 W-2s to file**
 - **Tax year 2010 if you have more than 25 W-2s to file**
 - **Tax year 2011 if you have more than 10 W-2s to file**

Please refer to the Minnesota Revenue website at www.taxes.state.mn.us for further details.