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CERTIFIED PUBLIC ACCOUNTANTS

2011 PAYROLL NEWSLETTER

- **NEW: For tax year 2012, the employee tax rate for Social Security remains at 4.2% for the first two months. It will then change to 6.2% unless new legislation is passed to continue at the 4.2% rate.** The employer tax rate for Social Security remains unchanged at 6.2%. **The 2012 wage base for Social Security is \$110,100.00.** All wages are subject to Medicare.
- **If you do not receive the 2012 Publication 15 (Circular E) in the mail, continue to check the IRS website, www.irs.gov for the newly published Employer's Tax Guide which includes the withholding tables. Search for the 2012 Publication 15 (Circular E).** If you prepare payroll through a computerized system, please be sure to update your tax tables before preparing your first payroll in January 2012.

We will post the 2012 Publication 15 (Circular E) including the new withholding tables on our website as soon as it is available. Go to www.phbcpa.com, select Downloads/Links and search for Publication 15 (Circular E).

- **The IRS mailed out notices relating to the 2012 Federal Tax Deposit Requirements.** Your deposit frequency is based on the total taxes you reported on Form 941 for the four quarter lookback period which includes the quarters ending September 30, 2010, December 31, 2010, March 31, 2011 and June 30, 2011. **Please review your notice and make your payroll tax deposits accordingly in 2012.** If you did not receive a notice and are questioning your deposit frequency, please check the lookback period and refer to the IRS Notice 931 to determine if your deposit frequency should change.
- There are two methods of paying employment taxes – electronically using the Electronic Federal Tax Payment System (EFTPS) or remitting the tax with your employment tax return, if qualified (your tax liability for the quarter must be less than \$2,500). Federal tax deposit coupons are obsolete. **Taxes must be paid electronically through EFTPS if your employment tax return is being electronically filed.**

To make payroll tax deposits electronically, you must be enrolled in EFTPS. To get more information about EFTPS or to enroll in EFTPS, visit www.eftps.gov or call 1-800-555-4477. Please contact us if you have questions.

All taxes paid to the IRS are required to be paid electronically whether for payroll taxes, corporate taxes, corporate tax estimates, etc. unless you are remitting your tax with your employment tax return because your tax liability is less than \$2,500. If you are required to make deposits through EFTPS and fail to do so, you may be subject to a 10% penalty.

- **IMPORTANT REMINDER: To timely deposit taxes electronically through EFTPS, please remember to initiate the transaction by 8 p.m. Eastern time (7 p.m. Central) at least one business day before the date the deposit is due!**

- **IRS Form 944 – Employer’s Annual Federal Tax Return – Please 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.** 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.
- **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” in the upper right hand corner of the return – there is not a separate form to be used.**
- **NEW: Form 940 –** The Department of Labor (DOL) determines the credit reduction states. **For 2011,** the credit reduction states are Arkansas, California, Connecticut, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, North Carolina, New Jersey, Nevada, New York, Ohio, Pennsylvania, Rhode Island, Virginia, Wisconsin, and the Virgin Islands. **If you paid wages in these states, you will have to complete Schedule A (Form 940).** After completing Schedule A, complete Lines 2 and 11 on Form 940. If you have questions, refer to the 2011 Instructions for Form 940 and Schedule A (Form 940) or contact us.

The Federal Unemployment Tax (FUTA) rate was 6.2% through June 30, 2011. The tax rate decreased to 6.0% effective July 1, 2011. **Form 940 has been revised to report the wages paid before 7/1/2011 on line 7b and the wages paid after 6/30/11 are reported on line 7d.**

The rate was 6.2% less a maximum credit of 5.4% for amounts you paid into state unemployment funds through June 30, 2011. The rate was 6.0% less a maximum credit of 5.4% effective July 1, 2011. If you are entitled to the maximum credit, your FUTA tax rate after the credit is 0.8% through June 30, 2011 and would be 0.6% beginning July 1, 2011.

- **The Federal Unemployment gross wage limit for tax year 2012 remains at \$7,000 and the tax rate remains at .6%.** When the FUTA tax liability for any calendar quarter in 2012 is over \$500 (including any FUTA tax carried forward from an earlier quarter), you are required to deposit the tax electronically through EFTPS.
- **MN Revenue withholding tax tables were revised effective January 1, 2012.** If you do not receive the Minnesota Income Tax Withholding Instruction Booklet and Tax Tables 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 booklet for answers to your MN withholding tax questions or contact us.

NEW: 2012 is the final year MN Revenue will mail the Minnesota Income Tax Withholding booklet. Starting in December 2012, the booklet and other important withholding tax information will be available on the website @ www.revenue.state.mn.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

- **NEW: MN e-Services** is the Minnesota Department of Revenue’s New and Improved Online Filing and Paying System. All registered withholding tax businesses have been transitioned into e-Services which replaces e-File Minnesota. If you have not transitioned your account into MN e-Services, you will be prompted to do so when you log in to your MN Revenue account.
- **NEW: The 4th quarter MN withholding tax return has been changed and is no longer a reconciliation return for the year. You now report only quarterly wages as you did the other quarters.**
- **NEW: In mid-2012, the Minnesota Department of Revenue will launch a redesigned website.** It will feature simple navigation and an improved design, allowing users easier access to the information they need. **The new link is www.revenue.state.mn.us. Until the new site is launched, both the new link (www.revenue.state.mn.us) and the current link (www.taxes.state.mn.us) will direct visitors to the current site.**

Tax announcements and other important withholding tax notices are on the MN Revenue website or you can receive withholding e-mail updates and due date notifications by email. Go to the Minnesota Revenue website at: www.taxes.state.mn.us, click on Withholding tax on the left column and then click the “Sign up for e-mail updates” logo located in the upper right corner and subscribe to receive one or more of the withholding tax updates. You will receive an email to which you must reply before you can receive updates. If you have not already done so, you may want to do this.

- **Minnesota Unemployment Insurance (UI) tax rates for 2012 were to be mailed to all registered employers by December 15, 2011.** The minimum Total Due Estimator rate is 0.67285%. This consists of the base rate of 0.50%, an additional assessment of 14% of the quarterly tax due, a Federal Loan Interest Assessment of .50% of the quarterly tax due and additional assessment and the Workforce Development Assessment (also referred to as Workforce Enhancement Fee) of 0.10% of the taxable wages. The maximum Total Due Estimator rate is 10.86958%.

IMPORTANT: Please change your MN UI tax rate before processing payroll for year 2012.

The MN UI tax rate notice is deceiving, as the first line of the notice states “Your 2012 UI Tax Rate is .50%. **Please do not use this rate!!!** Please read down your notice to the **Total Due Estimator paragraph to find your 2012 rate** which will give you a result very near to your actual costs. If you have had no unemployment charges against your account, you should be at the minimum rate of .672850%. **If you are using computerized software that calculates the Workforce Development Fee, your actual MN UI tax rate would be calculated by taking the Total Due Estimator rate minus .10%.** Please contact our office if you have questions relating to updating your MN UI tax rate.

The MN UI taxable wage base for year 2012 increased to \$28,000.

- **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, and 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

- **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.**
- **NEW: Beginning in 2012, employers wishing to change their address with the IRS must use new Form 8822-B.**

WHEN HIRING NEW EMPLOYEES

- **Form I-9:** Employees must complete the Department of Homeland Security, U.S. Citizenship and Immigration Services **Form I-9, Employment Eligibility Verification.** Form I-9 verifies the employee is legally eligible to work in the United States and is to be kept in 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.

- **Form W-4MN - Minnesota Employee Withholding Allowance/Exemption Certificate:**
Employees must complete Form W-4MN if:
 - they claim fewer Minnesota withholding allowances than federal allowances;
 - claim more than 10 Minnesota withholding allowances;
 - request additional Minnesota withholding to be deducted each pay period; or
 - claim to be exempt from federal and/or Minnesota withholding

You are not required to verify the number of withholding allowances claimed by each employee. You should honor each Form W-4 and W-4MN unless you are instructed differently by MN Revenue.

Employers must submit W-4 to the MN Department of Revenue if:

- the employee claims more than 10 Minnesota withholding allowances;
- the employee claims to be exempt from Minnesota withholding and you expect the employee's wages to exceed \$200 per week (Exception: if the employee is a resident of a reciprocity state and completed Form MWR); or
- you believe the employee is not entitled to the number of allowances claimed

Please refer to Page 7 of the Minnesota Income Tax Withholding Instruction Booklet for details.

- **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, either contact us or the MN New Hire Reporting Center toll free at (800) 672-4473 or visit their website at www.MN-NewHire.com.
- **Other States New Hire Reporting** - **New Hire Reporting is required in all 50 states.** 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. All 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.
- **NEW: The Affordable Health Care Act provides that employers are required to report the cost of employer-provided health care coverage on Form W-2.** This reporting was not mandatory for 2011. **The IRS provided further relief for smaller employers (those filing fewer than 250 W-2 forms) by making this requirement optional for them at least for 2012 (W-2s furnished in 2013).**

- The following information is reportable on Form W-2. If you have questions, please refer to the 2011 Instructions for Forms W-2 and W-3 which are available on the IRS website at www.irs.gov.

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 Form W-2 to an employee and it comes back to you “undeliverable” & you have no other address for them, keep the employee’s copy of the W-2 that you tried to deliver but could not for four years. Do not send undeliverable W-2s to the SSA. There is a possibility the employee may contact you stating he/she did not receive their W-2 and you can then get a correct address and mail the W-2 to the employee. You do not need to file a W-2c.**
- **Prepare and file your W-2s 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 W-2s. Do not staple or tape the W-2s to each other. The forms are machine read so staple holes and tears interfere with machine reading. Do not fold Form(s) W-2 and W-3. Send the forms in a flat mailing.**
- **Provide employee's with their copies of the W-2s by January 31, 2012.**
- **If you paper file your W-2s, file the entire Copy A of Form W-2(s) with the entire page of Form W-3 by February 29, 2012. Mail to the Social Security Administration, Data Operations Center, Wilkes-Barre, PA 18769-0001.**
- **If you file 250 or more W-2s, you are required to file them electronically unless the IRS granted you a waiver. If you file electronically, the due date is April 2, 2012.** Electronic filing is encouraged even if you are filing fewer than 250 W-2s.
- **Send Copy 1 of Form W-2 to Minnesota Revenue, Mail Station 1173, St. Paul, MN 55146-1173 unless you are required to submit your W-2s electronically. Whichever method is used, they are due to be submitted by February 29, 2012. Do not mail paper copies to MN Revenue if the W-2s are filed electronically.**
- **You must file W-2s electronically with the MN Department of Revenue for:**
 - **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.