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UPDATE ON PAYROLL, EMPLOYMENT TAXES AND INFORMATION RETURNS

This letter sets forth employee payroll tax withholding rates, employer payroll tax rates in effect for 2014 and some pertinent record keeping issues. Please contact our office if you have any specific payroll or information return related questions. See pages 5 – 6 for the section on information returns (Form 1099's).

PAYROLL AND EMPLOYMENT TAXES -----

SOCIAL SECURITY AND MEDICARE TAX (FICA)

Employers must calculate the employee withholding and the employer's matching portion as follows:

Tax Type	Maximum Wage	EMPLOYEE		EMPLOYER	
		Rate	Maximum	Rate	Maximum
Social Security	Up to \$117,000	6.20%	\$7,254.00	6.20%	\$7,254.00
	Over \$117,000	0%	\$0	0%	\$0
Medicare	Up to \$200,000	1.45%	\$2,900	1.45%	No Limit
	Over \$200,000	2.35%	No Limit	0%	\$0

HEALTH INSURANCE REPORTING ON THE W-2

Employers are required to report on the W-2 the cost of health insurance for each employee. This amount is the total premium without regard to any employee reimbursement. The amount reported is not taxable to the employee! It does not include dental, vision, HRA's and certain other insurance arrangements. Issuers of fewer than 250 Forms W-2 are also excluded from any W-2 reporting. However, we believe the reporting of this information is a useful tool for employers to educate employees as to the significant cost of providing this benefit.

FRINGE BENEFITS AND W-2 REPORTING

Benefits, such as moving expenses, employer provided vehicle usage, education benefits, and health insurance premium payments for certain s-corp shareholders, to name a few, may need to be reported on the employee W-2. In addition, under certain circumstance, these benefits may or may not qualify for tax-free treatment. The rules can be complicated, so we encourage you to contact our office to discuss reporting the benefits you provide now or may provide in the future.

EMPLOYER PROVIDED GROUP TERM LIFE INSURANCE

The cost of group term life insurance in excess of \$50,000 of coverage that you buy for an employee and, under certain conditions, former employees (including retirees) is includable in gross income and is subject to social security and medicare taxes.

LEBANON – MAIN OFFICE
 216 South Eighth Street, Lebanon, PA 17042-6004
 Phone 717.274.5600 Fax 717.228.3353

PENNSYLVANIA UNEMPLOYMENT TAX

The **employee** unemployment withholding tax will be calculated at 0.07% (0.0007) or 70 cents per \$1,000 earned and applies to all wages paid.

For **existing employers**, the employer-paid portion of the tax ranges from 2.8010% to 10.8937% of the first \$8,750 of wages paid to an employee each year, up from \$8,500 in 2013.

For **new employers starting in 2014**, the initial rate for non-construction employers was set at 3.6785%, for a maximum tax of \$321.87 for each employee earning \$8,750 or more. The corresponding rate and maximum tax for new construction employers is 10.1947% and \$892.04. You can also obtain current rates online on the Pennsylvania Department of Labor and Industry website at www.dli.state.pa.us.

FEDERAL UNEMPLOYMENT TAX (FUTA)

Employers taking credit for contributing to a state unemployment compensation fund, such as is required in Pennsylvania, must calculate federal unemployment tax (FUTA) at 0.6% (0.006) on wages up to \$7,000 maximum per employee. The total maximum tax due for an employee paid \$7,000 would be \$42. This tax is an employer tax; nothing is to be withheld from employees.

FEDERAL INCOME TAX

An employer can elect to withhold tax at a flat rate on supplemental wages such as bonuses, commissions and overtime pay that are not paid concurrently with wages or that are paid concurrently but are separately stated. The withholding rate for supplemental wages is 25%. If the flat rate method is not elected, supplemental wages are added to regular wages for withholding purposes. Regardless of the method that you use to withhold income tax on supplemental wages, they are subject to Social Security, Medicare and FUTA taxes.

Remind employees who wish to continue claiming exemption from withholding to submit a new Form W-4 by February 15, 2014. Beginning February 16, 2014, you must withhold based on a marital status of "single" with zero withholding allowances for employees who claimed exemption from withholding in 2013, but who have not submitted a 2014 Form W-4.

PENNSYLVANIA INCOME TAX

The Pennsylvania income tax withholding rate will remain at 3.07% (0.0307) for 2014.

PENNSYLVANIA LOCAL TAXES

Effective January 1, 2012, Act 32 EIT Collection System was fully implemented. Employers are required to withhold the higher of the employee's resident earned income tax amount (rate of total resident EIT where they reside) or the employee's municipal non-resident earned income tax amount (rate of non-resident EIT where they are employed).

Beginning January 1, 2014 all payments of \$1,000 or more must be made electronically. Available payment methods include: Automated Clearing House (ACH) debit or credit, and debit or credit cards. A 3% penalty of up to \$500 is assessed for non-compliance.

The Local Services Tax (LST) varies by municipality across all of Pennsylvania. The tax ranges from \$10 – \$52 per individual per year and is based on where you work, not where you live.

For Lebanon County issues, contact Keystone Collections Group's Employer Hotline at (888) 328-0558 or online at www.keystonecollects.com.

For Lancaster County issues, contact Lancaster County Tax Collection Bureau at (717) 569-4521 or online at www.lctcb.org. The Lancaster County Tax Collection Bureau now requires all remittances to be filed electronically. Employers with 10 or fewer employees not using a payroll service may request relief if electronic filing creates a hardship.

For other counties in PA, go online to <http://munstatspa.dced.state.pa.us/FindLocalTax.aspx> to find the appropriate tax rate and tax collector for a given address.

Questions regarding local taxes and exceptions can be directed to our office.

EMPLOYMENT ELIGIBILITY VERIFICATION (Form I-9)

Employers must verify that newly-hired employees are authorized to work in the U.S. by examining documents that show: (1) the identity of the individual, and (2) the individual's right to work in the United States. Employers are to attest on Form I-9 that the documents appear genuine. An informational copy of the revised Form I-9 and other employment eligibility information can be found at www.uscis.gov.

STANDARD AUTO MILEAGE REIMBURSEMENT

Effective January 1, 2014, the standard mileage rate is 56.0 cents per mile on all business miles. The rate for 2013 was 56.5 cents per mile.

EMPLOYEE BUSINESS EXPENSES

Unsubstantiated business expenses or advances in excess of documented expenses are subject to all employer and employee taxes, and thus are treated as any other wage.

If you currently do not have a company policy regarding expense reimbursements, we recommend that one be adopted, documented and distributed to all employees. In addition, standardized reports should be required in order for reimbursements to be made to employees. We can assist in the adoption of this policy and also in the drafting of the expense report.

RECORD KEEPING

Remember the IRS requires employers to maintain employment tax records for at least four (4) years. These records should include:

- 1) Employer Identification Number;
- 2) Employee information such as name, address, social security numbers, occupation, Forms I-9, W-2's and employment dates;
- 3) Amounts and dates of all wages, and other payments, such as tips reported annually, and pension payments; and,
- 4) Additionally, keep copies of Forms 940, 941, W-4, W-4S, and dates and amounts of tax deposits made by the employer.

SOCIAL SECURITY EARNINGS LIMITATIONS

For 2014, workers born in 1948 will reach full retirement during the year. The initial age of social security retirement benefit eligibility remains at 62. Employees born after 1948 who are receiving social security retirement benefits can earn up to \$15,480 per year without impacting their benefits. Social security benefits will be reduced by \$1.00 for every \$2.00 earned over \$15,480

Employees born in 1948 but not yet full retirement age (i.e. 66) can earn up to \$3,450 per month (\$41,400 annually) before their benefit is reduced by \$1.00 for every \$3.00 earned above the limit. Beginning with the month an employee becomes full retirement age (i.e., 66) benefits are no longer reduced: No matter how much is earned.

For 2014, benefits are increased by 1.5% to reflect increases in cost of living.

Please keep in mind that starting benefits before full retirement age (i.e. 66) will reduce your benefit, and delaying benefits past full retirement age (i.e. 66) could increase your overall benefits. A little planning can go a long way. We can assist you to maximize your wealth based on your individual financial situation.

INCOME TAX CREDIT FOR RESTAURANT EMPLOYERS

A tax credit is available to food and beverage establishments. The employer social security credit is an amount equal to the employer's portion of social security tax paid on employee tip income, which exceeds the minimum wage rate. Amounts used to determine this credit cannot also be deducted as business expenses. We remind you that adequate record keeping is extremely important to enable us to calculate this credit properly.

MINIMUM WAGE

Since July 24, 2009 the minimum wage for both Federal and Pennsylvania has been \$7.25. The training wage was no longer allowed after July 23, 2009.

The PA minimum tip wage remains \$2.83 per hour to an employee who makes \$30.00 per month in tips, which is higher than the Federal minimum tip wage. Exceptions also exist under specific circumstances for workers with disabilities, full-time students, and student learners.

Non-Pennsylvania employers should check with their states for the appropriate in-state rates.

FAMILY AND MEDICAL LEAVE ACT (FMLA)

Generally, if you employ 50 or more employees for each working day during each of 20 or more calendar work weeks in the current or preceding calendar year, you are considered a covered employer under FMLA and are subject to its requirements. The requirements include job-protected unpaid leave and certain benefits. Please call our office for more details if you believe you will become subject to FMLA.

PA UNCLAIMED PROPERTY ANNUAL FILING

If you are a holder of an uncashed payroll check, an accounts payable check, a credit balance, uncashed refund checks or similar items, and you have had no activity or contact with the other party for about five years (two years for uncashed payroll checks), you must file an annual form with PA. The due date is April 15 to report on the prior calendar year. Please visit www.patreasury.org or call our office for more details.

E-VERIFY

Effective January 1, 2013, public contractors and subcontractors must use the federal E-Verify system to confirm the employment eligibility of new hires. Contractors and subcontractors are required to submit a verification form to the State. Contractors and subcontractors who fail to provide the verification form will be subject to a civil penalty of not less than \$250 and up to \$1,000 per violation.

INFORMATION RETURNS (Form 1099's-----

2013 Information Returns (**Form 1099, 1098 and 1096, etc.**) must be filed with the IRS on or before February 28, 2014. Each person whose name is set forth in the return must be furnished a copy of the Form 1099 by January 31, 2014. We urge you to comply with these requirements. Noncompliance carries a penalty of up to \$100 per Form 1099/1096 to a maximum of \$500,000 per year for small businesses. The complete filing requirements are found in Package 1099. This letter sets forth some of the general filing requirements. If you have any questions relating to the reporting of a specific transaction, please call our office.

If you would like us to print these forms for you, please contact our office by January 17, 2014. All 1099's issued by PA businesses or PA individuals are to be mailed to Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301.

If you intend to prepare these forms in-house, we have a limited supply of the necessary forms available.

- A. **Form 1099-MISC** for reporting all payments totaling \$600 or more (in the aggregate) made in the course of your trade or business or nonprofit, which fall into one of the following categories:
 - 1) Salaries and wages (paid to non-employee);
 - 2) Commissions and fees (paid to non-employee);
 - 3) Rents;
 - 4) Professional fees for services (**Garcia Garman & Shea, PC** is a corporation and does not require a 1099-MISC form);
 - 5) Directors' fees;
 - 6) Fees (including parts & materials) to subcontractors;
 - 7) Medical and health care services (i.e. payments to physicians or physicians' corporation);
 - 8) Prizes and awards; and,
 - 9) Attorney fees, even if paid to a corporation.

- B. **Form 1099-DIV** issued to report dividends of \$10 or more.

- C. **Form 1099-INT** must be used to report interest paid in the course of a trade or business when the amount totals \$10 or more, \$600 or more in some cases, to any person or entity.

- D. **Form 1099-K** is used to report merchant card payments and third-party network transactions to participating payees. Please contact our office if you are unsure if you are subject to this requirement.

- E. **Form 1099-R** is used to report periodic and total distributions of \$10 or more from pensions, annuities, profit sharing, PS 58 costs and other retirement plans. Report distributions to plan participants from nonqualified plans on **Form W-2**.

Form 1099-MISC and **Form 1099-R** are the only information returns that are also required to be filed with the **Pennsylvania Dept of Revenue**. The mailing addresses for these 1099's are as follows:

1099-MISC
PA Department of Revenue
P.O. Box 280412
Harrisburg, PA 17128-0412

1099-R (without withholding)
Bureau of Individual Taxes
1099R Form
PO Box 280509
Harrisburg, PA 17128-0509

1099-R (with withholding)
PA Dept of Rev
Bur of Bus Trust Fund Tx
PO Box 280412
Harrisburg, PA 17128-0412

F. The information usually needed to complete each **Form 1099** is:

- 1) Recipient's name and address;
- 2) Amount and kind of payment; and,
- 3) Recipient's/taxpayer identification number (TIN). **Form W-9** can be used to request the recipient of any payments to furnish his TIN. Failure to include a TIN or reporting an incorrect TIN on **Form 1099** will result in a penalty of between \$30 to \$100 for each **Form 1099** unless due diligence has been exercised.

a. Withholding requirements – If the recipient fails to provide you with their federal identifying number, you are required to withhold 28% of all payments to them and remit to the federal government on **Form 945** as backup withholding.

G. If you received mortgage interest of \$600 or more from an individual for the calendar year, you are required to file **Form 1098** and furnish a statement to the individual who paid you.

H. Any person in a trade or business who receives CASH of more than \$10,000 in a single transaction or related transactions must file **Form 8300** with the IRS within 15 days of receipt, and provide the payer with a statement on or before January 31 of the following year.

HELP IS AVAILABLE

We know that compliance with these rules and requirements may be difficult for small businesses. We can help you meet your obligation.

Please visit us at www.G2Scpa.com. We have links to information you can use to help you.

Please call us at our main office at (717) 274-5600. We can help you set up payroll and information reporting systems for you to maintain yourself or we can provide these services for you for a fee.

We are glad to help you and we wish you a healthy and prosperous 2014!

The information contained herein is accurate at the time of printing, which is 1/1/14, and is subject to change without further notice.

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