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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 2018 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 (Forms 1099).

#### **PAYROLL AND EMPLOYMENT TAXES -----**

**REMINDER:** All Forms W-2 must be supplied to your employees and to SSA by January 31, 2018!!

#### **AFFORDABLE CARE ACT (ACA)**

Employer Shared Responsibility and Minimum Coverage Reporting: An Applicable Large Employer (ALE) is an employer that employed an average of at least 50 full-time employees on business days during the preceding calendar year. ALE's are required to report certain health care coverage information to each employee on Form 1095-B or Form 1095-C. The due date for providing these forms to employees is March 2, 2018, with transmittals due to the Internal Revenue Service by February 28, 2018 for paper filers and April 2, 2018 for electronic filers.

Health Reimbursement Arrangements (HRA's): If you are a small employer that reimburses employees for individual insurance plans, you may be able to benefit from the 21<sup>st</sup> Century Cures Act, which was signed into law on December 13, 2016. This law provides that a "qualified small employer HRA" will not face the excise tax levied on group health plans that don't meet the ACA market reform requirements for years beginning after December 31, 2016. It may make sense for you to start or to re-establish an HRA at your business.

Reporting Costs on Forms 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 this W-2 reporting.

ACA rules and reporting are complex. Call our office for additional information related to the Affordable Care Act or visit the IRS website at [www.irs.gov](http://www.irs.gov) and type 'ACA' in the search box.

#### **MINIMUM WAGE**

Since July 24, 2009, the minimum wage for both Federal and Pennsylvania has been \$7.25. 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.

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## **SOCIAL SECURITY/MEDICARE TAX (FICA) EMPLOYEE WITHHOLDING AND EMPLOYER MATCH**

<u>Tax Type</u>	<u>Maximum Wage</u>	<u>EMPLOYEE</u>		<u>EMPLOYER</u>	
		<u>Rate</u>	<u>Maximum</u>	<u>Rate</u>	<u>Maximum</u>
Social Security	Up to \$128,400	6.20%	\$7,960.80	6.20%	\$7,960.80
	Over \$128,400	0%	\$0	0%	\$0
Medicare	Up to \$200,000	1.45%	\$2,900	1.45%	No Limit
	Over \$200,000	2.35%	No Limit	1.45%	No Limit

## **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.

## **PENNSYLVANIA UNEMPLOYMENT TAX AND CREDIT WEEKS**

The **employee** unemployment withholding tax will be calculated at 0.06% (0.0006) or 60 cents per \$1,000 earned and applies to all wages paid.

For **existing employers**, the employer-paid portion of the tax ranges from 2.6434% to 11.2616% of the first \$10,000 of wages paid to an employee each year, up from \$9,750 in 2017.

For **new employers starting in 2018**, the initial rate for non-construction employers was set at 3.689%, for a maximum tax of \$359.68 for each employee earning \$10,000 or more. The corresponding rate and maximum tax for new construction employers is 10.2238% and \$996.82. You can also obtain current rates online on the Pennsylvania Department of Labor and Industry website at [www.uc.pa.gov](http://www.uc.pa.gov).

Effective January 1, 2015, the new definition of a credit week was changed from \$100 to sixteen times the minimum hourly wage. The current PA credit week for unemployment tax reporting is \$116.

## **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 WITHHOLDING**

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, 2018. Beginning February 16, 2018, you must withhold based on a marital status of "single" with zero withholding allowances for employees who claimed exemption from withholding in 2017, but who have not submitted a 2018 Form W-4.

### **PENNSYLVANIA INCOME TAX WITHHOLDING**

The Pennsylvania income tax withholding rate will remain at 3.07% (0.0307) for 2018.

Effective January 1, 2018, anyone that pays Pennsylvania-source non-employee compensation or business income to a non-resident individual, must withhold an amount equal to the tax rate specified, from such payments (currently 3.07%). Withholding is optional for payors paying a payee less than \$5000.00 annually. Taxpayers that are unsure of the total amount of payments that will be made to a payee are encouraged to withhold and remit tax from all payments to the payee. In addition, payors subject to these provisions are required to apply for a 1099-MISC withholding account by completing Form PA-100.

### **PENNSYLVANIA LOCAL TAXES**

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).

The Local Services Tax (LST) varies by municipality across all of Pennsylvania. The tax ranges from \$5 – \$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](http://www.keystonecollects.com).

For Lancaster County issues, contact Lancaster County Tax Collection Bureau at (717) 569-4521 or online at [www.lctcb.org](http://www.lctcb.org).

For other counties in PA, go online to <http://munstats.pa.gov/Public/FindMunicipality.aspx> to find the appropriate tax rate and tax collector for a given address.

### **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. A revised version of Form I-9 was released on November 14, 2016. Employers may continue using Form I-9 with a revision date of 3/8/13 through January 21, 2017. By January 22, 2017, employers must use the revised form. An informational copy of the revised Form I-9 and other employment eligibility information can be found at [www.uscis.gov](http://www.uscis.gov).

### **STANDARD AUTO MILEAGE REIMBURSEMENT**

Effective January 1, 2018, the standard mileage rate is 54.5 cents per mile on all business miles. The rate for 2017 was 53.5 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.

## **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. We remind you that adequate record keeping is extremely important to enable us to calculate this credit properly.

## **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. 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 three years (two years for uncashed payroll or commission 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](http://www.patreasury.org) or call our office for more details.

## **E-VERIFY**

Since 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 \$216 and up to \$2,156 per violation.

## **STATE INFORMATION DATA EXCHANGE SYSTEM (SIDES)**

The State Information Data Exchange System (SIDES) and SIDES E-Response is similar to the e-TIDES program. It is designed to provide employers an electronic portal to respond to UC information requests; therefore, reducing the need for follow-up phone calls.

To learn more about SIDES and SIDES E-Response, visit <http://info.uisides.org>.

**2018 INFORMATION RETURNS (Forms 1099) -----**

**Due Dates to File with the IRS:**

Form 1099-MISC (when reporting nonemployee compensation in Box 7)..... **January 31, 2018**  
All others, filed on paper ..... **February 28, 2018**  
All others, filed electronically..... **March 31, 2018**

**Due Dates to Furnish Statements to Recipients:**

Forms 1099 (except those on next line)..... **January 31, 2018**  
Forms 1099-B, 1099-S, and 1099-MISC (if reporting in Box 8 or 14) ..... **February 15, 2018**

We urge you to comply with these requirements. Noncompliance carries a penalty of up to \$260 per Form 1099/1096 to a maximum of \$1,064,000 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 19, 2018. 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.**

**Taxpayers issuing Forms 1099-MISC and 1099-R must also submit copies to PA Department of Revenue. Any taxpayer may submit these forms electronically via the e-TIDES reporting system. Taxpayers issuing less than 250 forms may elect to mail these forms to PA Department of Revenue, PO Box 280412, Harrisburg, PA 17128-0412.**

A. 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 \$50 to \$260 for each **Form 1099** unless due diligence has been exercised.

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 that amount to the federal government on **Form 945** as backup withholding.

B. **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.
- C. **Form 1099-DIV** issued to report dividends of \$10 or more.
- D. **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.
- E. **Form 1099-K** is used to report merchant card payments and third-party network transactions to participating payees.
- F. **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**.
- G. If you received mortgage interest of \$600 or more in the course of a trade or business 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](http://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 2018!

The information contained herein is accurate at the time of printing, which is 1/16/18, and is subject to change without further notice.

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