

Payroll Newsletter 2017

HUTCHINSON AND BLOODGOOD LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS



December 2016

Tax Rates and Wage Base Limitations for 2017

Type of Tax	Tax Rate	Wage Base Limit	Maximum Tax
Employee:			
Social Security	6.2%	\$127,200	\$7,886.40
Medicare	1.45%	No Limit	No Limit
SDI/Paid Family Leave	0.9%	\$110,902	\$998.12
Additional Medicare	0.9%**	withhold on all wages >\$200,000	No Limit
Employer:			
Social Security	6.2%	\$127,200	\$7,886.40
Medicare	1.45%	No Limit	No Limit
ETT	0.1%	\$7,000	\$7.00
SUI	Variable	\$7,000	Variable
FUTA	2.4%*	\$7,000	\$168.00
Self-employed:			
Social Security	12.4%	\$127,200	\$15,772.80
Medicare	2.9%**	No Limit	No Limit

*Based on the assumption that CA will not fulfill its obligations to the US government. Subject to change.

**Additional Medicare tax of 0.9% on amounts over \$250,000 for joint returns, \$125,000 for married filing separately, and \$200,000 for all others.

New Due Date for Filing Forms W-2 & W-3 and 1099-MISC & 1096

Beginning with 2016 forms, the due date for filing Forms W-2 & W-3 and Forms 1099-MISC (with box 7 nonemployee compensation) & 1096 with the SSA and IRS is now January 31st, whether you file using paper forms or electronically. Extensions of time to file Form W-2 with the SSA are no longer automatic. For filings due on or after January 1, 2017, you may request one 30-day extension to file Form W-2 by submitting a complete application on Form 8809, Application for Extension of Time to File Information Returns, including a detailed explanation of why you need additional time, signed under penalties of perjury.

In other words, the deadline for providing the forms to the employees and independent contractors and filing the forms with the government are now the same, January 31st.

The filing due date for other Forms 1099 & 1096 remains February 28th if filing by paper, and March 31st if filed electronically. The new January 31st deadline only applies to Form 1099-MISC with an amount in box 7, Nonemployee Compensation.

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California E-file & E-pay Mandate

Beginning January 1, 2017, employers with 10 or more employees are required to file all EDD reports and returns electronically and remit all payroll taxes electronically. Beginning January 1, 2018, all remaining employers will be subject to the mandate. The EDD website link to use for electronic filing of forms and payments is <https://eddservices.edd.ca.gov/>

Failure to comply will result in a penalty of \$50 per DE-9, \$20 per DE-9C and 15% of the amount due with DE-88. There is a waiver available by filing DE-1245W for employers who cannot file and/or pay electronically.

Additional 0.9% Medicare Tax on Earned Income

As a reminder, the additional Medicare tax law remains in effect. Individuals are subject to an additional 0.9% Medicare tax on wages and self-employment income above the following threshold amounts:

\$200,000 for single, head-of-household
\$250,000 for married filing joint
\$125,000 for married filing separately

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HR/Payroll Industry Web Links

The following links provide valuable information for HR/payroll professionals:

American Payroll Association
www.americanpayroll.org

National Payroll Week
www.nationalpayrollweek.com

U.S. Department of Labor
www.dol.gov

International Association for Human Resource
Information Management
www.ihrim.org

Society for Human Resource Management (SHRM)
www.shrm.org



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Employers are to withhold the additional 0.9% on all wages over \$200,000 for all employees, regardless of their filing status (wages in Box 5 on the W-2 are used for calculation). The withholding will be included in Box 6 on the W-2. In summary, taxpayers will pay an additional \$900 in tax for every \$100,000 earned above the threshold amounts. Along with this additional 0.9% tax, a Form 8959 is to be filed with the return.

Example 1: Bob a single taxpayer earns \$350,000 in 2017. The additional 0.9% tax will be calculated on earnings above \$200,000, or \$150,000. He will have \$1,350 in additional 0.9% tax on his 2017 tax return ($\$150,000 \times 0.9\% = \$1,350$). Since his employer began withholding 0.9% on his wages above \$200,000, he will have the exact amount withheld and will not owe with the filing of his return.

Example 2: Jack and Jill, a married couple, earn \$150,000 and \$175,000 in 2017, respectively. The additional 0.9% tax will be calculated on earnings above \$250,000, or \$75,000. They will have \$675 in additional 0.9% tax on their 2017 return ($\$75,000 \times 0.9\% = \675). Since neither of them earned more than the \$200,000 required for the additional withholding, neither employer withheld any additional 0.9% tax from their wages. They will owe \$675 with the filing of their 2017 tax return.

The above illustrations are simplified situations.

Taxpayers with self-employment income or a combination of wages and self-employment income have more complex calculations that we can assist with.

Affordable Care Act Filings – Forms 1094-B, 1095-B, 1094-C, 1095-C

Under the Affordable Care Act, employers are now required to file additional forms regarding health insurance provided to employees.

Form 1094-B, Transmittal of Health Coverage Information Returns, and Form 1095-B, Health Coverage.

All providers of health insurance are required to file these forms. The employer will have to file these forms only if a single-employer self-insured group health plan is used. Otherwise, the health insurance provider will issue these forms and file with the IRS.

Form 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns, and Form 1095-C, Employer-Provided Health Insurance Offer and Coverage. These forms are required to be filed by applicable large employers (ALE). An ALE is defined as an employer with 50 or more full-time and full-time equivalent employees during the preceding year. In 2015, the ALE definition replaced 50 with 100 employees.

Extended Due Dates for 2016. The due date for furnishing Forms 1095-B and 1095-C to individuals has been extended from January 31, 2017 to March 2, 2017. The due date for filing Forms 1094-B, 1095-B, 1094-C, and 1095-C with the IRS is February 28, 2017 if filing on paper. If filing electronically, the due date is March 31, 2017. The due date for filing with the government has not been extended.

Please consult with your human resources, insurance provider, payroll processor, and our office for further information and assistance in filings these forms.

Mandatory Paid Sick Leave

Beginning July 1, 2015, all employers in California must allow 1 hour of paid sick leave for every 30 hours worked for all employees that have been employed at least 30 days. This paid sick leave can be taken for the employee or a family member for the preventive care or diagnosis, care or treatment of an existing health condition, or for other specified purposes. Employers can set rules on accumulation and usage. For more information, see http://www.dir.ca.gov/dlse/Paid_Sick_Leave.htm.

Electronic Federal Tax Payment System (EFTPS)

All businesses are required to make electronic payments. Businesses must make deposits by telephone or online using the Electronic Fund Transfer Payment System. This applies to Federal tax deposits only.

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Businesses that are allowed to remit taxes with a return can continue making their payments in the same manner. You may be subject to a 10% penalty if you are required to use the EFTPS system and fail to do so.

To use EFTPS, you must first enroll. Since the enrollment process can take up to 10 days to complete, we encourage you to enroll now. Delaying your enrollment may prevent you from making your required EFT payment.

Taxpayers who have not received a notice and an enrollment packet (Form 9779) from the IRS, but feel they are subject to the electronic deposit rules, should call the phone numbers or visit the EFTPS website listed on page eight.

If you use a third-party payroll processor and/or financial institution to pay your taxes, you must enroll to use EFTPS. Please ensure that your payroll processor is aware of your EFTPS requirements.

There are two electronic deposit methods under EFTPS:

EFTPS Direct – Instructs the IRS to withdraw from your bank account. No penalties if payments are made timely and account has sufficient funds.

EFTPS Through Your Financial Institution – Instructs your bank to send payment to the IRS. This method is not penalty proof as the taxpayer remains liable for the timeliness of the deposit until it is actually credited to the Treasury's account by the bank.

California EFT deposit requirements differ from the Federal requirements. Usually, however, businesses that electronically file Federal taxes will want to electronically file California taxes.

To obtain the California Form DE 27, *Electronic Fund Transfer Program Information Guide*, or Form DE 26, *Electronic Funds Transfer Authorization*, access the EDD's website (see page 8). Contact the EFT Unit at 916-654-9130.

Note: If you use EFTPS to make your payroll tax deposits, you must use EFTPS to pay all of your depository taxes, including employment taxes, excise taxes, and corporate income taxes.

FUTA DEPOSIT RULES FOR 2017

FUTA tax is computed on each calendar quarter. If the employer's FUTA tax liability at the end of the quarter (plus any accumulated FUTA tax liability for prior quarters) is more than \$500, the tax is to be deposited on or before the last day of the month following that quarter.

Reminder to File Form DE 542 - Report of Independent Contractors

The State of California requires business owners to report independent contractors within 20 days of entering into a contract that is expected to pay \$600 or more or making payments totaling \$600 or more.

Businesses need to report only individuals who are independent contractors that are subject to Federal Form 1099 reporting requirements, receiving payments of \$600 or more in 2017. You are not required to report payments made to corporations, partnerships, limited liability companies, or limited liability partnerships.

Form DE 34 - Report of New Employees

No Exceptions. All employers must report the hiring or rehiring of all employees who work in California to the EDD within 20 days of their start-of-work date, which is the first day of work. This applies to all employers, including those who have domestic help, nonprofit organizations, etc.

Send form to:

Employment Development Department
Document Management Group, MIC96
P.O. Box 997016
West Sacramento, CA 95799-7016
Or fax the form to the EDD at (916) 319-4400

Penalties. The EDD may assess a penalty of \$24 for each failure to report a new hire, unless the failure is due to good cause. If the employer and employee conspire to omit filing the required information or issue a false or incomplete report, the EDD may assess a penalty of \$490.

Are Your Federal Tax Deposits Timely? Lookback!

The Lookback Rule. For 2017, each employer must "lookback" to the four quarters beginning July 1, 2015, and ended June 30, 2016. If the employment taxes originally reported on Forms 941 during these four quarters totaled less than \$50,000, the employer is a "monthly depositor." If the employment taxes reported in these quarters exceeded \$50,000, the employer is a "semi-weekly depositor."

The "lookback" is done annually. Each subsequent year, the employer would be subject to a similar "lookback" to the immediate past 12-month period ended June 30th in order to determine depositor status for the upcoming calendar year. New employers are considered to have zero employment liabilities for any quarter in the "lookback" period in which the employer did not exist. Therefore, new employers will be monthly depositors unless they fall under the de minimis rule.

DEPOSIT DUE DATES FOR SEMI-WEEKLY DEPOSITORS

Pay Date	Deposit By
Wed, Thurs, Fri	Following Wednesday
Sat, Sun, Mon, or Tues	Following Friday

DEPOSIT RULES

Monthly Depositors Rule. A "monthly depositor" must deposit employment taxes accumulated within the calendar month on or before the 15th day of the following month. If the 15th falls on a weekend or holiday, deposits must be made on the last business day prior to the 15th of the month or the payroll tax deposit will be considered late and a penalty will be assessed.

Semi-Weekly Depositors Rule. The deposits of "semi-weekly depositors" are due either on or before Wednesday or Friday of each week, depending on when the wages are paid. If wages are paid on Wednesday, Thursday, or Friday, taxes must be deposited on or before the following Wednesday. If the payday falls on Saturday, Sunday, Monday, or Tuesday, the deposit is due by the following Friday.

One Day Rule. Employers who accumulate \$100,000 or more of employment taxes within a deposit period must make that deposit by the close of the next business day.

De Minimis Rule. When the total amount of accumulated employment taxes on Form 941 for the calendar quarter is less than \$2,500, the employer is permitted to remit the taxes with the quarterly return, Form 941.

How Do State Payroll Tax Deposits Work?

Next Day Depositor. Employers who are required to make a deposit of Federal payroll taxes by the next banking day and have more than \$500 of state Personal Income Tax (PIT) withholding must deposit both PIT and SDI to the EDD by the next banking day.

Monthly Depositor. If an employer is required to make a monthly deposit of Federal payroll taxes and the state Personal Income Tax (PIT) withheld is \$350 or more, a monthly deposit of both PIT and SDI must be made to the EDD within the same number of days as required for Federal purposes.

Semi-Weekly Depositor. If an employer is required to make semi-weekly deposits of Federal payroll taxes and the state Personal Income Tax (PIT) withheld is more than \$500, a semi-weekly deposit of both PIT and SDI must be made to the EDD within the same number of days as required for Federal purposes.

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If you are not required to make Federal monthly deposits, you are still required to make monthly state deposits of both PIT and SDI if the PIT withheld in a monthly or cumulative of one or more months exceeds \$350. If your state PIT withheld exceeds \$350, you must remit by the **15th day of the following month.**

If the above state requirements do not apply to you: All state taxes, PIT, SDI, SUI, and ETT must be deposited quarterly.

Note: Use Form DE 88 to make your deposits to the EDD.

Form 1099 Information Returns

A business which in any year makes payments aggregating \$600 or more to a person (recipient) for services, rents, etc. must report the payments to the IRS on Form 1099. Generally, payments to a corporation are exempt from this reporting requirement. However, the present exception in the regulations is payments made to corporate law firms. Attorneys are required to promptly supply their TINs and failure to do so can result in backup withholding under Sec. 3046.

If reporting nonemployee compensation payments in box 7, the business must file the original 2016 Form 1099 with the IRS by January 31, 2017. Otherwise, file the original with the IRS by February 28, 2017, if you file on paper, or by March 31, 2017, if you file electronically. **Provide a copy of any 2016 Form 1099 to the recipient by January 31, 2017.**

The business should exercise care in completing the recipient's name and TIN (taxpayer identification number), since penalties and 28% backup withholding can result from inaccuracies. **The business should obtain a Form W-9 from each recipient prior to payment and rely on the name and TIN thereon.**

IRS shares Form 1099 information with California.

If you file information returns (IRS Forms 1099 series, Forms 5498, 1098, and W-2G) with the Internal Revenue Service, you do not file a copy of the same forms with the Franchise Tax Board. The IRS will forward the information to the FTB.

Bits and Pieces of Information

MINIMUM WAGE - California minimum wage increased from \$10.00 per hour to \$10.50 per hour on January 1, 2017.

FORMS W-2 & W-3 - IRS requires all compensation to employees like Christmas bonus, year-end bonus, auto allowances, personal use of company vehicle, etc. to be reported on Form W-2. **No person may be paid as both an employee and an independent contractor.** Mail all Forms W-2 and W-3 for 2016 to: Social Security Administration, Data Operations Center, Wilkes-Barre, PA 18769-0001.

Form W-2 Reporting of Employer-Sponsored Health Coverage - Under the Patient Protection and Affordable Care Act, employers are required to report the cost of employer-sponsored health insurance coverage, which is reported in box 12 of Form W-2 using code DD. However, for 2012 and onward, the IRS has granted transition relief from reporting for employers filing fewer than 250 Forms W-2 until further guidance is provided.

More than 2% shareholder/employee of an S Corporation - S corporations that pay health insurance premiums for the benefit of a more-than-two-percent shareholder must include the cost of the premiums as wages on the shareholder/employee's Form W-2.

SUPPLEMENTAL WAGES - The Federal withholding rate for 2016, which permits a flat rate of 25% withholding on supplemental pay (bonuses, etc.) in lieu of taking into account any withholding allowances on Form W-4, remains the same for 2017. If supplemental wages exceed \$1,000,000, the excess is subject to withholding at 39.6%.

California allows a 6.6% withholding on separately paid overtime wages, commissions, sales awards, and vacation pay. For the payment of bonuses and stock options, California requires a 10.23% withholding rate.

OVERTIME PAY - Employers must pay nonunion employees (who are not working an alternative workweek schedule) at least time and one-half pay for hours worked in excess of eight hours in one day, hours worked in excess of 40 hours in one workweek, and the first eight hours worked on the seventh consecutive day of work in a given week.

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In addition, employers must pay employees at least double-time for any hours worked in excess of 12 hours in one day and hours worked in excess of eight hours on any seventh consecutive day of a workweek. These changes do not affect exempt professionals, managers, and administrative employees.

2017 INDIVIDUAL ESTIMATED TAX PAYMENTS - For 2017, individuals may generally avoid penalty for failure to pay Federal estimated income tax by (1) paying at least **90%** of current year tax, (2) paying **100%** of prior year's tax (if for 12 months), or (3) paying on current basis under **annualized** income methods. **For year 2017, high-income individuals must pay in 110% of prior year's tax if selecting the prior year tax option.** High-income individuals are defined as individuals whose AGI (Adjusted Gross Income) for the preceding year was more than \$150,000 (\$75,000 for married filing separately). In general, California follows the same estimated tax rules as Federal with the exception of individuals with California adjusted gross income equal to or greater than \$1 million (\$500,000 for MFS). These taxpayers must pay 90% of the current year tax to avoid the underpayment of estimated tax penalty.

STANDARD MILEAGE RATES - Beginning in 2017, the rate for the business use of an automobile is 53.5 cents per mile (down 0.5 cent from 54 cents per mile in 2016), charitable use of an automobile remains at 14 cents, and medical and moving rates decrease to 17 cents per mile (down 2 cents from 19 cents per mile in 2016).

\$10,000 CASH REPORTING - Any person who receives more than \$10,000 in cash in one transaction (or two or more related transactions) in the course of a trade or business must file Form 8300 with the Internal Revenue Service within 15 days of the transactions and furnish the payer with a statement by January 31st of the following year. The IRS defines "cash" to include cashier's checks, bank drafts, traveler's checks, and money orders having a face amount of \$10,000 or less.

SOLE SHAREHOLDERS MAY AVOID SDI - Any person who is a corporate officer and sole shareholder or the only shareholder other than his or her spouse may elect to be excluded from SDI by filing Form DE 459, **Sole Shareholder/Corporate Officer Exclusion Statement.** The statement is effective for the calendar quarter in which it is filed, and remains in effect for not less than two complete years and in all subsequent quarters until withdrawn.

The exclusion applies only to SDI and does not affect requirements for unemployment insurance compensation.

FORM 945 NON-PAYROLL ITEMS - Since 1994, withholding information for pensions, annuities, gambling payments, and backup withholdings are reported on Form 945, Annual Return of Withheld Federal Income Tax, and on 945A, Annual Record of Federal Tax Liability. If you withhold state income taxes on non-payroll items, please contact our office for further assistance.

HOUSEHOLD EMPLOYEES - Household employee wages (\$2,000 for 2016 and 2017 for Social Security or \$1,000 or more in any calendar quarter in 2016 or 2017) must be reported on Form 1040 Schedule H of the Individual Tax Return. Because the state rules are complex, please contact our office for further information.

2017 MAXIMUM EARNINGS FOR SOCIAL SECURITY RECIPIENTS - The annual amount a Social Security recipient under his/her full retirement age can earn without losing Social Security benefits changed from \$15,720 in 2016 to \$16,920 in 2017. Benefits are reduced by \$1 for each \$2 earned over the limit.

Note: Full retirement age (also called "normal retirement age") has been 65 for many years. However, beginning with people born in 1938 or later, that age will gradually increase until it reaches 67 for people born after 1959. For 2017, the full retirement age is 66.

In the year individuals reach their full retirement age, \$1 in benefits will be deducted for each \$3 you earn (over \$44,880 for 2017). This reduction of benefits only applies on earnings received before the month the individual reaches their full retirement age.

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CALIFORNIA ESTIMATED TAX PAYMENTS

Installment payments due for tax years beginning January 1, 2010 and after are:

- 30% of the required annual payment for the first quarter,
- 40% of the required annual payment for the second quarter,
- No installment due for the third quarter, and
- 30% of the required annual payment for the fourth quarter.

MANDATORY E-PAY FOR CALIFORNIA

Taxpayers are required to remit their payments electronically to the Franchise Tax Board if they made an estimate payment exceeding \$20,000 for the 2009 or later taxable year or the total tax liability shown on their original 2009 or later tax return exceeds \$80,000. Once this threshold is met, ALL payments regardless of amount, taxable type, or tax year must be remitted electronically. Beginning 2011, California assesses a 1% penalty on the amount that was not paid electronically.

EDITORIAL COMMENT - We have attempted to provide you with an update on changes in the payroll tax and related areas. Because space was limited, we could not go into all the necessary details of a topic. If you are interested in or have questions on any topic, we will be pleased to review with you the law changes and its application to your individual situation.

NEED FORMS OR HELP? We can assist you in preparing your 2016 Forms W-2 and Forms 1099 for filing with the IRS. If you need Form W-4, Form I-9, or Form DE 34 for new employees, please call our office or visit our website at www.hbllp.com. We have four offices to serve you:

Glendale	El Centro	San Diego	Watsonville
818.637.5000	760.352.1021	619.849.6500	831.724.2441

FORMS AND PUBLICATIONS: Listed below are telephone numbers and websites where you can order and download various types of forms and publications from different government agencies.

Employment Development Department

www.edd.ca.gov/forms (888) 745-3886

Internal Revenue Service

www.irs.gov/Forms-&-Pubs (800) 829-1040
(800) 829-4933

California Franchise Tax Board

www.ftb.ca.gov/forms (800) 338-0505

State Board of Equalization

www.boe.ca.gov/formspubs/index.htm (800) 400-7115

To enroll in EFTPS (Electronic Federal Tax Payment System)

www.eftps.gov