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*Planning Alert
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As the 2010 tax year quickly comes to a close, we wanted to update our business clients on the indexed 2011 payroll tax rates and limits along with other related rate and filing information. As always, should you have any questions, the professionals at Martin Werbelow LLP are here to help.

Payroll Taxes for 2011

Effective January 1, 2011, the payroll tax rates are as follows:

	Tax Rate	Wage Limit	Maximum Tax
FICA (Social Security tax) – <u>Employee</u>	4.20%	\$106,800	\$4,485.60
FICA (Social Security tax) – <u>Employer</u>	6.20%	\$106,800	\$6,621.60
FICA (Medicare tax) – Employer and Employee	1.45%	No Limit	--
FUTA (Federal Unemployment Tax) – Employer	0.80% ¹	\$7,000	\$56.00
SDI (California Disability Insurance) – Employee	1.20%	\$93,316	\$1,119.79
SUI (California Unemployment Tax) – Employer	²	\$7,000	. ³
ETT (California Employment Training Tax) – Employer	0.10%	\$7,000	\$7.00

You should be receiving the new 2011 tax tables from the IRS (*Federal Circular E, Employer’s Tax Guide*) and EDD (*California Payroll Tax Guide*). Be sure to use these current tables when calculating 2011 income tax withholding.

You are required to issue the 2010 Form W-2, *Wage and Tax Statement*, to each of your employees by January 31, 2011. You may also be required to issue Form 1099 by January 31, 2011 to non-employees to whom you made certain payments during 2010 (please refer to the detailed explanation regarding Form 1099 on page 2). Copies of Forms W-2 and 1099, along with related transmittal forms (Forms W-3 and 1096), must be filed with the Federal government by February 28, 2011 for both Form W-3 and Form 1096.

For California, you are required to file Form DE-7, *Annual Reconciliation Return*, with the Employment Development Department (EDD) by January 31, 2011. You do not need to submit Forms 1099 to the State of California.

If you are required to file a federal Form 1099-MISC, you are also required to file Form DE 542, *Report of Independent Contractor(s)*, with the EDD. Form DE 542 must be filed for each independent contractor you make payments to within 20 days of the *earlier of* (1) the date that payments you have made to the independent contractor aggregate \$600 or more for the year, OR (2) the date you enter into a contract or contracts with the

¹ The Federal Unemployment Tax Act (FUTA) tax rate is 6.2% on the first \$7,000 of wages. California employers are allowed a maximum 5.4% credit against their FUTA liability for wages and unemployment insurance (UI) contributions that were reported on time and paid to the state plan regardless of the actual state UI rate. Therefore, if you are entitled to the maximum 5.4% credit, the FUTA tax rate after the credit is 0.8%. If wages and UI contributions that are subject to FUTA are not properly reported to the state, the FUTA state credit cannot be used. In this case, the taxpayer will be subject to the full 6.2% FUTA tax. Therefore, please be sure to file correct quarterly payroll returns and payments on time.

² The EDD will notify you of your SUI tax rate for 2011.

³ The maximum SUI tax will depend on your SUI rate.

independent contractor that provides for payments to be made to the independent contractor that, in the aggregate, will equal or exceed \$600 in a given year.

Federal Payroll Deposit Rules

Employers are generally required to be on either a monthly or semi-weekly (twice a week) deposit schedule for 2011 (based on the tax liability you reported on Form 941 during a four-quarter lookback period). If you are on a monthly deposit schedule, employment and other taxes withheld in a calendar month must be deposited by the 15th day of the following month. If you are on a semi-weekly deposit schedule, employment and withholding taxes on payments made on Wednesday, Thursday, and Friday must be deposited by the following Wednesday. Payments made Saturday through Tuesday must be deposited by the following Friday.

Special exceptions: If the total liability for a quarter is less than \$2,500, then the liability may be paid with the quarterly return. If the employment tax liability for any day exceeds \$100,000, it must be deposited by the next banking day.

California Payroll Deposit Rules

Employer contributions for Unemployment Insurance and Employment Training Tax are due quarterly. However, withholdings from employees' wages for State Disability Insurance and California Personal Income Tax (PIT) may need to be deposited more often. Your SDI and PIT deposit schedule is generally the same as for federal. If you are only required to make federal quarterly deposits, but you accumulate \$350 or more in PIT during one or more months of a quarter, you are required to make monthly deposits of California SDI and PIT.

In addition, if you are required to make federal Next Banking Day deposits and you accumulate more than \$500 in PIT during one or more payroll periods, you are also required to make a California deposit the next banking day of your California SDI and PIT.

Federal Business Mileage Reimbursement for 2011

The standard mileage rate for business use of an automobile in 2011 will be 51¢ per mile (increased from the 2010 rate of 50¢).

Information Return Filing Requirements (Form 1099) for 2010

Every entity engaged in a trade or business, including partnerships and nonprofit organizations, must file information returns for each calendar year for certain payments made during the year in the course of the payer's trade or business. If, during the calendar year, you paid \$600 or more to a single recipient for any of the following, you must, by January 31, 2011, issue a Form 1099 to each such recipient:

1. Rents
2. Services rendered by a non-employee
3. Prizes and/or awards
4. Dividends
5. Interest
6. Royalties
7. Distributions from retirement or profit sharing plans, IRA's, or SEP's
8. Sales or exchanges of real estate (and you were responsible for closing the transaction)
9. Sales of stocks, bonds, or debt instruments (if you are a broker)

Form 1099 is generally ***not*** required for payments made for merchandise, made to a corporation, or made to a real estate agent for rent.