

November 22, 2016

## **PAYROLL TAX ALERT**

We have summarized the requirements and changes regarding payroll tax filings, withholdings and deposits for 2017. Outlined below are the requirements which are effective as of January 1, 2017. As always, if you should have any questions, please do not hesitate to call us.

### **California E-Filing Required (AB 1245) Summary Information**

Beginning in 2017 if you have more than 9 employees, the employment tax returns, reports and payments must be filed and paid electronically. If you have less than 10 employees you will need to file and pay electronically beginning in 2018. The website is [www.edd.ca.gov/payroll\\_taxes/file\\_and\\_pay.htm](http://www.edd.ca.gov/payroll_taxes/file_and_pay.htm) You can enroll or log in at e-Services for Business.

### **California Paid Sick Leave Law (AB 1522) Summary Information**

The 2015 Paid Sick Leave Law states an employee who works in California for 30 or more days within a year is entitled to paid sick leave. After July 1, 2015, employees including part-time and temporary workers will earn at least one hour of paid leave for every 30 hours worked. Employers may cap this at 48 hours earned per year and 24 hours taken per year.

Employers are required to make available reporting information for their employees starting July 1, 2015. Each paystub on each pay date should provide the number of days of sick leave an employee has available.

### **US Department of Labor - Final Rule Regarding Overtime for White Collar Workers (Executive, Administrative and Professional Employees)**

Effective December 1, 2016, White Collar Workers are exempt from overtime pay if their standard salary exceeds \$913 a week or their annual compensation levels exceed \$134,004. The previous limits were \$455 per week and \$100,000 per year.

## **FEDERAL WITHHOLDING**

Federal income tax should be withheld based on the tables in the Internal Revenue Service's "Employer Tax Guide", Publication 15, Revised January 2017. The minimum amount to be withheld for supplemental wages, such as bonuses, is twenty-five percent (25%) of the gross wages.

### **FICA (Federal Insurance Contributions Act) tax rates and wage base:**

Social Security and Medicare taxes have different rates and only the Social Security tax has a wage base limit. The wage base limit is the maximum wage that is subject to tax for the year.

Determine the amount of withholding for Social Security and Medicare taxes by multiplying each payment by the employee tax rate.

**For 2017, the employee tax rate for Social Security is 6.2%** and the wage base limit is now \$127,200. The maximum amount of Social Security tax withheld is \$7,886.40.

The employee tax rate for Medicare is 1.45% on wages to \$200,000 and increases to 2.35% on wages over \$200,000 and there is no wage base limit.

## **FEDERAL TAX DEPOSIT COMPUTATION**

As in the past, the federal payroll tax deposit liability is computed by adding the federal income tax withheld to twice the Social Security tax and twice the Medicare tax withheld for all employees for a payroll period. Review the following example:

Federal income tax	\$ 500.00
Social Security (\$300.00 x 2)	600.00
Medicare (\$70.00 x 2)	<u>140.00</u>
Total Payroll Deposit	<u>\$1,240.00</u>

## **FEDERAL TAX DEPOSIT REQUIREMENTS**

**Due to the complexity and ever changing laws regarding payroll tax deposit requirements, we recommend that you make a deposit immediately after writing each payroll to avoid penalties for late deposits.**

### **When To Deposit**

There are two deposit schedules (monthly or semiweekly) for determining when you deposit Social Security, Medicare, and withheld income taxes. These schedules tell you when a deposit is due after a tax liability arises (for example, when you have a payday). Before the beginning of each calendar year, you must determine which of the two deposit schedules that you are required to use. The deposit schedule that you must use is based on the total tax liability that you reported on Form 941 during a four-quarter lookback period. Your deposit schedule is not determined by how often you pay your employees.

### **Deposit Period**

The term deposit period refers to the period during which tax liabilities are accumulated for each required deposit due date. For monthly schedule depositors, the deposit period is a calendar month. The deposit periods for semiweekly schedule depositors are Wednesday through Friday and Saturday through Tuesday.

### **Monthly Deposit Schedule**

You are a monthly schedule depositor for a calendar year if the total taxes on line 10 of Form 941 for the four quarters in your lookback period were \$50,000 or less. Under the monthly deposit schedule, deposit Form 941 employment taxes on payments made during a month by the 15<sup>th</sup> day of the following month.

## **Semiweekly Deposit Schedule**

You are a semiweekly schedule depositor for a calendar year if the total taxes on line 10 of Form 941 during your lookback period were more than \$50,000. Under the semiweekly deposit schedule, deposit Form 941 taxes for payments made on Wednesday, Thursday, and/or Friday by the following Wednesday. Deposit amounts accumulated for payments made on Saturday, Sunday, Monday, and/or Tuesday by the following Friday.

## **\$100,000 ONE DAY RULE**

If your payroll tax liability accumulates to \$100,000 or more on any day during a deposit period, you are required to make a deposit by the close of the next banking day.

## **FEDERAL ELECTRONIC TAX DEPOSIT PROCEDURES**

Beginning in 2011, all taxpayers making deposits for employment and other taxes must make all federal tax deposit payments **electronically**. (A 10% penalty applies for payments not made electronically.)

Taxpayers have two options when making electronic deposits: (1) Taxpayers can initiate the transfer by contacting the Treasury Financial Agent in your area to transfer funds from your account directly into the Treasury's account at the Federal Reserve Bank, or (2) Taxpayers can instruct their bank to electronically transfer the deposit to the Treasury's account at the Federal Reserve Bank.

## **RECORD KEEPING AND DOCUMENTATION OF WITHHOLDINGS**

Cash disbursements, checkbooks, payroll registers and information furnished to employees with payroll checks should show the following:

- Federal income tax withheld
- FICA (Social Security and Medicare) tax withheld
- State Income Tax Withheld
- SDI Tax Withheld
- 401K Withholding (if applicable)
- Sick Leave Accrued (after 7/1/15)

## **STATE WITHHOLDING**

**It is important to know the State requires you to make tax payments for Unemployment Insurance (UI) and Employment Training Tax (ETT) on a quarterly basis.**

State income tax should be withheld based on the tables in the Employment Development Department's "Employer's Tax Guide", DE44, Rev. 42 (1/17). The minimum amount to be withheld for supplemental wages is 6.6 % of gross wages and 10.23% for stock options and bonus payments.

State Disability Insurance (SDI) is withheld at **0.9%** of gross wages. For example, if a gross payroll check is \$100.00, the SDI tax withheld is \$0.90 (\$100.00 x .009). SDI tax is withheld on wages up to **\$110,902**, so the maximum amount of SDI tax withheld for any one employee in 2017 would be **\$998.12** (\$110,902 x .009).

## **STATE TAX PAYMENT REQUIREMENTS**

State payroll tax liability is computed by adding the state income tax withheld to the SDI withheld. Use Form DE 88. The last payment of each quarter is due at the end of the month after the quarter and should include payment of Unemployment Insurance (UI) and Employment Training Tax (ETT) for the quarter.

The State of California Employment Development Department has adopted the same payment requirements as the Internal Revenue Service. If you are required to make a **monthly** federal tax payment and your state income tax withholding exceeds \$350.00, then a payment is due within fifteen days after the end of the month. If you are required to make a **semi weekly** federal tax payment and the state income tax withholding exceeds \$500.00, then a payment is due on either Wednesday or Friday, as explained in the federal deposit rules.

## **REMINDERS:**

The timely filing and paying of payroll taxes is the responsibility of each employer; however if you should need assistance in the computation of these payments, we will be glad to assist you.

With the start of a new year, it is a good time to have all employees fill out a new employee's withholding allowance certificate (W-4). These should be kept in a permanent file with your other employee data. The Franchise Tax Board requires you to submit a copy of the DE4 Form if the number of allowances claimed exceed 10 or more withholdings.

## **EMPLOYMENT VERIFICATION REQUIREMENTS**

Employers must verify that each new employee is legally eligible to work in the United States. This will include completing the U.S. Citizenship and Immigration Services (USCIS) Form I-9, Employment Eligibility Verification. Some ways to establish both authority to work and identity can be established by one of the following: (1) U.S. Passport; (2) Permanent Resident Card or Alien Registration Receipt Card (Form I-551); (3) An unexpired foreign passport; (4) Driver's license or state issued ID card along with a U.S. Social Security card issued by the Social Security Administration. There are additional documents that may be used for establishing proper authorization to work, please refer to the newly revised Form I-9 instructions. The Form I-9 revision date should be December 2014.

After the documents have been examined, Form I-9, Employment Eligibility Verification, must be signed and retained by the employer for at least three years or until one year after the date employment ends, whichever is later. If you should need a copy of the form, please contact our office.

## **REPORT OF NEW EMPLOYEES**

Employers must report information about every new employee to the appropriate state agency **within 20 days** of their date of hire. Employment Development Form DE34 must be filed within 20 days of hire for new employees. Multiple employees hired within the 20 day period may be reported on a single form. There are exceptions to the Employee Registry Rules. Please contact our office if you have any questions.

## **TAX REPORTING REQUIREMENTS FOR INDEPENDENT CONTRACTORS**

California law requires business owners to report individuals who perform services to the state's Independent Contract Registry by using Form DE542 (Report of Independent Contractors). You are required to report individuals who are independent contractors and who you pay or will pay \$600 or more during the calendar year. You must report these independent contractors within twenty days of the earlier of: a) making payments of \$600 or more; or b) entering into a contract for \$600 or more in any calendar year.

If you should need a copy of Form DE34 or DE542, please call our office. Online reporting of these forms is also available.

Very truly yours,

McCahan, Helfrick, Thiercof & Butera Accountancy Corporation  
Certified Public Accountants  
San Jose, California