

Sabel & Oplinger, CPA, PC

ACCOUNTANTS AND CONSULTANTS

106 PROSPECT STREET, P.O. BOX 1307
SOUTHAMPTON, NY 11968

TELEPHONE (631) 283-2370
FAX (631) 287-4347

e mail: socpapc@socpapc.com
web page: www.socpapc.com

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Dear Clients and Friends:

As we begin the New Year, there are changes we would like to make you aware of as well as some internal procedures that should be reviewed for compliance. If you have any questions regarding this information, please refer to our website www.socpapc.com or call the office.

2012 Important Payroll Tax Changes

- The reduction in the FICA employee tax rate to 4.2% has been extended through February 29, 2012. **Please check our website www.socpapc.com for updated information – Congress has to act.**
- Wage Theft Protection Act – requires annual pay notification to employees (see page 2)
- MTA Tax **eliminated** for many small businesses effective April 1, 2012 (see page 4)
- Rule changes for filing Form 1099's (see page 3)
- Effective January 1, 2012, standard mileage rates for business miles driven is 55.5 cents per mile

2012 Wage and Tax Highlights

Federal

• FICA (Social Security)	Maximum Taxable Earnings:	\$ 110,100
• FICA (Medicare)	Maximum Taxable Earnings:	No Limit
• FICA (Social Security)	Employee Tax Rate (through 2/29/12)	4.2%
• FICA (Social Security)	Employee Tax Rate (3/1/12 and after)	6.2%
• FICA (Social Security)	Employer Tax Rate	6.2%
• FICA (Medicare)	Employee Tax Rate	1.45%
• FICA (Medicare)	Employer Tax Rate	1.45%
• FUTA (Employer-Paid)	Maximum Taxable Earnings:	\$ 7,000

New York

• State Unemployment Insurance	Maximum Taxable Earnings:	\$ 8,500
• Minimum Wage		\$7.25/hour
• Min. Cash Wage (Tipped Food Service Worker)		\$5.00/hour
• Max. Tip Credit (Tipped Food Service Worker)		\$2.25/hour

Payroll and Reporting Requirements - 2012

◆ **Wage Theft Protection Act**

Effective January 1, 2012, all employers are to provide employees, annually, with notification – stating their rate of pay, including overtime; whether they are paid hourly, by shift, by the day or the week, monthly or by commission; the date of their regular payday; their employer’s official name and any name it uses in business; the employer’s address and phone number, and any deductions such as for tips, meals and lodging. These notices must be issued between January 1 and February 1. Employers must keep records on file and give to each employee a copy of their signed notification. Please refer to our website for more detailed information and samples of notification letters.

◆ **Form W-4 (2012)**

Employers should obtain updated W-4's every year for all existing employees as well as for new employees. The updated W-4's should be compared to your payroll set up or forwarded to your payroll company so they can update the employee's information.

◆ **New Hires**

All U.S. employers are responsible for completion and retention of Form I-9 for each individual they hire for employment in the United States. This includes citizens and noncitizens. On the form, the employer must verify the employment eligibility and identity documents presented by the employee and record the document information on the Form I-9. Acceptable documents are listed on the back of the form. You can also visit www.uscis.gov for a listing of current acceptable documents.

New York State requires the reporting of any newly hired employees. The required information can be reported by submitting a completed and legible copy of the employee's New York State Form IT-2104. This must be submitted to NYS within 20 calendar days from the hiring date. You can either submit by fax (518) 320-1080 or mail to:

NYS Tax Department
New Hire Notification
P.O. Box 15119
Albany, NY 12212-5119

◆ **Social Security Number Verification**

The Social Security Administration (SSA) has set up several methods for employers to verify employee names and social security numbers. You must register online and receive authorization from your employer to use these services. To register, visit SSA's website at www.socialsecurity.gov/employer and click on the *Business Services Online* link.

- The SSA allows you to verify up to ten (10) names and numbers with Telephone Number Employer Verification (TNEV) by calling (800) 772-6270 or (800) 772-1213.
- You can also verify SSNs on line at: www.ssa.gov/employer/ssnv.htm.

◆ **Illegal Workers**

Recently there has been an increase in ways to crack down on illegal workers by the Department of Homeland Security and the Social Security Administration. Significant civil penalties may be imposed against employers who have hired ineligible employees.

Employees have been furnishing ITIN's in lieu of social security numbers on their W-4s. These numbers begin with 9 and have a 7 or 8 as the fourth digit (i.e. 9XX-8X-XXXX). These numbers are not social security numbers and are not valid for employment. If you have any current employees who have furnished these ITIN's, please immediately review your records, request proper identification, and complete a 2012 W-4 and I-9 form for these employees.

◆ **Subcontractors & 1099 Filing Requirements**

Employers with sub-contractors must have updated W-9's on file for all subcontractors. Certificates of Insurance for both Workers' Compensation and General Liability will also be required from these subcontractors for the annual insurance audits. If you are using QuickBooks the program has a section indicating if the subcontractor is to receive a 1099. Utilizing this feature will assist you in preparing 1099s.

We have seen an increase in the amount of audits that are challenging the eligibility of the sub-contractor. New York State has a more stringent definition of a subcontractor than that of the IRS. If you have concerns that a subcontractor may meet the criteria of an employee please call us to discuss.

Effective January 1, 2012 - Corporations (excluding tax-exempt corporations) have been added to the list of required 1099 recipients.

◆ **Federal Tax Deposit Rules – Unchanged**

Please refer to Publication 15 on the IRS website for any questions regarding your filing requirements.

◆ **Employer Shredding Requirements**

Federal law now requires that employers protect their employees' personal information by shredding "consumer reports" they receive about the employees they hire.

To protect against identity theft, it is good practice to shred all documents containing employees' personal information.

NEW YORK STATE TAXES

◆ **NYS Payment Requirements for NYS Withholding - Unchanged**

Please refer to Publication NYS-50 on the NYS Tax Department's website for any questions regarding your filing requirements.

◆ **MTA Payroll Tax**

Effective April 1, 2012, the MTA tax will be eliminated for many small businesses across New York State and a reduced rate for most others.

<u>Quarterly Payroll Expense</u>	<u>Rate</u>
Up to \$312,500 per quarter	0.00%
Exceeding \$312,500 up to and including \$375,000 per quarter	0.11%
Exceeding \$375,000 up to and including \$437,500 per quarter	0.23%
Exceeding \$437,500 per quarter (rate does not change)	0.34%

◆ **Requirements for Electronic Funds Transfers (EFT)**

EFT's are required for income tax withholding and sales and use taxes when certain thresholds are met. The threshold for withholding tax liability is \$35,000 during either of the semiannual periods ending June 30 or December 31; and for sales and use tax the threshold is \$500,000 liability or more during the period of June 1 through May 31 of the preceding year.

Pensions - Elective Salary Deferral Plans

- ◆ The 2012 maximum salary deferrals are as follows:

	<u>Taxpayers Under 50</u>	<u>Taxpayers Over 50</u>
401(k) Plans	\$17,000	\$22,500
403(b) Plans	\$17,000	\$22,500
Simple Plans	\$11,500	\$14,000

- ◆ Employer Match Recommendation - We recommend that the employer salary deferral match be made each quarter when completing your 941.
- ◆ If an eligible employee decides to "Opt-Out" of an employer sponsored plan, the employer should have the employee sign a disclaimer form and place it in their personnel file. The disclaimer should be updated annually.

Other Items

◆ **Insurance**

All NYS employers are required to carry NYS Workers' Compensation and Disability Insurance policies with few exceptions.

Most companies are experiencing insurance rate increases. Please review your coverage well in advance of your expiration dates. During the past year the Workers' Compensation and general liability auditors have been requesting additional data. The additional information is:

- Copies of invoices to your clients showing the type of work being done and the location of that work.
- The Certificates of Insurance from subcontractors must include the coverage for the period of the audit.

◆ **Health Insurance**

Most companies are experiencing insurance rate increases. Please review your coverage well in advance of your expiration dates. If an eligible employee decides to “Opt-Out” of an employer sponsored health plan the employer should have the employee sign a disclaimer form and place it in their personnel file. The disclaimer should be updated annually.

◆ **Sales Tax**

The NYS Sales tax department in conducting its audits has asked to review sales invoices. Please be sure that your invoices differentiate between taxable and non-taxable services and products. Businesses that purchase taxable items from out-of-state or the internet and are not charged for NYS Sales Tax will have to remit the required sales tax as a use tax on their sales tax returns. This is true for all materials, supplies, and equipment.

◆ **Sales Tax – Materials Credit**

New York State in its effort to collect more revenue, is reviewing those returns that claim a materials credit. This will require a more detailed allocation of costs (from invoices) to support the calculation. If you would like for us to review the calculation with you, please give us a call.

◆ **Employee Posters**

Federal and state employment laws must be posted in a conspicuous place at all times.

◆ **2012 Forms**

For your convenience, Form W-4, Form IT-2104, Form W-9 and Form I-9 can be downloaded from our Website at www.socpapc.com. Please click on “Payroll Forms” on our home page and then choose the Form you want to print. If you prefer, you can call our office and we will mail you these forms.

◆ **Agency internet web sites:**

- Internal Revenue Service: www.irs.gov
- Social Security Administration: www.ssa.gov
- U.S. Dept. of Labor: www.dol.gov
- Dept. of Taxation & Finance: www.tax.ny.gov
- NY Dept. of Labor: www.labor.ny.gov/home
- US Dept. of Homeland Security: www.uscis.gov