

2012 PAYROLL TAX UPDATE

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FEDERAL

| FICA | |
|---|-----------|
| Social Security (OASDI) Wage Base | \$110,100 |
| Medicare (HI) Wage Base | No Limit |
| Social Security Rate (OASDI) Employee Portion (Effective 01/01/12 – 02/29/12)* | 4.2% |
| Social Security (OASDI) Employee Portion (Effective 03/01/12 and thereafter)* | 6.2% |
| Medicare (HI) Percentage | 1.45% |
| Maximum Medicare (HI) Withholding | No Limit |
| Maximum Amount of Earnings to Still Receive Full Benefits Under Full Retirement Age | \$14,640 |

*The Temporary Payroll Tax Cut Continuation Act of 2011 extends the 2% employee withholding reduction on Social Security from 6.2% to 4.2% into the first two months of 2012. To the extent that this withholding reduction is reversed after February 29, 2012, a recapture provision will apply to employees who have already received more than \$18,350 in wages in the first two-month period.

Federal Unemployment Tax Act (FUTA)

The Federal Unemployment tax rate was 6.2% from January 1, 2011 through June 30, 2011; and decreased to 6.0% as of July 1, 2011. It is currently still set at that rate, less a maximum credit of 5.4% for amounts paid under State unemployment insurance laws. Accordingly, the normal net FUTA tax is 0.6%.

Federal law mandates a reduction in the maximum FUTA tax credit when a state has not repaid money it borrowed from the federal government to pay unemployment benefits. The Department of Labor determines these credit reduction states annually. In 2011, employers who paid wages subject to the unemployment compensation laws of any of these states will be subject to a credit reduction of 0.3% or 0.6% from the regular 5.4%. Use Schedule A (Form 940) to figure the tax.

Maximum wage base: \$7,000
Employee's share: None

Supplemental Wage/Bonus Rate

Flat rate withholding method: 25%
Pay over \$1 million: 35%

401(k) Limits

Maximum employee contribution: \$17,000
(\$22,500 for employees age 50 or older)

Deposits of Federal Withholding and Social Security Taxes

You must use the Electronic Federal Tax Payment Systems (EFTPS) to make all federal tax deposits (such as deposits of employment tax, excise tax, and corporate income tax). Should you choose not to make deposits through EFTPS, you may arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf.

The guidelines are as follows:

1. **Monthly Deposits:** Employers who reported \$50,000 or less during the lookback period will deposit monthly. Monthly

deposits of accumulated taxes must be made by the 15th day of the following month.

2. **Semi-Weekly Deposits:** Employers who reported over \$50,000 during the lookback period are generally required to deposit taxes on or before two specified days of the week—Wednesday or Friday—depending on the timing of the employer's payrolls. For paydays on Wednesday, Thursday, or Friday, the deposit will be due by the Wednesday after payday. For all other paydays, the deposit will be due by the Friday following payday.
3. **One-Day (\$100,000) Rule:** Employers who accumulate employment taxes of \$100,000 on any day must deposit those taxes by the next banking day. If this happens, the employer becomes a semi-weekly depositor for the remainder of the calendar year and for the following calendar year.
4. **\$2,500 and \$1,000 Rules:** Businesses with less than \$2,500 in quarterly employment taxes will be allowed to make payments with their timely filed return using Form 941. Employers with less than \$1,000 in annual employment taxes may contact the IRS requesting to file Form 944—Employer's Annual Federal Tax Return. Upon written notification from the IRS that the employer qualifies to file Form 944, the employer may file and pay their employment taxes on an annual basis if they do not exceed the \$1,000 threshold.

Deposits of FUTA

Employers are required to make a deposit of FUTA taxes using the Electronic Federal Tax Payment Systems (EFTPS) when the FUTA tax liability exceeds \$500 in a calendar quarter. If the FUTA tax liability is \$500 or less in a quarter, it can either be deposited or added to the next quarter.

Withholding Taxes

Employers receiving Form W-4 claiming more than 10 withholding exemptions may be required to submit the Form W-4 to the IRS if directed to do so.

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INDIVIDUAL STATES

CALIFORNIA

Unemployment and Disability

In 2012, employers with less than three years of coverage are assigned standard rates of 3.4% on a \$7,000 maximum wage base for California Unemployment Insurance (UI). If an employer purchased an established business, they have the option of acquiring the previous owners UI tax rate. The tax rates for established employers vary between 1.5% and 6.2%, and these rates include an emergency surcharge of 15% for 2012.

Employers are not required to make contributions to the California Disability Insurance Fund as long as they get approval from the Employment Development Department (EDD) for a Voluntary Plan for the payment of Disability Insurance. The California Disability Insurance rate for employees is 1.0% on a \$95,585 maximum wage base. The maximum to withhold for each employee is \$955.85.

Withholding Taxes

Employees requesting withholding allowances different from Federal Form W-4 must complete California EDD Form DE-4.

Supplemental Wage Rate

6.6%, except 10.23% for bonuses and earnings from stock options.

Electronic Funds Transfer (EFT)

Employers whose average tax deposit is \$20,000 or more per quarter for the prior State fiscal year (July 1 – June 30), are required to deposit the funds using EFT during the next calendar year. First time mandatory EFT filers will be notified of their status by October 31 prior to the year of EFT participation.

Employers will be assessed a penalty equal to 10% of the amount paid plus interest if they are required to remit payments by EFT but remit payment by other means.

Employment Training Tax (ETT)

The ETT rate for 2012 is 0.1%. The UI and ETT Taxable wage limit remains at \$7,000 per employee per calendar year.

Minimum Hourly Wage Rate

The minimum hourly wage rate for the State of California is \$8.00.

COLORADO

Unemployment and Disability

New employers are assigned a standard contribution rate of 1.7%, the surtax rate is 0.22%, and the solvency tax surcharge is 0.60% resulting in a combined rate of 2.52%. The maximum wage base for Colorado Unemployment Insurance is \$11,000. Employees require no contribution. There are no disability provisions in Colorado.

Withholding Taxes

Employee withholding allowances are the same as claimed on the Federal W-4 forms.

Electronic Funds Transfer (EFT)

Employers with annual wage withholding liabilities greater than \$50,000 are required to make payments through EFT.

Minimum Hourly Wage Rate

The minimum hourly wage rate for the State of Colorado is \$7.64.

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INDIVIDUAL STATES

CONNECTICUT

Unemployment and Disability

In 2012, employers with less than one full fiscal year (ending June 30) of experience are assigned a standard contribution rate of 4.2% on a \$15,000 maximum wage base for Connecticut Unemployment Insurance. No contribution required by employees.

There are no disability provisions in Connecticut payroll law.

Withholding Taxes

Employers must obtain a completed copy of the Form CT-W4, Employees Withholding Certificate, from each new employee when hired.

Electronic Funds Transfer

Taxpayers whose prior year tax liabilities exceeded \$4,000 for the 12-month period ending the preceding June 30 for monthly and quarterly tax liabilities, or for the preceding tax year for annual tax liabilities and who are notified by the Department of Revenue Services (DRS) to pay that tax by EFT must pay the tax by EFT. Employers must continue to pay by EFT unless they have been notified by the DRS that they are no longer required to do so.

Minimum Hourly Wage Rate

The minimum hourly wage rate for the State of Connecticut is \$8.25.

NEW JERSEY

Unemployment and Disability

The Disability Insurance (TDI) rate for employees decreased from 0.5% to 0.2%. The Unemployment Insurance (UI) contribution rate remains at 0.3825% and the Workforce Development (WD) rate remains at 0.0425%. The Family Leave Insurance (FLI) contribution rate is increased from 0.06% to 0.08%. The annual taxable base for all items is increased from \$29,600 to \$30,300.

Withholding Taxes

Employees requesting withholding allowances different from Federal Form W-4 must complete a separate Form New Jersey W-4.

Supplemental Wage/Bonus Rate

No provision, but for pay over \$500,000 withhold 9.9%.

Electronic Funds Transfer (EFT)

Employers with previous year's liability of \$10,000 or more are required to use EFT. Required users will be notified by the Division of Taxation.

Minimum Hourly Wage Rate

The minimum hourly wage rate for the State of New Jersey is \$7.25

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INDIVIDUAL STATES

NEW YORK

Unemployment and Disability

In 2012, new employers will be assigned a standard contribution rate of 4.1% on an \$8,500 maximum wage base for New York State Unemployment Insurance. No contribution is required by employees.

The New York State disability rate (for State insurance funds) is 14¢ per \$100 of salary for male employees and 14¢ per \$100 of salary for female employees.

Maximum wage base: Limited to \$340 per week per employee. Employee's share: 0.5% of wages, but not more than 60¢ per week.

Withholding Taxes

Employees requesting withholding allowances different from Federal Form W-4 must complete Form IT-2104. Employers receiving IT-2104 which claims more than 14 allowances must submit such form to the Department of Taxation and Finance.

Metropolitan Commuter Transportation Mobility Tax (MCTMT)

The MCTMT is a tax of 0.34% that is imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district (MCTD). The MCTD includes the counties of New York (Manhattan), Bronx, Kings (Brooklyn), Queens, Richmond (Staten Island), Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester.

Tax applies if an employer withholds New York State Income tax from wages and the payroll expense exceeds \$2,500 in any calendar quarter.

Individuals, partners and members of an LLC, treated as a partnership, who have net earnings from self-employment allocated to the MCTD that exceed \$10,000 for the tax year are also subject to this tax.

Electronic Funds Transfer (EFT)

Taxpayers who have a tax liability of \$100,000 or more during the previous year are required to enroll in the PrompTax Withholding Tax program and deposit the payroll tax withheld using EFT. A Notice of Required Participation will be sent to newly identified taxpayers who will then have 20 days to enroll.

Minimum Hourly Wage Rate

The minimum hourly wage rate for the State of New York is \$7.25.

TEXAS

Unemployment and Disability

In 2012, new employers are assigned a standard contribution rate of 2.7% on a \$9,000 maximum wage base for Texas Unemployment Insurance. There are no disability provisions in Texas.

Electronic Funds Transfer (EFT)

Taxpayers who have a tax liability of \$100,000 or more during the preceding State fiscal year, September 1 through August 31, will be required to make payments using EFT. The Texas State Comptroller's Office will inform taxpayers at least 60 days prior to the effective date that they must remit payments by EFT.

Taxpayers who have a tax liability of \$10,000 or more in the following tax category are also required to use EFT: Sale & Use Tax, Direct Pay, Natural Gas, Crude Oil, Franchise, Gasoline, Diesel Fuel, Hotel Occupancy, Insurance Premium, Mixed Beverage Gross Receipts, and Motor Vehicle Rental.

Minimum Hourly Wage Rate

The minimum hourly wage rate for the State of Texas is \$7.25.

