



anders minkler & diehl llp

CPAs + Consultants

ANNUAL PAYROLL TAXES AND WITHHOLDINGS UPDATE 2011

The purpose of this memo is to alert you to changes in the requirements regarding payroll taxes effective January 1, 2011.

Social Security Tax Withholding

For 2011, the maximum wage base for Social Security tax will be unchanged:

The Social Security tax wage base for employees will remain at \$106,800.00. The Social Security tax rate for employees will decrease to 4.2% and employers remain unchanged at 6.2%. The combined Social Security and Medicare Hospital Insurance tax rate for employees will decrease to 5.65% and employers remain unchanged at 7.65%. The additional Medicare Hospital Insurance tax will apply on all wages in excess of \$106,800.00 and will be imposed at a rate of 1.45%. The same rates will apply for employers.

The earnings base for self-employment tax will also remain at \$106,800.00 with an effective rate decreased to 13.30%. The additional Medicare Hospital Insurance tax will apply on all self-employment income in excess of \$106,800.00 at an effective rate of 2.9% in 2011. No tax is payable if annual net earnings are less than \$400.00.

Federal Unemployment Tax (FUTA)

For 2011, the maximum taxable wage base will be the first \$7,000.00 of wages. The tax rate stays at 6.2% with the credit for payment of state unemployment tax remaining at 5.4% through June 30, 2011. Beginning July 1, 2011, the tax rate is scheduled to decrease to 6.0%. This results in the effective rate staying at .8% through June 30, 2011; and decreasing to .6% beginning July 1, 2011.

State Unemployment Tax (SUTA)

The taxable wage base for Missouri will remain at \$13,000.00 in 2011 and Illinois will increase to \$12,740.00. Each state will issue your new contribution rate, effective January 1, 2011, based on your employment history. If advantageous, Missouri permits a voluntary payment to reduce the rate as long as the payment is received by January 15, 2011.

Both states require employers, who no longer have unemployment tax liability, to formally close their unemployment accounts. Severe penalties accrue if quarterly reports are not filed and accounts are not formally closed – even if no unemployment tax liability exists.

Information Returns

Failure to file accurate and timely 1099 forms continues to carry severe penalties (\$15.00 to \$50.00 per 1099). Accordingly, we are reminding you of the filing requirements for payments made during 2010.

Among other requirements, an entity must report on Form 1099 payments of \$600.00 or more to non-corporate "service providers". This includes rent, fees, commissions, prizes, awards or any other form of remuneration paid to non-employees. An example would be a consultant who is not incorporated. Any dividend or interest payment of \$10.00 or more must be reported to the Internal Revenue Service (IRS) and the recipient. The 2010 Form 1099 must be given to the recipient by January 31, 2011 and to the IRS by February 28, 2011. Payments made for legal services must be reported even if the payment is made to the attorney's professional corporation. Additionally, gross proceeds paid to an attorney (for example, as a settlement in a lawsuit) must be reported even if the amount is less than \$600.00.

Minimum Wage

The Missouri minimum wage will remain at \$7.25 per hour which was effective July 24, 2009. The Illinois minimum wage will remain at \$8.25 per hour which was effective July 1, 2010. Employees under the age of 20 can continue to be paid \$4.25 per hour during their first 90 consecutive calendar days of employment with an employer. Employers of "tipped employees" must comply with minimum wage laws, but can claim a tip credit against their minimum wage obligation.

Form W-4

A Form W-4 on which an employee claims exemption from withholding legally expires February 15 of the year after it is filed. Remind employees who claimed exemption from withholding on their 2010 Form W-4 the exemption expires and they will need to file a new 2011 Form W-4 on or before February 15, 2011. The 2011 forms are available at <http://www.irs.ustreas.gov>. Forms W-4 must be available for inspection by an IRS employee if requested. Employers may receive requests from the IRS requiring submission of a copy of Form W-4 for one or more employees.

Missouri Form W-4

Form MO W-4 allows employees to claim the same allowances as on the Federal Form W-4. Employees should review the Form MO W-4 to ensure correct withholdings. The employer must send a copy of Form MO W-4 to the Department of Revenue within 20 days after any NEW employee completes the form. This information is being used to enforce the state's child support laws. The 2011 Forms are available at <http://dor.mo.gov/forms/>.

Unsubstantiated Business Expenses or Advances

An employee is required to substantiate expenses to an employer and any amount exceeding the amount substantiated must be returned to the employer. Unsubstantiated amounts must be reported as Form W-2 (and FICA) income.

Tax Deposits

The IRS has recently mailed letters to all employers regarding their specific payroll deposit requirements. Depository requirements are now determined by the employer's tax liability during a "look-back" period (July 1 to June 30 of the previous year). Employers with less than \$50,000.00 of deposit liability during the "look-back" period will be required to make a deposit on or before the 15th of the following month.

Employers who report \$50,000.00 or more in total employment tax liability during the "look-back" period will be designated as semi-weekly depositors. For semi-weekly depositors, the due date depends on when wages are paid. For pay days on Wednesday, Thursday, or Friday, the deposit is due on or before the following Wednesday. For pay days on Saturday, Sunday, Monday, or Tuesday, the deposit is due on or before the following Friday.

Accumulated employer federal withholding and social security taxes of \$100,000.00 and over must be deposited the next banking day after accumulation irrespective of the preceding.

Electronic Federal Tax Payment System (EFTPS)

Employers must make deposits electronically in 2011. FTD coupons are no longer accepted. If your required tax deposits are not made via EFTPS, a penalty of 10% of the taxes deposited will be incurred. The IRS has begun enforcing penalties for non-compliance. If you have not enrolled in the EFTPS program, please contact us immediately.

Social Security Benefits

You can continue to earn income while receiving full social security retirement benefits, provided *your* earnings do not exceed certain limitations. The 2011 yearly earnings ceiling for individuals who have not reached full retirement age will remain at \$14,160.00 in 2011. Benefits of \$1.00 will be lost for every \$2.00 earned in excess of the 2011 ceiling.

For recipients who reach full retirement age in 2011, the earnings limit is \$37,680.00 until the month the individual reaches full retirement age. Benefits of \$1.00 will be lost for every \$3.00 earned in excess of the 2011 ceiling. Once you reach full retirement age, you can collect full benefits, regardless of the amount of your earnings.

Standard Mileage Rate

The standard mileage rate for 2011 will be 51 cents per mile. This rate is for all business miles. The 2011 rate for medical travel and moving costs will be 19 cents per mile. The charitable mileage rate will remain at 14 cents per mile.

Earned Income Credit

Each employer is required to notify any employee who has not had income tax withheld from wages and who has not claimed to be exempt from withholding that they may be eligible for earned income credit. The notice must be given by hand or delivered by first class mail within a week, before or after the Form W-2 is furnished, or included with the Form W-2. The notification must contain all information described in Notice 797 from the IRS.

Effective December 31, 2010, employees may no longer receive advanced payroll payments of the Earned Income Credit. Eligible individuals can still claim the credit on their federal income *tax return*.

Small Business Health Care Tax Credit

For 2011, small employers may be eligible to claim a tax credit for non-elective contributions to purchase health insurance for its employees. Eligible employers must meet the required number of full-time equivalent employees and average annual wages.

Pension Distribution Withholding Rules

If an employee does not elect a direct rollover (a trustee to trustee transfer), the employer must withhold federal income tax from the distribution at a 20% rate. The withholding is required even if the employee executes the rollover personally.

The rules contain some exceptions to the general rule stated above. Please contact us to discuss these rules in greater detail if a pension distribution is forthcoming.

Nanny Tax Threshold

The 2011 annual earnings threshold above which an employer is required to pay FICA taxes for domestic workers will be \$1,700.00.

In 2011 employers will have to satisfy their tax obligations by either increasing wage withholding or making estimated tax payments to prevent the application of underpayment penalties.

401(k) Elective Deferral Limits, SEP and SIMPLE Plan Thresholds

The limitation on 401(k) elective deferrals will remain at \$16,500.00 in 2011.

The compensation an eligible employee must have in order to be a SEP participant will remain at \$550.00 in 2011.

The maximum employee salary reduction contribution to a SIMPLE plan will remain at \$11,500.00 in 2011.

Catch-up contributions for retirement plan participants age 50 and older will be permitted in 2010, if plans have been amended to accept the catch-up contributions. Participants age 50 and older will be able to make additional 2011 401(k) contributions of \$5,500.00 or SIMPLE contributions of \$2,500.00.

New-Hire Reporting Program for Missouri and Illinois

All employers must report information about any new employee to the appropriate state agency within 20 days of their date of hire (this is a federal regulation, and states may establish more stringent reporting requirements). The new-hire reporting regulations were enacted to help state agencies enforce child support orders.

Your new-hire reports must contain the employee's name, address, and social security number as well as your company's name, address, and federal identification number. To comply, you can file a Form W-4 or an equivalent form. Penalties for non-compliance can range from \$25.00 to \$350.00 per employee.

You can mail new hire reports on paper, or on magnetic media, report by fax, or online. For personnel employed in multiple states, select one state where you have employees and report all new-hires in that state.

For more information, you may contact the appropriate state agencies in Missouri or Illinois. The applicable addresses and phone numbers are:

Illinois New Hire Directory
Post Office Box 19473
Springfield, IL 62794-9473
E-mail: nhire@ides.state.il.us
Fax: 1-217-557-1947
Telephone: 1-800-327-HIRE(4473)
<http://www.ides.state.il.us/employer/new-hire.asp>

Missouri Department of Revenue
Post Office Box 3340
Jefferson City, MO 65105-3340
Fax: 1-573-526-8079
Telephone: 1-800-585-9234
<http://www.dss.mo.gov/cse/newhire.htm>

If you have any questions concerning payroll tax and withholding, please contact us.

ANDERS MINKLER & DIEHL LLP
Certified Public Accountants