



ALPERN ROSENTHAL
INSPIRING OPPORTUNITIES



A Comprehensive Guide for Employers

Summary of Payroll Tax Guidelines 2012

Tax Rates
Payroll Tax Deposit
Fringe Benefits

January 2012

Dear Clients and Associates:

The following is a summary of the current payroll tax rules. You may find this information helpful in the operation of your business. Please note many changes happen every year. If you would like to know the cost of living adjustment (COLA) rate for any tax year, please visit <http://www.ssa.gov/OACT/COLA/colaseries.html>.

TAX RATES

FEDERAL INCOME TAX WITHHOLDING

The Federal income tax withholding tables changed effective January 1, 2012. This information can be found in the Circular E (Publication 15) located at <http://www.irs.gov/pub/irs-pdf/p15.pdf>. The 2012 Circular E, "Employer's Tax Guide", includes a useful table (see pages 30-34), which provides withholding requirements as they relate to specific payments. You should retain a copy of each Form W-4 in your files in the event the IRS should want to examine them. You should also request a new Form W-4 from any employee who claimed total exemption from withholding in 2011. A copy of the 2011 Form W-4 can be found at <http://www.irs.gov/pub/irs-pdf/fw4.pdf?portlet=3>.

The optional flat rate of withholding allowed for supplemental wage payments is 25% for 2012 (same as 2011). These payments made to an employee in addition to the employee's regular wages, include, but are not limited to, bonuses, commissions, accumulated sick leave, severance pay, retroactive pay increases and similar types of pay. As in 2011, you must withhold Federal income tax of 35% on any supplemental wages exceeding \$1,000,000 that you pay to an individual during the year.

EMPLOYER'S SUPPLEMENTAL TAX GUIDE

Publication 15-A, "Employer's Supplemental Tax Guide," supplements the basic information provided in Circular E, and contains specialized employment tax information (e.g., sick pay reporting and taxable fringe benefits). To order this publication, call 1-800-829-3676, or download from IRS website at <http://www.irs.gov/pub/irs-pdf/p15.pdf>.

TAX RATES (Continued)

SOCIAL SECURITY (FICA) TAX

The Social Security Tax is comprised of two parts: Medicare and old age, survivor and disability insurance (OASDI). On December 23, 2011, the Temporary Payroll Tax Cut Continuation Act of 2011 was enacted by President Obama. This law provides a two percentage point reduction in the employee portion of the OASDI rate, as was the rate in 2011. The extension is set to expire on February 29, 2012, when the rate will return to 6.2%; however, Congress anticipates an extension of the payroll tax cut through the entirety of 2012. Further updates will be provided as released by Congress.

The employer's portion of OASDI remains at 6.2% and the employee and employer 1.45% Medicare rate remains unchanged. The maximum amount of taxable wages for the OASDI portion increase to \$110,100 in 2012. As in 2011, the amount of taxable wages for the Medicare portion does not have a maximum wage level for 2012.

The self-employment tax rates are 10.4% for OASDI until February 29 when it returns to 12.4%, and 2.9% for Medicare. The earnings maximums are the same as those for Social Security Tax: \$110,100 for OASDI and unlimited for Medicare for 2012.

The Temporary Payroll Tax Cut Continuation Act of 2011 further includes a joint Senate and House conference to explore a full year reduction in the tax rate. If, however, the payroll tax rate is not extended for the entire year, then the current Tax Act includes a recapture provision for certain employee's wages. The intention of the recapture provision is to prohibit the frontloading of an employee's wages into the first two months. Therefore, if an employee's wages during the first two months of 2012 exceed \$18,350 (two-twelfths of the wage base of \$110,100), an amount equal to two percent of those excess wages would ultimately be recaptured on the worker's individual tax return for 2012. However, this rule would only apply if the payroll tax reduction is not extended for the remainder of 2012.

TAX RATES (Continued)

SOCIAL SECURITY (FICA) TAX (Continued)

Below is a summary of the rates and maximum amounts effective January 1, 2012.

	<u>OASDI PORTION</u>		
	<u>Maximum Wage</u>	<u>Tax Rate Through 2/29</u>	<u>Tax Rate After 2/29</u>
Employee Withholding	\$110,100	4.2%	6.2%
Employer's Contribution	\$110,100	6.2%	6.2%
Self-Employment Tax	\$110,100	10.40%	12.40%

	<u>MEDICARE PORTION</u>		
	<u>Maximum Wage</u>	<u>Tax Rate Through 2/29</u>	<u>Tax Rate After 2/29</u>
Employee Withholding	100% of Wages	1.45%	1.45%
Employer's Contribution	100% of Wages	1.45%	1.45%
Self-Employment Tax	100% of Earnings	2.9%	2.9%

PENNSYLVANIA UNEMPLOYMENT TAX

As in 2011, you will need to withhold from your *employee's* gross wages for unemployment. The 2012 rate is 0.0008. There is no wage limit for the employee contribution.

Your *employer* contribution rate is reviewed by the state each year and notices are issued on December 31. For 2012, however, the rate notice mailings have been delayed and will be mailed out prior to April 1, 2012. If you would like to check on the status of the rates or do not receive your contribution rate notice for 2012, please call 412-565-2400.

NOTE: On June 17, 2011, Governor Corbett signed into law Act 6 of 2011. This act has changed the definition of a "credit week" in relation to unemployment compensation laws. Beginning on October 1, 2011, a credit week is now defined as a calendar week in which an employee earns \$100 or more. Prior to the fourth quarter of 2011, a credit week was defined as a week in which an employee earns \$50 dollars or more.

TAX RATES (Continued)

FEDERAL UNEMPLOYMENT TAX

The Federal Unemployment Tax (FUTA) of 6.0% is on the first \$7,000 of each employee's wages. Typically, an employer receives a tax credit of 5.4% if their state unemployment contributions are timely paid. For the second consecutive year, the Commonwealth of Pennsylvania has had an outstanding balance on Federal loans used to pay the unemployment benefits. Therefore, the available credit will be reduced to 5.1% resulting in an effective FUTA rate of 0.9%. In future years, if the Federal loans are not paid in full, the tax credit will be reduced by an additional 0.3% per year.

Employers are required to make deposits quarterly through Electronic Funds Transfer if the tax liability exceeds \$500 (same as for 2011).

PENNSYLVANIA STATE INCOME TAX

Employee withholding is 3.07% for 2012 which is the same as 2011.

LOCAL EARNED INCOME TAX

Pennsylvania Act 32:

In 2008, the State of Pennsylvania enacted Act 32, the Local Tax Enabling Act, which provides restructuring of the Earned Income Tax Collection System into 69 Tax Collection Districts (TCD). The collection of taxes for each TCD will be handled by a certified tax collector designated by Pennsylvania's Department of Community and Economic Development (DCED).

TAX RATES (Continued)

LOCAL EARNED INCOME TAX (Continued)

Pennsylvania Act 32 (Continued):

Starting January 1, 2012, Pennsylvania Act 32 implemented many new local earned income tax (EIT) collection changes. The new law mandates EIT withholding *even if the employer is located in a jurisdiction with no EIT*. (The County/City of Philadelphia is exempt from the requirements of Act 32) More importantly, employers are required to withholding tax at the higher of either: 1) the non-resident tax rate that is imposed by the jurisdiction where the employer is located or 2) the resident EIT rate where the employee resides. Since the EIT is a trust fund tax, you could be personally liable for under-withheld amounts. Pennsylvania Act 32 affects all PA employees and every PA employer with employees. It also affects self-employed individuals filing a PA earned income tax return with a local jurisdiction.

Example: Jane resides in Municipality A which has a 1.3% earned income tax rate and is employed in the City of Pittsburgh which has a non-resident earned income tax rate of 1%. The employer must withhold the higher rate of 1.3%.

Prior to the employers first payroll of 2012, they need to ensure the following issues have been resolved:

- 1) Employers need to make sure they are registered with their county's designated tax collector.
- 2) Employees need to complete and sign a "Residency Certification" form, which they then give to their employer. This form identifies the tax jurisdictions where the employee lives and works. The Residency Certification Form can be found at http://www.newpa.com/webfm_send/1605. To accurately complete this form and find the correct PSD codes, access the official Pennsylvania Address Search Utility at <http://munstatspa.dced.state.pa.us/FindLocalTax.aspx>.
- 3) Employers will then need to look up the employee's resident tax rate, compare it to the employer's jurisdiction nonresident tax rate and *withhold at the higher* of the two rates in 2012.

Please contact us for assistance, if you have any questions on these taxes.

City of Pittsburgh Earned Income Tax:

Starting on January 1, 2012, Jordan Tax Services will be responsible for collecting the Earned Income Tax for the City of Pittsburgh and Mount Oliver Borough, including the WT-1, WTD, NP-5, WT-4, WTE-3 and PGH-40. Employers located within the City of Pittsburgh will also be required to remit their 2011 fourth quarter and final returns and withheld EIT to Jordan Tax Services, NOT the City of Pittsburgh. These taxes must be remitted online to Jordan Tax Services by employers of ten or more employees. You must contact Jordan Tax Services directly if you have nine or less employees and wish to not utilize the electronic payment system. You can register to use the online system at <http://www.jordantax.com/Act32/EmployerRegister.html>. For more information regarding this change, please visit www.jordantax.com/Act32.

TAX RATES (Continued)

LOCAL EARNED INCOME TAX (Continued)

Payroll Expense Tax:

The City of Pittsburgh levies a Payroll Expense Tax on employers. This tax is separate and distinct from the EIT that the employer deducts from the earnings of employees. The Payroll tax is still levied at .55% (.0055) on the gross payroll of a business that is located in the City or a business that has income producing activities within the City. For businesses with multiple locations, an apportionment formula is available. The tax is paid quarterly, based on the payroll from the previous quarter. (Example - the first installment due February 28, 2012 is based on the payroll expense for the months of October, November and December 2011). The installments are due February 28, 2012, May 31, 2012, August 31, 2012, and November 30, 2012.

Local Services Tax:

Local Services Tax (LST) of \$52 is collected as a payroll deduction from all employees who work in the City of Pittsburgh and is reported and paid quarterly. The \$52 tax must be deducted from the employee's paycheck evenly throughout the year. Please note, the City of Pittsburgh will continue to collect the LST tax, *NOT* Jordan Tax Services.

The LST has an upfront exemption for lower income individuals of \$12,000, employees on active duty, and honorably discharged veterans with 100% service-connected disability.

An annual upfront exemption certificate must be completed by the employee and submitted to their employer to qualify for the exemptions. The exemption certificate can be found at <http://www.city.pittsburgh.pa.us/finance/assets/forms/2012/12-LST-exemption-cert.pdf>.

The Payroll Expense Tax and LST regulations along with FAQ are available on the City's website at: www.city.pittsburgh.pa.us/finance/. The forms, which are identified as "ET-1" for the Payroll Expense Tax and "LS-1" for the LST, are also available on the website. Please contact us for assistance, if you have any questions on these taxes.

Pennsylvania Act 7 amends Local Tax Enabling Act, Act 511 which authorizes localities to make the major changes to the LST as mentioned above. Many localities have passed ordinances previously when the LST was enacted. Each locality has set their own LST rate, earnings threshold and withholding/deposit requirements, so please contact us or the municipality in which your business is located, to be sure you are meeting their requirements. If the locality has adopted a \$10 LST, the tax may be collected in a lump sum.

If your place of business is not located in the City of Pittsburgh, be sure to withhold the Local Services Tax from each employee if you are located in a municipality that imposes such taxes. If the amount is equal to \$52, the amount should be deducted equally throughout the year. Exception: employees who present an exemption certificate for 2012. You may verify your municipality's exemption by checking the following website <http://munstatspa.dced.state.pa.us/> or you may contact our office.

PAYROLL TAX DEPOSIT REQUIREMENTS

FEDERAL PAYROLL TAX DEPOSITS

The Federal payroll tax deposit schedule (semi-weekly or monthly) for a calendar year is determined by the total tax liability reported on Form 941 in a four-quarter look-back period. The look-back period for 2012 is July 1, 2010 through June 30, 2011. The IRS will notify you if there is a change in your deposit schedule. (As a general rule, if you reported \$50,000 or less of taxes for the look-back period, you are a monthly depositor. If you reported more than \$50,000, you are a semi-weekly depositor.) New employers should follow the monthly deposit rule.

Under the monthly deposit schedule, deposit Form 941 taxes on payments made during a month by the 15th day of the following month. Under the semi-weekly deposit schedule, deposit Form 941 taxes on payments made on Wednesday, Thursday and/or Friday by the following Wednesday. Deposit amounts accumulated on payments made on Saturday, Sunday, Monday and/or Tuesday by the following Friday.

NOTE: If your tax liability at any time is \$100,000 or more, deposits are due by the close of the next banking day, whether you are a monthly or semi-weekly schedule depositor.

For Form 941 Filers: If you accumulate less than \$2,500 during a payroll quarter, no deposits are required, and the liability may be paid with the filing of Form 941. You should follow the normal deposit rules if you are not sure whether your liability for the quarter will be less than \$2,500.

If You are a Form 944 Filer for the current year or either of the preceding two years, your deposit schedule for a calendar year is determined from the total taxes (that is, not reduced by any advance EIC payments) reported on line 10 of your Form 941 for all four quarters of the second preceding calendar year. The look-back period for 2012 for a Form 944 filer is calendar year 2010.

Since you are withholding Federal payroll taxes in a “fiduciary capacity,” these funds cannot be used for business purposes. As such, the IRS aggressively pursues penalty assessment for violating this fiduciary standard. The responsible parties may be held personally liable for the payment.

SEPARATE DEPOSIT REQUIREMENTS FOR NON-PAYROLL (FORM 945) TAX LIABILITIES

Separate deposits are required for non-payroll and payroll tax withholding. Do not combine deposits for Forms 941 (or Form 944) and 945 tax liabilities. Generally, the deposit rules for non-payroll liabilities are the same as discussed above, except that the rules apply to an annual rather than a quarterly return period. Thus, the \$2,500 threshold for the deposit requirement discussed above applies to Form 945 on an annual basis.

PAYROLL TAX DEPOSIT REQUIREMENTS (Continued)

ELECTRONIC FUNDS TRANSFER PAYMENT SYSTEM

All employers are required, as of January 1, 2011, to electronically remit their deposits under a system known as EFTPS. This payment system allows for the immediate wire transfer of tax deposit amounts electronically from taxpayer accounts to the Treasury's general account, so that depository taxes are credited on the date on which the taxes are due. EFTPS facilitates the collection of several different types of taxes, most notably payroll taxes. You will be given a choice between using the "debit" method or the "credit" method of payment. Most employers have found that the debit method is more taxpayer-friendly. Please contact us if you have any questions.

Taxpayers who fail to use EFTPS are subject to a 10% penalty for each deposit that is not transmitted by way of the system. If you receive a notice regarding this or any other penalties, please contact us.

Please note that tax payments are due regardless of EFTPS online availability. The EFTPS Voice Response System is available at 1-800-555-3453 if the online service is currently not available. For more information or to enroll in EFTPS, call 1-800-555-4477 (or 1-800-555-8778) or visit the EFTPS website at www.eftps.gov.

APPLYING FOR AN EMPLOYER IDENTIFICATION NUMBER

When you apply for an Employer Identification Number (EIN) (on Form SS-4, by TeleTIN, or Online Application at <https://sa2.www4.irs.gov/modiein/individual/index.jsp>) and are expected to have a Federal tax obligation, you will be automatically pre-enrolled in EFTPS. When you receive your EIN, you will also receive a separate mailing containing instructions for activating your EFTPS enrollment. You will **no longer** have the option to order Federal Tax Deposit coupons from the IRS.

PENNSYLVANIA INCOME TAX WITHHOLDING

When quarterly Pennsylvania income tax withholdings are expected to be less than \$300, the tax must be paid quarterly, before the last day of the month following the close of the quarter. When withholdings are expected to be less than \$1,000, but more than \$300, the tax must be deposited monthly, by the 15th day of the following month. The December liability may be deposited by January 31. If the withheld taxes are expected to be \$1,000 to \$5,000, then the tax must be paid semi-monthly, within three banking days of the close of the semi-monthly period. If the withheld taxes are expected to be \$5,000 or greater, then the tax must be paid semi-weekly, either on the Wednesday or Friday following the pay dates, depending on when the paydates fall. As a reminder, when any Pennsylvania tax payment is in excess of \$20,000, the state requires that the payment be made by using electronic funds transfer, so that it is received by the due date.

PAYROLL TAX DEPOSIT REQUIREMENTS (Continued)

PENNSYLVANIA INCOME TAX WITHHOLDING (Continued)

The Pennsylvania Department of Revenue has replaced paper coupon booklets for filing and paying Employer Withholding Taxes with two new electronic filing systems: via the Internet and over the telephone. The Department is also working on third-party software capabilities. You can visit E-tides (<http://www.etides.state.pa.us/>), PA's electronic system for paying and filing taxes, or call the Department's e-Business Tax Unit at (717) 783-6277 to sign up now.

PENNSYLVANIA WAGE GARNISHMENT UPDATE

Effective September 5, 2006, an employer must remit child support payments to the State Disbursement Unit (SDU) through electronic payment methods if the employer is required to withhold child support from more than one employee and employs 15 or more employees. An employer that has a history of two or more checks returned for insufficient funds must make payments to the SDU through Electronic Funds Transfer (EFT). A civil penalty of up to \$1,000 per violation, following notice and a hearing, may be imposed on an employer that willfully fails to comply with the EFT payment provisions. An employer that is not required to remit child support payments electronically may voluntarily do so through EFT.

FORM W-2

Form W-2 is due January 31, 2012 to all employees and to the Social Security Administration by February 29, 2012 unless you are using electronic format, which is due on April 2, 2012. Attached to this letter (APPENDIX A) is a chart indicating the tax consequences of the common types of fringe benefits and compensation payments. Please refer to IRS Publication 15-B, "Employer's Tax Guide to Fringe Benefits" (<http://www.irs.gov/pub/irs-pdf/p15b.pdf>) which explains these and other fringe benefits in more detail.

When completing Form W-2, keep in mind the following additional requested information:

- "Retirement Plan" - Employers should check this box if an employee is an active participant in any of the following employer retirement plans: a Qualified retirement plan, a Section 403(a), a 403(b) plan, a Simplified Employee Pension (SEP) plan, or a SIMPLE plan. In the case of a Qualified retirement plan, an employee is an active participant if (1) the employer makes a contribution to the plan for the year, (2) forfeitures are allocated to the employee's account for the year, or (3) the employee makes contributions to the plan (e.g., a 401(k) plan). Please contact us if you need assistance in making this determination.

FORM W-2 (Continued)

- If an employee has made an elective deferral to a Section 401(k) plan, a Salary Reduction Simple plan, a Salary Reduction SEP plan, a Section 403(b) plan, a Section 457 plan, or a Section 501(C)(18)(D) retirement plan, the contribution amount should be coded in Box 12 as follows: Code D for Section 401(k) plans and Salary Reduction Simple plans, Code E for Section 403(b) plans, Code F for Salary Reduction SEPs, and Code G for Section 457 plans. The deferral amount needs reported.
- The cost of employer-provided, group-term life insurance in excess of \$50,000 is included in gross income for Federal income tax purposes and should be reported in Box 1. This amount, subject to FICA taxes up to the maximum limits and to the extent taxable, should also be reported in Boxes 3 and 5. Finally, the amount included in Box 1 should be reported in Box 12 as code "C" (see APPENDIX B).
- Benefits from qualified dependent care assistant programs must be reported in Box 10. Also, amounts in excess of \$5,000 should be included in Boxes 1, 3 and 5.

NOTE: Please see Form W-2 instructions for Box 12, and include only amounts that apply to codes A-EE. Any other amounts that you want to report are included in Box 14 (for example, auto fringe benefits).

Beginning in 2012, an employer is going to be responsible for reporting the cost of coverage under an employer-sponsored group health plan on their Form W-2. This amount will be reported in box 12 with code DD. The health care coverage included in this amount will be the total cost of all employer-sponsored coverage provided to an employee, excluding eye and dental coverage. For more information on what coverage is included in this amount, please visit <http://www.irs.gov/pub/irs-drop/n-11-28.pdf>.

You may file Forms W-2 and W-3 electronically by visiting the Social Security Administration's (SSA's) website at www.socialsecurity.gov/employer, and selecting "Business Services Online" (BSO). Laser printed Forms W-2/W-3 as well as the standard red drop-out ink forms will still be accepted as in prior years. The laser printed forms must have approval from the SSA. Please see their website for details (www.ssa.gov).

FORM 1099

GENERAL

In general, Form 1099-MISC must be issued to non-corporate recipients of \$600 or more. This form must be sent to most recipients by January 31, 2012 and is extended to February 15, 2012 if you are reporting payments in boxes 8 or 14. The form is due to the IRS by February 28, 2012 unless you use an electronic method which will extend your due date to April 2, 2012. The reporting requirement is \$10 or more for royalty payments. Types of payments to non-corporate recipients include rents, commissions, legal and accounting fees, temporary labor, and services performed for construction and maintenance.

FORM 1099 (Continued)

GENERAL (Continued)

Form 1099-INT and Form 1099-DIV must be issued to any person to whom you paid \$10 or more of interest or dividends. A typical example would be interest paid on a shareholder loan.

Generally, a \$30 penalty will be imposed for filing a 1099 no more than 30 days late. A \$60 penalty will be imposed for filing a 1099 more than 30 days late, but before August 1, 2012. A \$100 penalty will be imposed for filing a 1099 on or after August 1, 2012 and a \$250 penalty will be imposed for intentionally failing to file a 1099.

To accurately prepare Form 1099, here are a few tips from the IRS:

- Do not use dollar signs (\$) (they are preprinted on the form), ampersands (&), asterisks (*), commas (,), or other special characters in money amount boxes.
- Although handwritten forms are acceptable, the IRS prefers that you type or machine print data entries using 10 pitch (pica) or 12 pitch (elite) black type. Use block print, not script characters. Insert data in the middle of the blocks well separated from other printing and guidelines, and take other measures to guarantee a dark black, clear, sharp image.
- Do not enter 0 (zero) or “None” in money amount boxes when no entry is required. Leave the boxes blank unless the instructions specifically require that you enter a 0 (zero).
- Do not enter number signs (#); for example, enter RT 2, not Rt. #2.

You should obtain Form W-9s from your vendors to ensure and have them on file starting January 1, 2012. If you are unable to obtain a Form W-9 from a vendor, you will be required to withhold 28% of the payment (“backup withholding”). See the Form W-9 section below for more details and a link to the form and instructions.

ATTORNEY FEES

Attorney fees (of \$600 or more) must be reported regardless of whether the payment is made to a corporate or non-corporate recipient. In addition, if any payment was made to an attorney, and the attorney’s fee component of the payment cannot be determined, then the full payment must be reported in Box 14 on Form 1099-MISC.

Form W-9 “Request for Taxpayer Identification Number and Certification”

In order to help gather information needed to file your 1099s, you can send payees IRS Form W-9 that ask them to indicate what type of entity they are and to provide their taxpayer identification number and address. This form is located at <http://www.irs.gov/pub/irs-pdf/fw9.pdf>. A sample cover letter can be found under [APPENDIX C](#).

OTHER ITEMS

EMPLOYER'S ANNUAL INFORMATION RETURN OF TIP INCOME AND ALLOCATED TIPS

Effective January 1, 2007, the IRS expanded its Tip Rate Determination/Education Program (TRD/EP) to include a new option for employers. Please visit www.irs.gov to see if your business qualifies for this new program.

Employers who operate one or more large food or beverage establishments must file Form 8027. A large establishment is one that provides food or beverage for consumption on the premise, in which tipping is customary and normally has more than ten employees on a typical business day during the preceding calendar year (see Publication 15-A for employee/hour definition). The return is not required for establishments operated for less than one month in any calendar year. Tipping is not "customary" if 95% of the total sales are carry-out sales. If you are required to report for more than one establishment, Form 8027-T is also required.

The employee must report monthly cash tips of \$20 or more to the employer on Form 4070 by the tenth day of the month following the month in which the tips were received. Form 4070-A is used to report daily tips. All cash and charge tips must be reported on Form 8027 and are taxable income subject to withholding and employment taxes. Form 8027 is due by February 29, 2012 (A for electronic filers).

MAGNETIC MEDIA

Remember that, in general, if you file 250 or more information returns (Forms W-2, 1099, 1098, 5498 or W-2G), you must use magnetic media to file. (Please see IRS Publication 1220 for more information.)

STANDARD MILEAGE RATE FOR BUSINESS USE OF AUTO

The IRS business mileage rate effective for January 1, 2012 is 55.5 cents for all business miles. (For 2011, the rate was 51 cents from January 1 through July 1 and 55.5 for the remainder of the year). Employers may reimburse business mileage at these rates without the need to keep detailed expense reports.

FORM 945

Form 945 and accompanying Form 945-A will continue to be used to report non-payroll items, including back-up withholding and withholding for pensions, annuities and gambling winnings. These forms must be filed annually, and are due on or before January 31 of the following year. (If payers have made all deposits on time and in full for the tax year, the forms may be filed by February 10, 2012.) Although the return must be filed annually, taxpayers are nonetheless required to deposit the taxes in accordance with the regulations existing for payroll withholding taxes (such as Form 941 deposits). (Taxes reported on Form 945 must be deposited separately from taxes reported on Form 941, using Form 8109, "Federal Tax Deposit Coupon.")

OTHER ITEMS (Continued)

TUITION REIMBURSEMENT

The tax-free status of up to \$5,250 of employer-provided educational assistance benefits each year has been extended through 2012. It applies to both undergraduate- and graduate-level courses. See IRS Publication 15-B for more information.

EMPLOYER NOTIFICATION TO EMPLOYEES OF ELIGIBILITY FOR FEDERAL INCOME TAX REFUNDS BECAUSE OF EARNED INCOME CREDIT

Employers must notify each employee from whom they withhold income tax that he/she may be eligible for a tax refund because of the Earned Income Credit. You can meet the notification requirement by giving each employee the official IRS Form W-2 which contains the notification on the back of Copy C, or you can give each employee IRS Notice 797.

EMPLOYMENT ELIGIBILITY VERIFICATION

The Immigration and Naturalization Service requires that employers verify that persons hired after November 7, 1986 are eligible to work in the United States. This is done by completing Form I-9 within three business days from the date of a new hire. If you need a "Handbook for Employers" (Form M-274 - <http://www.uscis.gov/files/form/m-274.pdf>) or if you have any questions, additional information can be provided by calling the Office of Business Liaison (OBL) at 1-800-357-2099, or by visiting their website at <http://www.uscis.gov/portal/site/uscis>.

Form I-9 can be found at <http://www.uscis.gov/files/form/i-9.pdf>.

OTHER ITEMS (Continued)

MINIMUM WAGE

The Pennsylvania Minimum Wage Act establishes a fixed Minimum Wage and Overtime Rate for employees in Pennsylvania. The minimum wage in Pennsylvania is \$7.25 per hour. There are limited exemptions available for certain “training wages” of first-time employees between the ages of 16 and 19. Similarly, modifications have been made to the “tip credit” provisions for employees who receive tip income. Please visit <http://www.dli.state.pa.us/> for more information.

HOUSEHOLD EMPLOYEES

The FICA, Federal Income Tax, and Federal unemployment taxes will be reported and paid by filing Schedule H with your individual income tax return. If you have employees working for your sole proprietorship, you may elect to report these taxes on Forms 941 and 940. For more information, see Publication 926, Household Employer’s Tax Guide.

For Pennsylvania income and unemployment taxes, returns must be filed quarterly (PA W-3 for PA income tax withheld and the PAUC-2 for unemployment taxes). If the household employee is a Pittsburgh resident, then Pittsburgh income tax withholdings must be filed quarterly (WT-1) with Jordan Tax Services.

NEW HIRE REPORTING REQUIREMENTS

You must continue to report new employees within 20 days of their hire date. The form for Pennsylvania is located at:

https://www.cwds.state.pa.us/cwdsonline/NewHire/Documents/FORM_INSTRUCTIONS_NEWHIRE.pdf.

You can submit the information on-line at:

<https://www.cwds.state.pa.us/cwdsonline/NewHire/NewHireProgramInformation/NewHireInformation.aspx>.

The first time you submit information on-line, the site asks for your Federal EIN and a password, which is your EIN backwards without the dash. You can change your password after the first time. The site contains a Frequently Asked Question Section with very helpful information. You can also call PA New Hire Reporting at 1-888-724-4737.

OTHER ITEMS (Continued)

UNCLAIMED PROPERTY REPORTING

The Pennsylvania Disposition of Abandoned and Unclaimed Property Law (72 P.S. 130101.1 et. seq.) requires that all financial institutions, businesses and all other legal entities report all abandoned and unclaimed property in their possession for five years or more (three years or more for un-cashed payroll checks) from the date it first became reportable. Any debt or obligation which has gone unpaid or security that has remained undelivered for five or more years should be reported as unclaimed property. Some examples include Un-cashed Payroll Checks, Un-cashed Accounts Payable Checks, Un-cashed Operating Fund Checks, and Credit Balances - as a result of transaction driven sales activity. Reports are due by April 15 of each and every year. The Unclaimed Property Reporting Forms and Instructions Booklet can be downloaded from Pennsylvania's website: www.patreasury.org, or call 1-800-379-3999.

EMPLOYEE BENEFITS

The retirement plan and employee benefit limits for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
401(k) Limit	\$ 17,000	\$ 16,500
401(k) Catch-up	\$ 5,500	\$ 5,500
SIMPLE Limit	\$ 11,500	\$ 11,500
SIMPLE Catch-up	\$ 2,500	\$ 2,500
Compensation Limit	\$250,000	\$245,000
Highly Compensated Employee Salary Amount	\$115,000	\$110,000
Defined Benefit Maximum Annual Benefit	\$200,000	\$195,000
Defined Contribution Maximum Annual Contribution	\$ 50,000	\$ 49,000
Parking (monthly)	\$ 240	\$ 230
Mass Transit Passes (monthly)	\$ 125	\$ 120

OTHER ITEMS (Continued)

MANDATORY WORKPLACE POSTERS

Pennsylvania Posters:

Mandatory workplace posters are available through the Pennsylvania Labor and Industry homepage by accessing www.dli.state.pa.us or by calling (800) 932-0665. These postings are required and inform employees of certain conditions of employment and their rights and responsibilities under employment-related laws. These posters include:

- Abstract of the PA Child Labor Law - Posting required by all employers of minors;
- Hours of Work for Minors Under 18 - Posting required by all employers of minors;
- Minimum Wage Law - Posting required by all employers;
- Abstract of Equal Pay Law - Posting required by all employers;
- Pennsylvania Right to Know Law - Posting required by public employers (phone number is 717-783-2071);
- Unemployment Compensation - Posting required by all employers (phone number is 717-783-3140);
- Workers' Compensation Insurance - Posting required by all employers (should be received from insurer or call (717)-783-5421; and,
- PA Clean Indoor Air Act Signage for No Smoking - Posting required by all employers identified under the PA Clean Indoor Air Act (phone number is 1-877-835-9535).

The following posters are available by calling the PA Human Relations Commission at (717) 772-2845 or by visiting their website at www.phrc.state.pa.us:

- Human Relations Act;
- Fair Housing Practices;
- Public Accommodation Provision; and,
- Fair Lending Practices

OTHER ITEMS (Continued)

MANDATORY WORKPLACE POSTERS (Continued)

Federal Posters:

The US Department of Labor (USDOL) also has certain requirements for employers to post various notices in the workplace. These posters are available for free at the USDOL's website www.dol.gov/osbp/sbrefa/poster/main.htm, by calling 1-888-972-7332 or by e-mail at contact-OSBP@dol.gov:

- Job Safety and Health Protection
- Equal Employment Opportunity
- Fair Labor Standards Act
- Notice to Workers with Disabilities
- Family and Medical Leave
- Uniformed Services Employment and Re-employment Rights Act
- Notice to Employees Working on Federal or Federally Financed Construction Projects
- Notice to Employees Working on Government Contracts
- Employee Polygraph Protection Act
- Migrant and Seasonal Agricultural Worker Protection Act
- Davis-Bacon Act

Payroll tax laws can be complex and confusing. Please feel free to contact us if you have any questions or need assistance regarding any of these matters.

Alpern Rosenthal

Taxability of Fringe Benefits

	Federal Income Tax Withholding	FICA	FUTA	PA Income Tax Withholding	PA Unemployment Compensation	Local Income Tax Withholding
Personal use of company auto	T	T	T	N	T	N
Qualified Transportation (Transit pass, parking)	N	N	N	(d)	N	(d)
Group Term Life Ins. (> \$50,000)	T	T	N	N	N	N
Third-party Sick Pay	T	(c)	(c)	N	(c)	N
1040 Tax Preparation	T	T	T	(e)	T	(e)
Expense Reimbursement	N	N	N	N	N	N
Dependent Care Benefits (\$5,000 maximum) - Sec. 129	N	N	N	(e)	N	(e)
Sec.125 Cafeteria Plan (Salary reduction amts. only)	N	N	N	(f)	N	(f)
401(k) Employee Contribution	N	T	T	T	T	T
Qualified Plan Employer Contribution	N	N	N	N	N	N
Non-qualified Deferred Compensation	T	(b)	(b)	T	(b)	T
Employee Awards and Prizes	(+)	(+)	(+)	(b)	(+)	(b)
S Corporation Shareholder 2% Hospitalization (if non-discriminatory)	T	N	N	N	N	N
Reimbursed Qualified Moving Expense	(a)	(a)	(a)	N	(a)	N
Reimbursed Non-qualified Moving Expense	T	T	T	N	T	N
Tip Income	T	T	T	T	T	T
Allocated Tips (Taxable on Individual's Federal return)	N	N	N	N	N	N
Tuition Reimbursement <\$5,250 (see also pg. 11)	N	N	N	T	N	T
Tuition Reimbursement >\$5,250 (see also pg. 11)	T	T	T	T	T	T

T - TAXABLE

N - NON-TAXABLE

- (a) Does not apply to S Corp 2% shareholders or to key employees under a favorable plan.
- (b) May be non-taxable.
- (c) Taxable up to six months.
- (d) Taxable if employee has the choice between benefit and cash. Non-taxable if no choice.
- (e) Generally taxable unless benefit is employer-provided.
- (f) Non-taxable only if benefit is for hospitalization, sickness, disability, death, supplemental unemployment benefit, or strike benefit. All other Section 125 benefits are taxable.
- (+) Exempt up to \$400 for non-qualified plans, up to \$1,600 for qualified plans.

APPENDIX A

**Uniform Premiums of \$1,000 of
Group-term Life Insurance**

Monthly Cost per \$1,000 of Coverage

<u>Age Bracket</u>	<u>Cost</u>
Under 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and older	\$2.06

Figure the monthly cost of the insurance to include in the employee's wages by multiplying the number of thousands of dollars of insurance coverage over \$50,000 (figured to the nearest tenth) by the cost shown in the above table. Use the employee's age on the last day of the tax year. You must prorate the cost from the table if less than a full month of coverage is involved.

You figure the total cost to include in the employee's wages by multiplying the monthly cost by the number of full months coverage at that cost.

APPENDIX B

Request for Payee 1099 Information

Cover letter for W-9

Dear Sir/Madam:

Under Federal Income Tax Law, we are required to maintain the Taxpayer Identification Number (TIN) of all persons and firms with whom we make payments.

We need to verify that we have your TIN on file. Please complete the enclosed W-9 form and return it to us as soon as possible.

Please be sure to check the appropriate box regarding the type of entity.

Under Section 6109 of the Internal Revenue Code, we must generally withhold 28% from payments to payees who fail to furnish their correct identifying number. Failure to provide the required information could result in up to a \$50 penalty from the Internal Revenue Service.

Sincerely,

The Accounting Department

APPENDIX C



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