

BY THE BOOK

A Publication of Baker, Peterson & Franklin, CPA, LLP

Checklist for Year-End Payroll Processing

Verify that quarterly tax returns added together agree with the amounts reported on the W-2s.

- Ask employees to verify their names, addresses and Social Security Numbers before preparing W-2s. Employee names should be reported in capital letters exactly as on their Social Security cards—do not use nicknames or titles such as Dr., Mr., etc. Compound names no longer require a hyphen—insert a blank space for the hyphen.
- Finalize the last payroll of the year for 2005. Wages earned in 2005 and paid with a check dated in 2006 will be reported in 2006.
- Check that no one exceeded the annual withholding limits of \$5,580.00 for Social Security (excluding Medicare tax) or \$857.71 for State Disability Insurance. If someone has exceeded the limits, make adjustments or refunds before making the final payroll tax deposit for tax year 2005.
- Reconcile payroll data to the general ledger. Verify that all manual or voided payroll checks have been properly recorded.
- Record other employee taxable income such as personal use of company vehicles, relocation expense reimbursements, company-paid education assistance, and gifts (such as gift certificates).
- Print quarterly and year-end reports. Print W-2s. Verify that quarterly tax returns added together agree with the amounts reported on the W-2s. Make sure the Employer Identification Number is correct on all forms.
- Make a year-end backup. Close 4th quarter and year-end payroll. Load new tax tables for 2006.
- Ask employees to complete new W-4 forms to report changes for 2006. Employees who claimed exempt in 2005 must turn in a new W-4 form by February 15th (or employer must start withholding as Single-0).
- Employee W-2 copies should be in employee's possession, postmarked or available on a website by January 31, 2006.
- If you file 250 or more W-2 forms, you must report to the Social Security Administration on magnetic media or by electronic filing.
- Form W-2, Copy A, and Form W-3 must be postmarked by February 28, 2006. Send via Certified Mail and keep the receipt. Forms filed by magnetic media are due February 28, 2006. Forms filed electronically are due March 31, 2006.
- Mail to the Social Security Administration, Data Operations Center, Wilkes Barre, PA 18769-0001. If sending by Certified Mail, use zip code 18769-0002.

Checklist for 1099-MISC Reporting

If the following four conditions are met, businesses must generally report nonemployee compensation on Form 1099-MISC:

- You made the payment to someone who is not your employee
- You made the payment for services in the course of your trade or business
- You made the payment to an individual, partnership, estate, or attorney
- You made payments to the payee of at least \$600 during the calendar year



Provide the payee with Form W-9 "Request for Taxpayer Identification Number and Certification." Update your vendor files to include the vendor name, address, and tax identification number (TIN). When entering an address, do not use a number (#) sign (for example, enter "APT B" rather than "APT #B"). Enter all information in capital letters.

If a Social Security Number is to be used as the TIN, use the person's name on the top line in the "recipient" box, with the business name underneath. Social Security Numbers are to be typed in a 000-00-0000 format.

Amounts should be presented without dollar signs or commas. Add a decimal followed by the cents. Leave the box blank if the amount is zero.

Report on preprinted forms, not photocopies. Be sure to order forms in advance or if you only need a few, they are available from most stationery stores. You **cannot** use forms printed from the IRS website. Do not use prior year forms to report current year information.

Recipient copies (Copy B) are due or postmarked by January 31, 2006. Internal Revenue Service copies (Copy A) and forms filed by magnetic media must be postmarked by February 28, 2006. Forms filed electronically are due by March 31, 2006.

Mail to the Internal Revenue Service, Ogden, UT 84201.

For more information see "General Instructions for Forms 1099, 1098, 5498, and W-2G" available at www.irs.gov.

*You **cannot** use forms printed from the IRS website. Do not use prior year forms to report current year information.*

W-4 and W-2 Quick Tips

Incorrect or missing Social Security numbers can add up. The IRS charges a penalty of \$50 for each return or W-2 form with a missing or incorrect Social Security or federal identification number. Be sure you have the correct name, address, Social Security number, marital status and dependents for each employee.

Social Security numbers do not begin with the digit 8 or 9 and cannot be the same or sequential numbers. A number beginning with a 9 indicates it is a Taxpayer Identification Number, not a Social Security number.

You can check up to five names and numbers with the Social Security Administration by calling 800-772-6270.

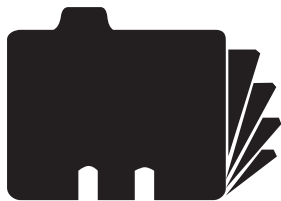
Table of 2006 Tax Rates

It is time once again to highlight changes for the upcoming year. The maximum wage base and maximum annual deduction will change for FICA and SDI. The standard mileage rate will go up from 40.5 cents to 44.5 cents. Included in the following table are some important rates for the coming year. Please call our office if you have any questions.

PAYROLL TAXES	Rate	Maximum Subject to Tax	Maximum Deduction
FEDERAL			
Employer:			
FICA	6.2 %	\$ 94,200.00	\$ 5,840.40
FICA Medicare	<u>1.45%</u>	All wages – no limit	Unlimited
Total FICA	<u>7.65%</u>		
FUTA	0.8 %	\$7,000.00	\$ 56.00
Employee:			
FICA	6.2 %	\$ 94,200.00	\$ 5,840.40
FICA MEDICARE	<u>1.45%</u>	All wages – no limit	Unlimited
TOTAL FICA	<u>7.65%</u>		
STATE			
Employer:			
SUI (State unemployment insurance)	1.5% to 6.2% Rates will vary	\$ 7,000.00	Amount will vary
ETT (Employment training tax)	0.1 % (Some employers are exempt)	\$ 7,000.00	\$ 7.00
Employee:			
SDI (State disability insurance)	.80 %	\$ 79,418.00	\$ 635.34
SALES TAX			
Fresno County 7.975%	City of Clovis 8.275%	Madera County 7.25%	Merced County 7.25%
STANDARD MILEAGE RATE FOR 2006 = 44.5 cents per mile			

The standard mileage rate will go up from 40.5 cents to 44.5 cents.

Upcoming Due Dates



January 31, 2006

W-2	Copies B, C and 2, Wage and Tax Statement, should be in employees' possession, postmarked or available on a web site
941	Employer's Quarterly Federal Tax Return
943	Employer's Annual Tax Return for Agricultural Employees
940 or 940-EZ	Annual Federal Unemployment Tax Return
DE6	EDD Quarterly Wage and Withholding Report
DE7	Annual Reconciliation Statement
1099s	Mailed to payees

February 28, 2006

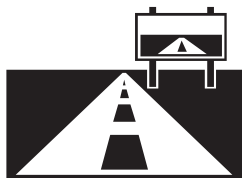
W-2	Copy A, Wage and Tax Statement, due to the Social Security Administration
W-3	Transmittal of Wage and Tax Statements
1099	Copy A due to the Internal Revenue Service
1096	Annual Summary and Transmittal of U.S. Information Returns

Filing online with the EDD is now available for the following:

Quarterly Wage and Withholding Report	DE6
Report of Independent Contractors	DE 542
Report of New Employees	DE 34

You can register for this service at <https://eddservices.edd.ca.gov/index.html> or call 916-651-7442 or 800-796-3524.

New Mileage Rates for 2006



The standard mileage rates have increased for Federal and California purposes. The new rates for 2006 will be:

- 44.5 cents per mile for business use
- 18 cents per mile for medical expenses
- 18 cents per mile for moving expenses

The mileage rate for charitable purposes will remain the same for 2006 at 14 cents per mile for organizations other than those related to Hurricane Katrina relief. For 2006, these Katrina-related charitable rates will be 32 cents per mile for deduction purposes and 44.5 cents per mile for reimbursement purposes.

Bookkeeping Services

Please remember our FULL SERVICE bookkeeping department customizes services to fit your individual needs. We provide complete accounting and bookkeeping services on a monthly, quarterly, or annual basis.

Some of the many services we provide are as follows:

- Property Tax Reporting
- Report of Independent Contractors
- Sales Tax Returns
- Employee Benefit Audits
- Quarterly and Annual Payroll Tax Returns
- 1099 Reporting
- Workers Comp Audits

Looking to update your computer software system? We can also come to your office to set up proper systems and procedures, offer training to your staff, or complete requested services at your location.

On behalf of the client bookkeeping department—

It has been a pleasure serving you this past year!



What's New for the 2005 W-2?

Save for the "2005," there is no difference between last year's and this year's Form W-2. But there are some new entry options—and the phase-out of a filing option. Here's what's new for the 2005 W-2.

New Codes. Last year, Code W was added for reporting employer contributions to an employee's Health Savings Account. (Code W should also be used for an employee's elective contributions to an HSA through a cafeteria plan.) For tax year 2005 W-2s, there are three new codes for Box 12 reporting:

- Military employees should use **Code Q** to report nontaxable combat pay.
- Employers with a nonqualified deferred compensation plan subject to Section 409A will need to use **Code Y** and/or **Z**. Current-year deferrals (and earnings in 2005 on current- and prior-year deferrals) should be reported with Code Y. Any income under Section 409A on a nonqualified deferred compensation plan must be included in Box 1 and must also be reported in Box 12 using Code Z.

Mag media ending. This round of W-2s brings the final phase-out of magnetic media as a filing method. The 2004 W-2s were the last that could be filed on tapes or cartridges. The 2005 W-2s are the last that can be filed on diskette. Going forward, your filing options will be paper or electronic. **Note:** You can fill in and file W-2s online at www.socialsecurity.gov/employer.

Special order. The Social Security Administration again requests that, if possible, you file your W-2s either numerically (by employees' Social Security numbers) or alphabetically (by employees' last names).

Source: Payroll Manager's Letter, Aspen Publishers, Inc.

Legal Holidays for 2006

To ensure the timeliness of your 2006 tax payments and reports, please refer to the chart below. If a payment or report due date falls on a Saturday, Sunday, or legal holiday, the due date is extended to the next business day. For specific payroll tax deposit or report requirements, refer to the *California Employer's Guide* (DDE 44) and the *EFT Information Guide* (DE 27). To obtain a guide or for more information, call 1-888-745-3886 or visit the website: www.edd.ca.gov/taxrep/taxform.htm#publications.

Legal Holiday	Day Holiday Observed
New Year's Day 2006	Monday, January 2, 2006
Martin Luther King Jr. Day	Monday, January 16
Lincoln's Birthday	Monday, February 13
Presidents' Day	Monday, February 20
Cesar Chavez Day	Friday, March 31
Good Friday	Friday, April 14*
Memorial Day	Monday, May 29
Independence Day	Tuesday, July 4
Labor Day	Monday, September 4
California Admission Day	Friday, September 8*
Columbus Day	Monday, October 9
Veterans Day	Friday, November 10
Thanksgiving Day and day after	Thursday & Friday, November 23 & 24
Christmas Day	Monday, December 25
New Year's Day 2007	Monday, January 1, 2007

*EDD offices are open on this legal holiday

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