

BY THE BOOK

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

Checklist for Year-End Payroll Processing

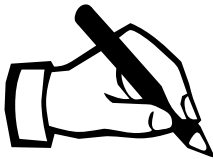
- Ask employees to verify their names, addresses and Social Security Numbers before preparing W-2s. Employee names should be reported in capital letters exactly as on their Social Security cards—do not use nicknames or titles such as Dr., Mr., etc. Compound names no longer require a hyphen; insert a blank space for the hyphen.
- Finalize the last payroll of the year 2006. Wages earned in 2006 and paid with a check dated in 2007 will be reported in 2007.
- Check that no one exceeded the annual withholding limits of \$5,840.40 for Social Security (excluding Medicare tax) or \$635.34 for State Disability Insurance. If someone has exceeded the limits, make adjustments or refunds before making the final payroll tax deposit for tax year 2006.
- 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, and 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 2007.
- Ask employees to complete new W-4 forms to report changes if there is a filing status change in 2007. Employees who claimed exempt in 2006 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 employees' possession, postmarked or available on a website by January 31, 2007.
- If you file 250 or more Forms W-2, you must report to the Social Security Administration by filing electronically. Magnetic media is no longer available.
- Form W-2, Copy A, and Form W-3, filed by paper must be postmarked by February 28, 2007. Send via Certified Mail and keep the receipt. Forms filed electronically are due March 31, 2007.
- Mail to the Social Security Administration, Data Operations Center, Wilkes Barre, PA 18769-0001. If sending by Certified Mail, use zip code 18769-0002.

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

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 this 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 and must be postmarked by January 31, 2007. Internal Revenue Service copies (Copy A) must be postmarked by February 28, 2007. Forms filed electronically are due by March 31, 2007. Filing by magnetic media is no longer available.

Mail copies filed by paper 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 that has 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 number 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 2007 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. The State SDI rate has decreased. The standard mileage rate will go up from 44.5 cents to 48.5 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 %	\$ 97,500.00	\$6,045.00
FICA MEDICARE	1.45%	All wages – no limit	Unlimited
TOTAL FICA	<u>7.65%</u>		
FUTA	0.8 %	\$7,000.00	\$ 56.00
Employee:			
FICA	6.2 %	\$ 97,500.00	\$6,045.00
FICA MEDICARE	1.45%	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)	.60 %	\$ 83,389.00	\$ 500.33
SALES TAX			
Fresno County 7.975%	City of Clovis 8.275%	Madera County 7.25%	Merced County 7.25%
STANDARD MILEAGE RATE FOR 2007 = 48.5 cents per mile			
CALIFORNIA MIMIMUM WAGE			
Beginning January 1, 2007		Beginning January 1, 2008	
\$7.50 per hour		\$8.00 per hour	

California minimum wage increases beginning January 1, 2007 to \$7.50 per hour.

California Unclaimed Property

Abandoned and unclaimed property have become an increasing source of revenue for the states and as a result states are becoming increasingly aggressive in auditing and assessing liabilities in this area.

As a business owner in California it is your legal responsibility to turn over unclaimed property to their rightful owners, including uncashed payroll checks, unused credit memos and overpaid invoices. These items trigger property rights that are protected by California Civil Code of Procedures §1510. If the rightful owners cannot be located at their last known address the property must be turned over to the State of California. The state then takes on the responsibility of locating the rightful owner. The intent of the law is consumer protection and to afford the State, rather than the holder, the benefit of using the property.

As a business owner in California it is your legal responsibility to turn over unclaimed property to their rightful owners, including uncashed payroll checks, unused credit memos and overpaid invoices.

An entity that fails to file annual unclaimed property reports significantly increases the likelihood of an audit. California routinely audits companies that do not file annual unclaimed property reports or those that consistently file negative reports certifying they have no unclaimed property.

Estimates are allowed to assess a company's unclaimed property liability which then becomes payable to the state of California. In addition, the state can levy a failure-to-file penalty of up to 25% of the assessment or the state may impose compound interest, ranging from 10% to 15% of the assessment. This could also lead to a restatement of prior years earnings.

Unclaimed property includes the following:

- Wages, salary, commissions, expense checks and similar items over \$50 that remain unclaimed by the owner for more than one year after becoming payable.
- Customer overpayments
- Vendor credit memos
- Gift certificates/ gift cards (California law does not recognize expiration dates on gift certificates/ gift cards and gives consumers the legal right to redeem otherwise "expired" gift cards at any time.)
- Merchandise credits
- Layaways (Inactivity of the above items in excess of three years escheats property to state.)

Companies holding unclaimed property are responsible for the following:

1. The company must attempt to notify the rightful owner by U.S. mail at the owner's last known address prior to turning over the property to the state. California law requires this notice be given within a specific time frame and contain specific information.
2. Holders of unclaimed property must submit an Annual Report to the State of California's Controller's Office.
3. There is no statute of limitations in California regarding unclaimed property.

To reduce your liability we suggest:

- 1) Follow up on outstanding checks and credit memos after six months.
- 2) Request secondary contact information from employees with written permission to send any unclaimed checks after six months to that address. Keep this information in the employee's file.
- 3) Comply with state reporting requirements and keep unclaimed property records for seven years.
- 4) Keep a ledger of gift certificates sold including the name and address of customer. Do not book income from the sale of gift certificates until redeemed. Gift certificates are a deferred revenue/liability until redeemed.

Unclaimed property forms, reporting instructions, laws and regulations are available at the State Controller's Office web site, www.sco.ca.gov.

Please contact us if you need assistance with filing your annual unclaimed property report.

The State may have property that belongs to you. Last year 239,000 claims were paid by the State of California with the average claim being almost \$1,000. There is no charge to file a claim to redeem your property. There are 7.6 million accounts being held by the State of California.

To find out if you have unclaimed property, go to the State Controller's website at: www.sco.ca.gov.

To search for property in other states, go to the National Association of Unclaimed Property Administrators at www.unclaimed.org.

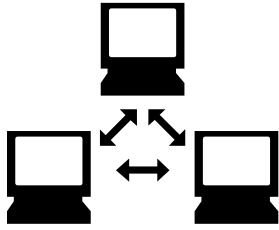
There is no statute of limitations in California regarding unclaimed property.

Businesses Must Be Aware of Form 8300 Filing Requirements

Any person in a trade or business who receives more than \$10,000 in cash in one transaction or in two or more related transactions must file Form 8300, Report of Cash Payments over \$10,000 Received in a Trade or Business. The definition of cash includes U.S. and foreign currency, and can include cashier's checks, money orders, bank drafts or traveler's checks with a face amount of \$10,000 or less. A business must file Form 8300 with the IRS within 15 days of the transaction.

Additional information on the filing requirements for Form 8300 is available at the IRS website www.irs.gov.

Upcoming Due Dates



January 31, 2007

- 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 Annual Federal Unemployment Tax Return (The 940EZ form has been discontinued)
- DE6 EDD Quarterly Wage and Withholding Report
- DE7 Annual Reconciliation Statement
- 1099s Mailed to payees

February 28, 2007

- 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

April 2, 2007

- W-2, 1099 Misc., and 1096..... Electronic filings due

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 online service at <https://eddservices.edd.ca.gov/index.html> or call 800-796-3524.

New Mileage Rates for 2007

The standard mileage rates have increased for Federal and California purposes. The new rates for 2007 will be:

- 48.5 cents per mile for business use
- 20 cents per mile for medical expenses
- 20 cents per mile for moving expenses

The mileage rate for charitable purposes will remain the same for 2007 at 14 cents per mile.

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
- Worker 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 2006 Reporting?

Mag media ends. 2004 W-2s were the last that could be filed on tapes or cartridges. The 2005 W-2s were the last to be filed on diskette. Your filing options now are paper or electronic. Note: You can fill in and file W-2s online at www.socialsecurity.gov/employer.

Form 940EZ has been discontinued. All employers will use the redesigned 940 form for this annual federal unemployment (FUTA) tax return.

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).



Legal Holidays for 2007

To ensure the timeliness of your 2007 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 *Employer's Tax Guide* (Circular E), the *California Employer's Guide* (DDE 44) and the *EFT Information Guide* (DE 27). To obtain a federal guide visit the www.irs.gov website. To obtain a state 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 2007	Monday, January 1, 2007
Martin Luther King Jr. Day	Monday, January 15
Lincoln's Birthday	Monday, February 12
Presidents' Day	Monday, February 19
Cesar Chavez Day	Friday, March 30
Good Friday	Friday, April 13*
Memorial Day	Monday, May 28
Independence Day	Wednesday, July 4
Labor Day	Monday, September 3
California Admission Day	Monday, September 10
Columbus Day	Monday, October 8
Veterans Day	Monday, November 12
Thanksgiving Day and day after	Thursday & Friday, November 22 & 23
Christmas Day	Tuesday, December 25
New Year's Day 2008	Tuesday, January 1, 2008

*EDD offices are open on this legal holiday

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YEAR-END PAYROLL PROCESSING • 1099-MISC REPORTING • W-4 AND W-2 QUICK TIPS • CALIFORNIA UNCLAIMED PROPERTY • FORM 8300 FILING • DUE DATES • MILEAGE RATES • BOOKKEEPING SERVICES • 2006 REPORTING • LEGAL HOLIDAYS FOR 2007

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