

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 2008. Wages earned in 2008 and paid with a check dated in 2009 will be reported in 2009.
- Check that no one exceeded the annual withholding limits of \$6,324.00 for Social Security (excluding Medicare tax) or \$693.58 for State Disability Insurance. If someone has exceeded the limits, make adjustments or refunds before making the final payroll tax deposit for tax year 2008.
- 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 reconcile 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 2009.
- Ask employees to complete new W-4 forms to report changes if there is a filing status change in 2009. Employees who claimed exempt in 2008 must turn in a new W-4 form by February 15th (or employer must start withholding as Single-0). Employees who claimed 10 or more exemptions in 2008 must file a new form.
- Employee W-2 copies should be in employees' possession, postmarked or available on a website by February 2, 2009.
- If you file 250 or more Forms W-2, you must report to the Social Security Administration by filing electronically.
- Form W-2, Copy A, and Form W-3, filed by paper, must be postmarked by March 2, 2009. Mail them to the Social Security Administration, Data Operations Center, Wilkes Barre, PA 18769-0001. If sending by Certified Mail, use zip code 18769-0002. Send via Certified Mail and keep the receipt.
- Forms filed electronically are due March 31, 2009.

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Employee or an Independent Contractor?

Employers must determine whether an individual providing service is an employee or independent contractor.

Employers must withhold income tax, withhold and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to an employee. Generally taxes are not withheld or paid on payments to independent contractors.

To determine whether the individual providing the service is an employee or an independent contractor all information that provides degree of control and independence must be considered. An individual may qualify as an independent contractor in one of two ways. They may pass the “reasonable basis” tests established by Congress in 1978 or they may qualify as independent under the “common law” tests of employment status.

Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral: Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. Financial: Are the business aspects of the worker’s job controlled by the payer? (these include things like how the worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
3. Type of Relationship: Are there written contracts or employee type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. There is no “magic” or set number of factors that “makes” the worker an employee or an independent contractor, and no one factor stands alone in making this determination. Also, factors which are relevant in one situation may not be relevant in another.

The keys are to look at the entire relationship, consider the degree or extent of the right to direct and control, and finally, to document each of the factors used in coming up with the determination.

If you need help in determining if a worker is an employee or independent contractor please contact our office.

For more information go to www.edd.ca.gov and www.irs.gov.

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor.

Checklist for 1099-MISC Reporting

If the following 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

Generally, payments to corporations are not reported on Form 1099. A limited liability company (LLC) can be taxed as a corporation or a partnership. To determine if you need to issue a 1099 to an LLC, you should request the the LLC complete the form W-9, Request for Taxpayer Identification Number and Certification and make your determination based on the information the LLC provides on the W-9 form.

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 or postmarked by February 2, 2009.

Returns can be filed on paper or electronically. Employers that file 250 or more are required to submit to the IRS electronically using the IRS' FIRE (Filing Information Returns Electronically) system. Paper filers are due March 2, 2009. Electronic filers are due by March 31, 2009.

Mail paper filings to the Internal Revenue Service, Kansas City, MO, 64999.

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

If an employee's W-2 comes back to you as undeliverable, IRS requires you to hang on to the document for four years.

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.

If an employee's W-2 comes back to you as undeliverable, IRS requires you to hang on to the document for four years.

You may scan the returned documents to store them as electronic files and shred the originals. It fulfills IRS requirements and allows you to secure the information keeping it safe from identity theft. It will also make it easier to have them in one central place for retrieval and eventual deletion.

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:

- Property Tax Reporting
- Report of Independent Contractors
- Sales Tax Returns
- Employee Benefit Audits
- Quarterly and Annual Payroll Tax Returns
- 1099 Reporting
- Worker Comp Audits
- Property Tax 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, and provide staffing for your office due to medical time off or staffing changes.

On behalf of the client bookkeeping department—

It has been a pleasure serving you this past year!

Table of 2009 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 increased. The standard mileage rate will decrease from 58.5 cents to 55 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 %	\$106,800.00	\$6,621.60
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 %	\$ 106,800.00	\$6,621.60
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)	1.10 %	\$ 90,669.00	\$ 997.36

The standard mileage rate will decrease from 58.5 cents to 55 cents.

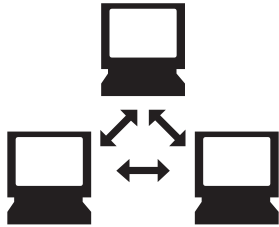
SALES TAX

Fresno County 7.975%	City of Clovis 7.975%	Madera County 7.75%	Merced County 7.75%
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STANDARD MILEAGE RATE FOR 2009 = 55 cents per mile

CALIFORNIA MIMIMUM WAGE
Minimum wage is \$8.00 per hour.

Upcoming Due Dates



February 2, 2009

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

March 2, 2009 – Paper filings due

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

March 31, 2009 – Electronic filings due

Electronic transmissions of W-2, 1099

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

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

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

New Mileage Rates for 2009



The standard mileage rates have decreased for Federal and California purposes. The new rates for 2009 will be:

- 55 cents per mile for business use
- 24 cents per mile for medical expenses
- 24 cents per mile for moving expenses

The mileage rate for charitable purposes will remain the same for 2009 at 14 cents per mile.

Staff News

Alisa Brandon joined the firm in October 2007 and works in the bookkeeping department as a full-time bookkeeping clerk. Prior to joining Baker, Peterson & Franklin, Alisa worked for over nine years at a local public accounting office. She performs a variety of tasks in the bookkeeping department including accounts payable, payroll, general ledger preparation, bank reconciliations, and she assists with internal bookkeeping for the firm. Alisa also works with the tax department during the busy season.

Alisa is a Central Valley native, living in Fowler, Fresno, Visalia and for the past 20 years in Clovis. When Alisa's not working, she enjoys shopping and loves to spoil her four nephews.

You may contact Alisa at 432-2346 or alisabrandon@bpfcpa.com.



Workplace Fraud – Five Things Most Business Owners Don't Know

Many business owners will argue that they have adequate internal controls in place to prevent fraudulent actions from occurring in their workplace. Even the company with the best internal controls can have an employee commit fraud. It is recommended that business owners keep an eye on trends and attempted fraud schemes in order to prevent it from occurring in their company.

The Association of Certified Fraud Examiners released the 2008 Report to the Nation on Occupational Fraud & Abuse listing five facts that all business owners should know:

1. On average, U.S. organizations lose 7% of their annual revenues to fraud.
2. The median loss caused by occupational frauds per company is \$175,000. However, 25% of the fraud cases examined by the Association of Certified Fraud Examiners lost at least \$1 million.
3. When a fraud scheme gets past a company's internal controls, it generally will continue for two or more years before it is caught. The report stated that there were lower losses in every case studied where a company had internal controls implemented.
4. An employee in the accounting department or upper management is the most common perpetrator of fraud. Background checks don't usually help because most perpetrators are first-time offenders. The study indicated that only 7% of fraud perpetrators had prior convictions and only 12% had been terminated by a prior employer for fraud-related conduct.
5. Fraud is much more likely to be detected by a tip from an employee, consumer, or vendor.

One mistake most business owners make is waiting until after a fraud scheme is revealed to take preventive action. Baker, Peterson & Franklin recognizes the importance of fraud detection and investigation and has developed the necessary knowledge and skills to serve businesses in this capacity. If you have any questions or would like assistance please contact our office for an appointment with our Certified Fraud Examiner.

Legal Holidays for 2009

To ensure the timeliness of your 2009 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 2009.....	Thursday, January 1, 2009
Martin Luther King Jr. Day.....	Monday, January 19
Inauguration Day.....	Tuesday, January 20*
Lincoln's Birthday.....	Thursday, February 12
Presidents' Day.....	Monday, February 16
Cesar Chavez Day.....	Thursday, March 31**
Emancipation Day.....	Thursday, April 16**
Memorial Day.....	Monday, May 25
Labor Day.....	Monday, September 7
Columbus Day.....	Monday, October 12
Veterans Day.....	Wednesday, November 11
Thanksgiving Day and day after.....	Thursday & Friday, November 26 & 27
Christmas Day.....	Friday, December 25
New Year's Day 2010.....	Friday, January 1, 2010

*EDD offices are open on this legal holiday

**IRS offices are open on this legal holiday

Bookkeeping Department Staff:

Jayne Massie, Manager
 Carol Fenzke
 Andy Adams
 Eliseo Perales
 Alisa Brandon

Published by:

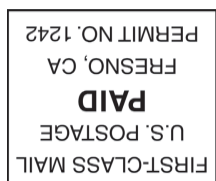
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RETURN SERVICE REQUESTED

YEAR-END PAYROLL PROCESSING • EMPLOYEE OR AN INDEPENDENT CONTRACTOR?
 CHECKLIST FOR 1099 REPORTING • W-4 AND W-2 QUICK TIPS • BOOKKEEPING SERVICES
 2009 TAX RATES • UPCOMING DUE DATES • MILEAGE RATES FOR 2009
 STAFF NEWS • WORKPLACE FRAUD • LEGAL HOLIDAYS FOR 2009



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