December 2009

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 for 2009. Wages earned in 2009 and paid with a check dated in 2010 will be reported in 2010.
- ☐ Check that no one exceeded the annual withholding limits of $6,621.60 for Social Security (excluding Medicare tax) or $997.36 for State Disability Insurance. If someone has exceeded the limits, make adjustments or refunds before making the final payroll tax deposit for tax year 2009.
- ☐ 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 2010.
- ☐ Ask employees to complete new W-4 forms to report changes if there is a filing status change in 2010. Employees who claimed exempt in 2009 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 2009 must file a new form.
- ☐ Employee W-2 copies should be in employees' possession, postmarked or available on a website by January 31, 2010.
- ☐ If you file 250 or more W-2 Forms, you must report to the Social Security Administration by filing electronically.
- ☐ Copy A of the W-2 Form and Form W-3, filed by paper, must be postmarked by March 1, 2010. 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 and keep the receipt.
- ☐ Forms filed electronically are due March 31, 2010.

If you file 250 or more W-2 Forms, you must report to the Social Security Administration by filing electronically.

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 that 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.

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

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.

Important reminder: Generally, a person should not receive a W-2 and 1099 from the same business.

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, 2010.

Returns can be filed on paper or electronically. Employers that file 250 or more 1099s are required to submit to the IRS electronically using the IRS' FIRE, *Filing Information Returns Electronically,* system or on magnetic media using a tape cartridge. Paper filers are due to the IRS March 1, 2010. Electronic filers are due to the IRS by March 31, 2010.

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.*

Table of 2010 Tax Rates

The Social Security Administration has announced that there will be no increase in the Social Security taxable wage base for 2010. The wage base will be $106,800, the same amount as in 2009. The California SDI rate will remain at 1.1% for 2010; however, the taxable wage base will increase to $93,316 for each employee and the maximum annual deduction will change to $1,026.48. We have highlighted in the following table 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	1.45%	All wages – no limit	Unlimited
TOTAL FICA	7.65%		
FUTA	0.8%	$7,000.00	$ 56.00
Employee:			
FICA	6.2 %	$ 106,800.00	$6,621.60
FICA MEDICARE	1.45%	All wages – no limit	Unlimited
TOTAL FICA	7.65%		
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)	1.1 %	$ 93,316	$ 1,026.48

SALES TAX

Fresno County	City of Clovis	Madera County	Merced County	Tulare County
8.975%	8.975%	8.75%	8.75%	8.75%

STANDARD MILEAGE RATE FOR 2010 = 50 cents per mile

CALIFORNIA MIMIMUM WAGE

Minimum wage is $8.00 per hour.

The California SDI rate will remain at 1.1% for 2010; however, the taxable wage base will increase to $93,316 for each employee and the maximum annual deduction will change to $1,026.48.

New Use Tax Legislation

You may have received a letter from the State Board of Equalization (BOE) this fall notifying you that your business is required to register and obtain a BOE number. Please do not assume this letter doesn't apply to you because you don't resell items. The law has recently changed and you will likely be required to file a Sales Tax form for 2009, 2008 and 2007. The new legislation is aimed at capturing Use Tax for items purchased out of state, including Internet purchases.

If you meet the criteria listed you must file the form, even if you owe zero tax.

Taxpayers must register if:

- The taxpayer receives at least $100,000 in gross receipts from business operations per calendar year.

- The taxpayer is not currently required to hold a seller's permit or certificate of registration for use tax

- The taxpayer is not a holder of a use tax direct payment permit

- The taxpayer is not otherwise registered with the BOE

If you didn't receive a letter and you meet the criteria above, you must still register. The filing is due April 15, 2010 for the calendar year 2009. Returns for purchases made in 2007 and 2008 were due January 31, 2008 and January 31, 2009 respectively. Penalty and interest applies to payments received after the due date of each return period.

Although farmers have a partial exemption from sales and use tax, we have not found any information from the BOE exempting farmers from the new filing requirements. Any tax owed would be at the reduced rates that reflect the partial exemption for farm equipment.

If you meet the criteria listed you must file the form, even if you owe zero tax.

If you have additional questions or would like us to prepare this form for you, please contact Jayne Massie at *jayne@bpfcpa.com*.

Retirement Plan Information Every Employer Should Know - **From the BP&F Pension Department**

There have been sweeping changes in the laws governing retirement plans during the past few years. The Pension Department at BP&F has put together some helpful information for those businesses with qualified retirement plans to assist in the administration of these plans.

End-of-the-Year Plan Sponsor Checklists:

All Qualified Plans:

- **Adopt Pension Protection Act (PPA) Amendments:** All PPA amendments, whether mandatory or optional, are to be adopted by the last day of the 2009 plan year

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(i.e., December 31, 2009 for calendar year plans).

- **Adopt Design Changes by the End of the Plan Year:** If you made any design changes to the plan during the year, you generally must amend your plan to reflect those design changes by the last day of the 2009 plan year (i.e., December 31, 2009 for calendar year plans).
- **Review 2010 Plan Limits:** Familiarize yourself with the 2010 plan limits, which are unchanged from the 2009 limits.
- **Update Section 402(f) Eligible Rollover Distribution Notices:** Notice 2009-68 from the IRS released two new model rollover notices (commonly called Section 402(f) eligible rollover distribution notices) that may be provided to those who receive eligible rollover distributions from qualified retirement plans. Plan sponsors should update their Section 402(f) eligible rollover distribution notices.

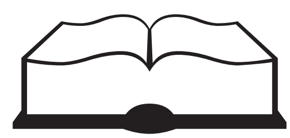
The Pension Department at BP&F has put together some helpful information for those businesses with qualified retirement plans to assist in the administration of these plans.

401(k) Plans:

- **Comply with items on the All Qualified Plans list:** These apply to all Section 401(k) Plans.
- **Provide Section 401(k)/401(m) Safe Harbor Notice by December 2, 2009 (for calendar year plans):** If your plan has a Section 401(k)/401(m) safe harbor contribution, a notice must be provided to employees at least 30 days, but not more than 90 days, before the beginning of the plan year.
- **Provide Annual Automatic Enrollment Notice by December 2, 2009 (for calendar year plans):** For plans with an automatic contribution arrangement, you must give an annual automatic enrollment notice at least 30 days, but not more than 90 days, before the beginning of each plan year.
- **Provide Annual Qualified Default Investment Alternative Notice by December 2, 2009 (for calendar year plans):** If you are relying on the qualified default investment alternative safe harbor, a notice must be given to employees at least 30 days, but not more than 90 days, before the beginning of each plan year.

The above lists are condensed for purposes of this newsletter; for a full checklist, please contact one of our Pension Department team members.

Other items to be aware of:



<u>New Form 5500 Reporting Requirements for Section 403(b) Plans</u> – Effective for plan years beginning on or after January 1, 2009, Section 403(b) plans covered by ERISA are subject to standard Form 5500 filing requirements, including an annual plan audit for large plans (i.e., plans with 100 or more participants) and detailed financial information for small Section 403(b) plans (i.e., plans with fewer than 100 participants).

<u>Audit Requirement for Large Plans</u> – Generally, if you have over 100 participants in your plan (a participant is an employee eligible to participate, whether they choose to do so or not) the plan is subject to an annual audit by an independent qualified public accountant. The audit report is to be submitted with the Form 5500. For a list of what to look for when selecting an auditor, please contact our office.

<u>Form 5500 Electronic Filing Requirements</u> – A provision was included with the Pension Protection Act of 2006 requiring that all filings of Form 5500 be done electronically. This new rule applies to every Form 5500 filing made after December 31, 2009. For details on what is required to complete these filings, please contact our office.

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If you have questions or would like additional information regarding any of the above items, or your retirement plan is in need of an audit, please contact a Pension Department Team Member at (559) 432-2346 or by e-mail as follows:

Brandon Vance	*brandon@bpfcpa.com*
Sally Cook	*sallycook@bpfcpa.com*
Sarah Ross	*sarahross@bpfcpa.com*

Quick Reference Chart For Your Qualified Retirement Plan

Cost of Living Adjustments (COLA) Increases for Dollar Limitations on Benefits and Contributions remain unchanged from 2009 and are as follows:

	2010	**2009**
Limit on Section 401(k) deferrals (Section 402(g))	$16,500	$16,500
Dollar limitation for catch-up contributions (Section 414(v)(2)(B)(i))	$5,500	$5,500
Limitation on annual contributions to a defined contribution plan (Section 415(c)(1)(A))	$49,000	$49,000
Limitation on compensation that may be considered by qualified retirement plans (Section 401(a)(17))	$245,000	$245,000
Dollar amount for the definition of highly compensated employee (Section 414(q)(1)(B))	$110,000	$110,000
Dollar amount for the definition of key employee in a top-heavy plan (Section 416(i)(1)(A)(i))	$160,000	$160,000
Annual benefit limitation for a defined benefit plan (Section 415(b)(1)(A))	$195,000	$195,000
SIMPLE Plan retirement account limitation (Section 408(p)(2)(E))	$11,500	$11,500
SEP Minimum Compensation (Section 408(k)(2)(C))	$550	$550
SEP Maximum Compensation (Section 408(k)(3)(C))	$245,000	$245,000
IRA contribution limit (Section 219(b)(5)(A))	$5,000	$5,000
IRA catch-up contribution limit (Section 219(b)(5)(B))	$1,000	$1,000
Social Security Taxable Wage Base	$106,800	$106,800

For a full list of the COLA Increases, please visit the IRS website at *www.irs.gov*.

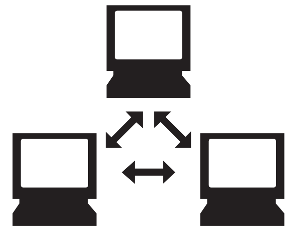
Upcoming Due Dates

January 31, 2010

W-2 .... Copies B, C and 2, Wage and Tax Statement, should be in employees' possession, postmarked or available on a web site
1099s .... Mailed to payees

February 1, 2010

941 .... Employer's Quarterly Federal Tax Return
943 .... Employer's Annual Tax Return for Agricultural Employees
940 .... Annual Federal Unemployment Tax Return
DE6 .... EDD Quarterly Wage and Withholding Report
DE7 .... Annual Reconciliation Statement



March 1, 2010 – 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, 2010 – Electronic filings due

Electronic transmissions of W-2s and 1099s

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

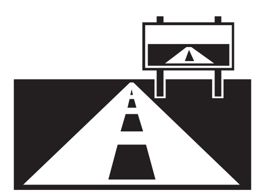
DE6 ....Quarterly Wage and Withholding Report
DE 542 ....Report of Independent Contractors
DE 34 ....Report of New Employees

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

New Mileage Rates for 2010

The standard mileage rates have decreased for Federal and California purposes. The new rates for 2010 will be:

- 50 cents per mile for business use
- 16.5 cents per mile for medical expenses
- 16.5 cents per mile for moving expenses
- 14 cents per mile driven in service of a charitable organization



Legal Holidays for 2010

To ensure the timeliness of your 2010 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	Friday, January 1, 2010
Martin Luther King Jr. Day	Monday, January 18
Presidents' Day	Monday, February 15
Cesar Chavez Day	Wednesday, March 31 (IRS office open)
Memorial Day	Monday, May 31
Independence Day (observed)	Monday, July 5
Labor Day	Monday, September 6
Columbus Day	Monday, October 11
Veterans Day	Thursday, November 11
Thanksgiving Day & day after	Thursday & Friday, November 25 & 26
Christmas Day (observed)	Friday, December 24
Christmas Day	Saturday, December 25
New Year's Day 2011 (observed)	Friday, December 31
New Year's Day 2011	Saturday, January 1, 2011

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YEAR-END PAYROLL PROCESSING • CHECKLIST FOR 1099-MISC REPORTING • 2010 TAX RATES • NEW USE TAX LEGISLATION • RETIREMENT PLAN INFO • QUICK REFERENCE FOR QUALIFIED RETIREMENT PLANS • UPCOMING DUE DATES • 2010 MILEAGE RATES • 2010 LEGAL HOLIDAYS

RETURN SERVICE REQUESTED