



Year-End Newsletter

BAKER, PETERSON & FRANKLIN, CPA, LLP

December 2001

It is time once again to highlight changes for the upcoming year. Wages and maximum deduction amounts will change for FICA and Medicare. Also, sales tax will increase. As in prior years, we have included items that although they have not changed in 2002, they are still important to remember. Please call our office if you have any questions regarding these or any other topics.

The following table summarizes payroll tax rates for employer and employee for 2002:

PAYROLL TAXES	RATE	MAXIMUM SUBJECT TO TAX	MAXIMUM DEDUCTION
FEDERAL			
EMPLOYER:			
FICA	6.2 %	\$ 84,900.00	\$ 5,263.80
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 %	\$ 84,900.00	\$ 5,263.80
FICA MEDICARE	<u>1.45%</u>	All wages – no limit	Unlimited
TOTAL FICA	<u>7.65%</u>		
STATE			
EMPLOYER:			
SUI (State unemployment insurance)	0.7% to 5.4% Rates will vary	\$ 7,000.00	Rates will vary
ETT (Employment training tax)	0.1 %	\$ 7,000.00	\$ 7.00
EMPLOYEE:			
SDI (State disability insurance)	0.9 %	\$ 46,327.00	\$416.94
SALES TAX			
Fresno County	7.875%	Madera County	7.75%
City of Clovis	8.175%	Merced County	7.25%

Standard Mileage Rate: 36.5 cents per mile for 2002

Comparison of Federal and State Deposit Requirements				
Federal Deposit Schedule	Accumulated State PIT Withholding	SDI & PIT Deposit Required	Pay Day is	Deposit is Due by
Next banking day	\$400 or less	No	N/A	N/A
Next banking day	More than \$400	Yes	N/A	Next banking day
Semi-weekly	\$400 or less	No	N/A	N/A
Semi-weekly	More than \$400	Yes	Wednesday, Thursday or Friday	Following Wednesday
Semi-weekly	More than \$400	Yes	Saturday, Sunday, Monday or Tuesday	Following Friday
Monthly	\$400 or less	No	N/A	N/A
Monthly	More than \$400	Yes	N/A	15 th day of the following month
Quarterly	Less than \$350	No	N/A	Remit with quarterly return or report on Form DE88
Quarterly	\$350 or more	Yes	N/A	15 th day of the following month

Federal Payroll Tax Deposits: If your federal (Form 941 or Form 943) tax liability for a quarter is less than \$2,500 the payment may be made with the return instead of depositing with an authorized financial institution.

**** IMPORTANT TO REMEMBER ****

Reporting Independent Contractors to the State of California: Businesses must report independent contractors within 20 days of making payments of or entering into a contract for \$600 or more within that calendar year (UIC Sec. 1088.8). In 2002, you must report independent contractors who you may have already reported in 2001.

There have been no changes to the program since the EDD implemented the requirement in 2001. Here are some tips to remember:

- According to the EDD, if the service provider refuses to provide a Social Security number, enter 000 00 0000 on Form DE 542.
- Check the “ongoing” box on Form DE 542 if you cannot determine when the independent contractor will reach this dollar amount.
- If you file Form 1099-MISC, you must also report the independent contractor on Form DE 542, regardless of where the independent contractor lives or works. However, a business is not required to file Form DE 542 for an independent contractor who is a corporation, partnership, limited liability company or limited liability partnership.

Please contact our office if you would like us to process these forms on your behalf.

NEW HIRE REPORTING – *All employers* must report the hiring of all new workers within 20 days of hire to the Employment Development Dept. The requirement applies to ALL employers.

Employers may use **Form DE34**, Report of New Employee(s), or send a copy of the employee's Form W-4, Employee(s) Withholding Allowance Certificate, to the EDD. If you use the employee's Form W-4, you must add the employee's date of hire and the employer's state identification number. Filing Form DE6, Quarterly Wage Report, does not meet the reporting requirements.

ELIGIBILITY FOR EMPLOYMENT – You must verify that each new employee is legally eligible to work in the United States. This will include completing the Immigration and Naturalization Service (INS) **Form I-9**, Employment Eligibility Verification Form. You can get the form from INS offices. Contact the INS at 1-800-755-0777 for further information.

VERIFICATION OF SOCIAL SECURITY NUMBER – The Social Security Administration (SSA) offers employers and authorized reporting agents two methods for verifying employee SSNs. Both methods match employee names and SSNs.

? **Telephone verification.** List of up to 50 employee's names and SSNs can be verified using telephone verification. To use this service, call the SSA Employer Reporting Service Center at 1-800-772-6270.

FORM W-4 – All W-4's (Employee Withholding Allowance Certificate) on which an employee claims more than 10 withholding allowances must be sent in with your quarterly returns to the Internal Revenue Service.

EARNED INCOME CREDIT NOTIFICATION
You must notify employees who have no income tax withheld that they may be eligible for an income tax refund because of the EIC. You can do this by using the official IRS Form W-2 that contains an EIC notice on the back of Copy B.

WAGE-HOUR LAWS TO REMEMBER

The Minimum Wage Provision: Covered employees must receive a minimum hourly wage (or its' equivalent if they are paid by salary, commissions, or at piecework rates). California minimum wage will increase to \$6.75, beginning January 1, 2002. Federal minimum wage is \$5.15.

Student Wage – Employers in certain retail, service, and agricultural establishments can pay full-time students at an hourly rate of not less than 85% of the full federal minimum wage, provided they meet certain conditions.

Supplemental Wages: The IRS requires employers to withhold federal and state income taxes from supplemental wages. Supplemental wages are defined as compensation paid to an employee in addition to the employee's regular wages. They include, but are not limited to, bonuses, commissions, overtime pay, accumulated sick leave, severance pay, awards, prizes, backpay and retroactive pay increases for current employees and payments for nondeductible moving expenses.

California Eight-Hour Workday: Effective January 1, 2000, California reinstated the eight-hour workday. Any work in excess of eight hours in one workday, any work in excess of 40 hours in any one workweek and the first eight hours worked on the seventh day of any one work week must be compensated at the rate of one and one-half times the regular rate of pay for an employee. Work in excess of 12 hours a day and any work in excess of eight hours on the seventh day must be compensated at the rate of twice the regular rate of an employee.

Employee Sick Leave – Employers providing sick leave must allow employees to use accrued sick leave for a child's, spouse's or parent's illness. Employers cannot deny leave or discharge, threaten to discharge, demote, suspend or in any way discriminate against an employee who uses the time.



QUICK CHECK W-2 LIST

As you prepare for year-end, keep the following in mind to minimize errors.

- ✓ The information returns for 2001 are to be submitted to the **IRS by February 28, 2002**, and to **payees (W2 and 1099's) by January 31, 2002**.
- ✓ Ask employees to verify their names and Social Security numbers before you close out your books and prepare W-2's.
- ✓ Make sure your EIN is correct, and that it is the same on forms W-2, W-3 and 941/943/945.
- ✓ Watch out for nicknames instead of proper first names, names recorded incorrectly, or the presence of titles or suffixes such as Dr., Mr., etc. *Do not use titles of any kind.*
- ✓ Reports should be postmarked by **February 28, 2002**. Late reports may be subject to a penalty.
- ✓ If you need more time to file with the SSA, you can request an extension by sending Form 8809, **Request for Extension of Time to File Information Returns**, to the IRS by February 28, 2001.
- ✓ **Send reports by certified mail or courier and keep the receipt.**

If you file 250 or more Forms W-2, you must report on magnetic media.

FORM 1099 FILING

Form 1099 is required for payments of any amounts paid to attorneys, regardless if an individual, partnership or corporation.

Form 1099 is required for payments of \$10 or more paid to any person for dividends, interest, gross royalty payments and patronage dividends.

Form 1099 is also required for payments of \$600 or more paid to any person for the following items:

- ⇒ Rents
- ⇒ Contract labor
- ⇒ Payments from general contractor to subcontractor
- ⇒ Job separation benefits
- ⇒ Compensation paid to non-employees not required to be reported on Form W-2 (e.g. commissions)
- ⇒ Professional services such as attorneys or accountants
- ⇒ Prizes and Awards

The following payments are **not** required to be reported on Form 1099:

- ⇒ Payments of any kind to a corporation except for health care providers and attorneys
- ⇒ Salaries and wages reported on Form W-2
- ⇒ Payments of bills for merchandise, telegrams, telephone, freight, storage or similar charges
- ⇒ Payments of rent made to real estate agents
- ⇒ Advances or reimbursements for traveling and other business expenses of an employee
- ⇒ Salaries and profits paid or distributed by a partnership to individual partners reported on Schedule K-1 of Form 1065
- ⇒ Distribution to beneficiaries of trusts or estates reported on Schedule K-1 of Form 1041
- ⇒ Distribution to stockholders of a small business corporation reported on Schedule K-1 of Form 1120-S

Please contact our office if you would like us to process these forms on your behalf.

FEDERAL AND CALIFORNIA PAYROLL TAX REQUIREMENTS FOR EMPLOYERS OF HOUSEHOLD WORKERS

	Federal	California
Wage Level Filing Requirement	\$1,200 or more of wages per year.	\$750 or more of cash wages in one calendar quarter (total for all employees) for SDI. \$1,000 or more if cash wages in one calendar quarter for SUI and ETT.
Who is Exempt	Employee under age 18 (except young workers whose principal occupation is domestic service). Individual who is employed by his or her spouse or child. The employer's child under the age of 21 performs service.	The employer's parent, spouse or child under 18 years of age.
When to File	Annual filing of social security and unemployment taxes.	Annual filing if wages of \$20,000 or less and Form DE89 was filed. Quarterly filing required if more than \$20,000 in wages on Form DE6 or if no Form DE89 was filed.
How to File	Pay domestic employment taxes with individual income tax return if taxpayer employs only domestic employees.	File DE3HW if wages of \$20,000 or less and election was made to file annually on Form DE89. File DE6 if wages were more than \$20,000, or if wages are less than \$20,000 and election was not made to file annually on DE89.
W-2 Required	For all domestic employees, even if wages are \$1,200 or less.	For all domestic employees with wage of \$750 or more.
Withholding Required	PIT withholding elective, not required. FICA required for employees with wages of \$1,200 or more during the year.	PIT withholding may be requested by the employee, but not required. SDI required for all employees if total wages are \$750 or more.



NEW SALES AND USE TAX EXEMPTIONS

Liquefied Petroleum Gas (LPG) – Beginning September 1, 2001, qualified sales and purchases of liquefied petroleum gas for use in households or for producing and harvesting agricultural products are exempt from the California sales and use tax. To qualify for exemption, the LPG must be delivered into a tank with a capacity of 30 gallons or more. Delivery into tanks with a capacity less than 30 gallons does not qualify even if the total LPG delivered exceeds 30 gallons.

Farm Equipment and Machinery – Beginning September 1, 2001, qualified sales and purchases (including leases) of farm equipment and machinery for use primarily in producing and harvesting agricultural products are exempt from the state general fund portion of the tax rate (currently 4.75%). The equipment and machinery may be either new or used. Lease payments must be made after September 1, 2001 to qualify. The partial exemption also applies to sales and purchases of component, repair, and replacement parts for the equipment or machinery.

Diesel Fuel Used in Farming Activities and Food Processing – Beginning September 1, 2001, sales and purchases of diesel fuel used in farming activities and food processing are exempt from the state general fund portion of the tax rate (currently 4.75%).

If you made a purchase of these items after September 1st, qualify for this exemption and inadvertently paid sales tax, please contact our office so we may file for a refund.

JUSTIFICATION AS AN INDEPENDENT CONTRACTOR

If you hire independent contractors, you must have a **Form W-9**. This is the Request for Taxpayer Identification Number and Certification – very important. Without a W-9 with a valid identification number, you are required to withhold 31% for backup withholding.

You must have proof that they do work for more than one firm. A copy of a valid business license, advertising, or business card is sufficient.

It is also a good idea to have a Certificate of Insurance in the file.

For more information and industry examples, please refer to the IRS Circular E and Publication 15-A, Employer's Supplemental Tax Guide.





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. 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.

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??? Please contact our computer support department for a free consultation. We support MAS90 and Business Works, both excellent accounting management programs.

~ On behalf of the client bookkeeping department ~

It Has Been A Pleasure Serving You This Past Year!

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