

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.
- Finalize the last payroll of the year 2003. Wages earned in 2003 and paid with a check dated in 2004 will be reported in 2004.
- Check that no one exceeded the annual withholding limits of \$5,394.00 for Social Security or \$512.24 for State Disability Insurance. If someone has exceeded the limits, make adjustments or refunds before making the final payroll tax deposit for tax year 2003.
- 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.
- 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 2004.
- Ask employees to complete new W-4 forms to report changes for 2004. Employees who claimed exempt in 2003 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 February 2, 2004.
- If you file 250 or more W-2 forms, you must report to the Social Security Administration on magnetic media.
- Form W-2, Copy A, and Form W-3 must be postmarked by March 1, 2004. Send via Certified Mail and keep the receipt.
- 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 all manual or voided payroll checks have been properly recorded.

Checklist for 1099-MISC Reporting

If the following four conditions are met, businesses must generally report non-employee 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").

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, 2004. Internal Revenue Service copies (Copy A) must be postmarked by March 1, 2004 (or filed by magnetic media by March 31, 2004).

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.*

Table of 2004 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 36 cents to 37.5 cents. Sales tax will remain the same. 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 %	\$ 87,900.00	\$ 5,449.80
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 %	\$ 87,900.00	\$ 5,449.80
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)	1.18 %	\$ 68,829.00	\$ 812.18
SALES TAX			
Fresno County 7.875%	City of Clovis 8.175%	Madera County 7.75%	Merced County 7.25%
STANDARD MILEAGE RATE FOR 2004 = 37.5 cents per mile			

The standard mileage rate will go up from 36 cents to 37.5 cents.

New Family Temporary Disability Insurance Tax Deduction Takes Effect

Are you aware that employees may now take time off to care for a seriously ill family member and still receive 55% of their pay? On September 23, 2002, former Governor Gray Davis signed legislation that established a paid family leave program called the family temporary disability insurance (FTDI) program, or paid family leave program, to be administered by the Disability Insurance (DI) program.



FTDI is paid to workers who suffer from wage loss when they take time off from work to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child. This program differs from the State Disability Insurance (SDI) program in that the SDI program compensates employees who can't work because of their own illness or injury. The two programs are similar in that they are both fully funded from contributions made by employees.

Employers are required to deduct the FTDI contributions from the wages of employees who are covered by the SDI program. The deductions must begin on January 1, 2004. The FTDI contribution rate for 2004 will be .08% of the taxable wage limit and is included in the new SDI rate of 1.18%. With the increase of the maximum wage base to \$68,829 for 2004, the maximum SDI deduction will be \$812.18.

Benefits will be payable for claims beginning on or after July 1, 2004. There is a waiting period of seven days at the beginning of the claim period, which means that the eligible employee must be off work at least eight calendar days to receive the benefits. If the claim is for the care of a seriously ill family member, the claim must be accompanied by doctor certification of serious illness and need for care and the signature of the person receiving the care or his/her authorized representative. If the claim is for bonding with a new child, it must be accompanied by written proof of a new child, such as a birth certificate or adoption papers. The claim must be presented within 12 months of the new family member entering the family and the child must be under the age of 18.

Employees are allowed to receive up to six weeks of FTDI over a 12-month period. However, they are not allowed to receive the benefits while receiving disability, unemployment insurance, or workers compensation benefits. Also, employers may require that their employees use up to two weeks vacation, if earned but unused, before they receive FTDI. An employee may not be working or looking for work at the time family leave begins.

Benefit eligibility will not be based on a specific number of days worked, but instead is calculated based on the calendar quarter with the highest earnings during the base period. Beginning July 1, 2004, weekly benefits will range from \$50 to \$728. In order for an employee to be eligible for the minimum amount, he/she must earn at least \$300 in wages in the base period. To be eligible weekly for the maximum amount, he/she must earn at least \$17,183.65 in a calendar quarter during the base period.

Employees are allowed to receive up to six weeks of FTDI over a 12-month period.

Paid Family Leave does not ensure job protection or return rights. The employee's position may be protected if your company is subject to the federal Family Medical Leave Act and the California Family Rights Act. The employee is responsible for notifying the employer of the reason for taking leave as required by your company's leave policy.

Steps to take to implement the new FTDI tax:

- 1) Beginning January 1, 2004, all employers are required to deduct FTDI tax from employee payroll checks. Change your rate for SDI deduction from .9% to 1.18%.
- 2) Notify your employees of the new tax that will be deducted from their paycheck before they receive their first paycheck in 2004 and of the rights and benefits associated with the new tax.
- 3) Review your company's current leave of absence policies and determine how the new paid family leave will impact your stated policies. Make the appropriate changes to your documentation.
- 4) Include paid family leave rights notice with information given to all new employees hired after January 1, 2004.
- 5) Post the new revised poster Notice to Employees DE1857A. Forms may be ordered from the EDD website www.edd.ca.gov/taxrep/taxordn2.htm or by calling 1-877-238-4373.

For more information on the Paid Family Leave program, visit www.edd.ca.gov

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New Mileage Rates for 2004

The standard mileage rates have increased for Federal and California purposes. The new rates for 2004 will be:

- 37.5 cents per mile for business use, an increase of 1.5 cents
- 14 cents per mile for medical expenses, an increase of 2 cents
- 14 cents per mile for moving expenses, an increase of 2 cents

The mileage rate for charitable purposes will remain the same for 2004 at 14 cents per mile.

The number of autos allowed to use the business travel mileage allowance has also increased to four or fewer autos for business use simultaneously instead of the one business auto that was allowed in 2003.



E-Filing and Electronic Payments



Once an employer meets this mandatory requirement, all payments of DI and PIT must be made by EFT.

E-Filing Payroll Reports

Employers who are required to file their federal returns using magnetic media (employers with 250 or more employees) must also file their Form DE 6, **Quarterly Wage and Withholding Report**, on magnetic media (UIC § 1088(f)). Within 90 days of becoming subject to this requirement, employers must submit either a magnetic media format to the EDD for approval or submit a request for waiver. Upon approval, any subsequent reports of wages must be submitted by magnetic media.

Penalties

Employers who fail to comply will receive notification if they do not file using magnetic media or subject a request for waiver. They will be assessed a penalty of \$10 for each wage item not reported on magnetic media.

The EDD began mailing the notifications in October 2003, and they expect to begin assessing penalties in the summer of 2004.

EFT

Employers with an average payroll tax deposit amount of \$20,000 or more per deposit for the prior state fiscal year are required to make all disability insurance (DI) and personal income tax (PIT) deposits by EFT in the next calendar year, regardless of the dollar amount of the payment. Once an employer meets this mandatory requirement, all payments of DI and PIT must be made by EFT—even if a payment is less than \$20,000 (CUIC §§13021, 13021.5).

The EFT requirement applies only to DI and PIT. However, an employer may elect to pay unemployment insurance (UI) and employment training tax (ETT) by EFT if desired.

Information provided by Spidell Publishing, Inc.

Sales Tax Payable by EFT

Taxpayers with sales and use tax liabilities that average \$20,000 or more per month must make their payments by EFT (R&TC §6479.3). A retailer who fails to make a payment electronically will be subject to a 10% penalty plus interest.

Once a business is subject to EFT, all payments must be made electronically, even if the amount of the payment is less than \$20,000.

Information provided by Spidell Publishing, Inc.

Upcoming Due Dates

February 2, 2004

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

March 1, 2004

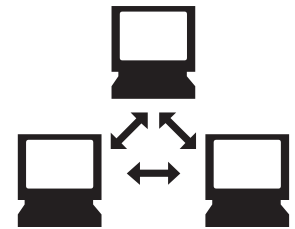
W-2	Copy A, Wage and Tax Statement, due to the Social Security Administration
W-3	Transmittal of Wage and Tax Statements
1099	Copy A due to the Internal Revenue Service
1096	Annual Summary and Transmittal of U.S. Information Returns

Employees' Opinions—Or the Company's?

Are employees' opinions expressed in an email to outsiders or in chatrooms their own or official company positions? Many firms now have a disclaimer attached to e-mail stating that the opinions expressed in the e-mail are those of the sender and not the company. Check with your firm's attorney for the correct wording. Many companies also warn employees that all e-mail sent from or received at work is the property of the e-mail system provider—i.e., the employer. This alerts employees to the fact that their e-mail is not private and discourages personal correspondence.

But disclaimers and warnings may not protect the company. In legal battles over e-mail "ownership," the courts have tended to rule that all e-mail belongs to whomever provides and maintains the e-mail service, usually the employer. But because many firms use outsider servers, ownership remains muddled. Freelancers have an added problem because they exchange their clients' correspondence and business documents on the Internet. At the moment, there is no sure way to protect such files when transmitting them.

Information provided by American Institute of Professional Bookkeepers



“By The Book”

The next issue of “BY THE BOOK” will be mailed in Summer 2004 and will be posted on our website under “Resources.” If you would like to receive a copy of “BY THE BOOK” by e-mail, please send your request to: mail@bpfcpa.com. Your questions or comments are welcome.

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