

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 2004. Wages earned in 2004 and paid with a check dated in 2005 will be reported in 2005.
- Check that no one exceeded the annual withholding limits of \$5,449.80 for Social Security (excluding Medicare tax) or \$812.18 for State Disability Insurance. If someone has exceeded the limits, make adjustments or refunds before making the final payroll tax deposit for tax year 2004.
- 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, 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 2005.
- Ask employees to complete new W-4 forms to report changes for 2005. Employees who claimed exempt in 2004 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 January 31, 2005.
- If you file 250 or more W-2 forms, you must report to the Social Security Administration on magnetic media or by electronic filing.
- Form W-2, Copy A, and Form W-3 must be postmarked by February 28, 2005. Send via Certified Mail and keep the receipt. Forms filed by magnetic media are due February 28, 2005. Forms filed electronically are due March 31, 2005.
- 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 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 the 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 January 31, 2005. Internal Revenue Service copies (Copy A) and forms filed by magnetic media must be postmarked by February 28, 2005. Forms filed electronically are due by March 31, 2005.

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.*

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 with 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 digit 8 or 9 and cannot be the same or sequential numbers. A number beginning with a 9 indicates 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 2005 Tax Rates

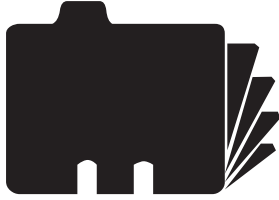
It is time once again to highlight changes for the upcoming year. The maximum wage base and maximum annual deduction will change for FICA and SDI. The standard mileage rate will go up from 37.5 cents to 40.5 cents. Included in the following table are some important rates for the coming year. Please call our office if you have any questions.

PAYROLL TAXES	Rate	Maximum Subject to Tax	Maximum Deduction
FEDERAL			
Employer:			
FICA	6.2 %	\$ 90,000.00	\$ 5,580.00
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 %	\$ 90,000.00	\$ 5,580.00
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)	1.08 %	\$ 79,418.00	\$ 857.71
SALES TAX			
Fresno County*	City of Clovis	Madera County	Merced County
7.875%	8.175%	7.75%	7.25%
STANDARD MILEAGE RATE FOR 2005 = 40.5 cents per mile			

The standard mileage rate will go up from 37.5 cents to 40.5 cents.

* Measure Z effective April 1, 2005, 0.1%

Upcoming Due Dates



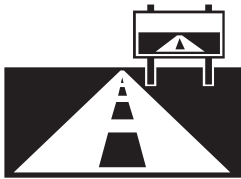
January 31, 2005

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

February 28, 2005

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

New Mileage Rates for 2005



The standard mileage rates have increased for Federal and California purposes. The new rates for 2005 will be:

- 40.5 cents per mile for business use, an increase of 3 cents
- 15 cents per mile for medical expenses, an increase of 1 cent
- 15 cents per mile for moving expenses, an increase of 1 cent

The mileage rate for charitable purposes will remain the same for 2005 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.

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
- Workers 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!



New in 2005

941 Form

The 941 form has a new look for 2005. Changes include an expanded two-page format and reporting of the number of employees paid for each quarter. This form will take effect for the first quarter of 2005. You can download the new form at www.irs.gov/pub/irs.

Employment Development Department

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

- Quarterly Wage and Withholding Report – DE 6
- Report of Independent Contractors – DE 542
- Report of New Employees – DE 34

You can register for this service at <https://eddservices.edd.ca.gov/index.html> or call 916-651-7442 or 800-796-3524.

“By The Book”

The next issue of “BY THE BOOK” will be mailed in Summer 2005 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.

Bookkeeping Department Staff:

Karen E. Morais, CPA
Jayne Massie
Valerie Pearce

Published by:

Baker, Peterson & Franklin, CPA, LLP

Palm Bluffs Corporate Center
970 W. Alluvial, Suite 101
Fresno, CA 93711
(559) 432-2346 • FAX (559) 432-5831

E-Mail: mail@bpfcpa.com

www.bpfcpa.com

YEAR-END PAYROLL PROCESSING • 1099-MISC REPORTING • W-4 AND W-2 QUICK TIPS •
2005 TAX RATES • NEW MILEAGE RATES • BOOKKEEPING SERVICES • NEW IN 2005

Baker, Peterson & Franklin, CPA, LLP
970 W. Alluvial, Suite 101
Fresno, CA 93711

