

To: Clients/Friends
From: Tax Department
Date: December 21, 2010
Re: Payroll Tax Rate Changes

In order to assist in the preparation of paychecks and payroll tax returns, we have listed the payroll withholding taxes that are effective January 1, 2011.

<u><i>Type of Tax</i></u>	<u><i>Amount Withheld</i></u>
Federal Withholding Tax	Amount is determined pursuant to the withholding tables contained in Federal Circular E.
Social Security (OASDI) and Medicare Tax (HI)	For wages paid in 2011, the Social Security Tax Rate is 4.2% on the first \$106,800 of the employee's wages, no tax is withheld after an employee reaches \$106,800. The Medicare tax Rate is 1.45%, with no limit to the amount of wages subject to the tax. The 4.2% rate applies to employees. A 6.2% rate applies for employers.
Pennsylvania Income Tax	The rate of 3.07% continues to be withheld, which is the same rate as 2010.
New Jersey Gross Income Tax	The rates for 2011 range from 1.5% to 9.90% on graduated levels of income. Keep in mind, there is New Jersey tax due for New Jersey residents working in Philadelphia when the effective state rate exceeds the Philadelphia non-resident rate.
City of Philadelphia	For residents of the City, the rate is 3.8722% and for non-residents the rate is 3.4370%. These rates are effective through June 30, 2011. The rates for July 1, 2011 through December 31, 2011 are 3.8722% and 3.4985%, respectively.
Pennsylvania Unemployment Compensation Employee Withholding	All wages are subject to .08% withholding.
Pennsylvania Unemployment Compensation Employer Expense	The wage base of \$8,000 for each employee remains the same for 2011. Tax rates are dependent upon each employer's unemployment experience record, and, in 2011, will include several surcharges designed to improve the solvency of the UC Fund. The rate for new employers is 3.703% and for new employers in the construction industry is 10.2626%.

<u><i>Type of Tax</i></u>	<u><i>Amount Withheld</i></u>
Local Earned Income Tax/Occupational Privilege Tax	Most Pennsylvania municipalities impose a local earned income or occupational privilege tax, which in many cases is 1% & \$52, respectively. However, please refer to your local tax collector for the percentage and amount since they vary.
New Jersey Unemployment Compensation	The employee's rate of .985% is to be withheld for 2011. The employer's rate is dependent upon the employer's unemployment experience record. The tax is calculated only on the first \$29,600 of compensation.
Self-Employment Tax	The rate of 10.4% tax is computed on the first \$106,800 of self-employment income, and a 2.9% Medicare Tax is computed on all self-employment income.

Electronic Federal Tax Payment System (EFTPS)

Employers are required to pay their Federal tax liabilities through the Electronic Federal Tax Payment System (EFTPS) beginning in the second succeeding calendar year, if the total deposits of designated Federal taxes (including employment taxes, income taxes, Railroad Retirement taxes, Social Security taxes, and various other types of non-payroll withholding) during a calendar year exceeds \$200,000. For example, if an employer has more than \$200,000 in Federal tax liabilities in the calendar year 2009, the employer would be required to use EFTPS beginning January, 2011. The penalty for failure to file electronically, if required, may be up to 10%. In order to participate in the system, taxpayers are required to file an EFTPS Business Enrollment Form (Form 9779). Even though your employment taxes may be deposited by a payroll company you may still need to enroll in the EFTPS if your total federal taxes go above the threshold. Be aware of the above limits and that this applies to all types of federal taxes. The IRS has issued proposed regulations under section 6032 that provide beginning January 1, 2011, you must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically using EFTPS. Under the proposed regulations, which are expected to be finalized by December 31, 2010, Forms 8109 and 8109-B, Federal Tax Deposit Coupon, cannot be used after December 31, 2010. For Pennsylvania, EFT payments are required for payments of over \$20,000.

Federal Depository Requirements (FWT & FICA)

You will be either a monthly or semi-weekly depositor. The Internal Revenue Service should have notified you what your deposit status is for the coming calendar year. If you are not notified, you should use the same method as the previous year.

Your deposit schedule for a calendar year is determined from the total taxes reported on your Form 941 (or 941E) in a four quarter lookback period-July 1 through June 30. If you reported \$50,000 or less of employment taxes for the lookback period, you are a monthly depositor; if you reported more than \$50,000, you are a semi-weekly depositor. Two special exceptions exist:

1. Businesses that have less than \$2,500 in quarterly employment taxes may make payments every three months with the filing of Federal Form 941.

2. Businesses that accumulate a tax liability of \$100,000 or more on any day during a deposit period, must deposit the tax by the next banking day, whether the business is a monthly or semi-weekly schedule depositor. If this happens, you become a semi-weekly depositor for the remainder of the calendar year and for the following calendar year.

Semi-weekly Rule

Under the semi-weekly rule, amounts accumulated on paydays made on Wednesday, Thursday and/or Friday must be deposited by the following Wednesday. Amounts accumulated on paydays made on Saturday, Sunday, Monday and/or Tuesday must be deposited by the following Friday. Therefore, each employer must make one weekly deposit, depending on his or her payday.

Monthly Rule

Under the monthly rule, employment and other taxes withheld on payments made during a calendar month must be deposited by the 15th day of the following month.

New Employers

You will be a monthly depositor for the first year of your business.

The above requirements can prove to be quite onerous. A payroll service can help eliminate problems and missed deposits.

Reminders for 2011

1. When filing the quarterly payroll tax forms, remember to remit a deposit against the FUTA tax liability (Form 940 on federal depository cards). The tax deposit should be 0.8% of the first \$7,000 of wages paid, per employee, in 2011. No deposit is required until the FUTA liability reaches \$500.
2. Remind all employees to complete Form W-4 and claim all the allowances to which they are entitled. Be sure to receive Form W-9 for all commissions, interest, rents, etc. paid to individuals. Form I-9 (Employment Eligibility Verification) is a mandatory requirement for all employees and should be completed on the first day of employment. Also report new hires to the states as detailed later.

City of Philadelphia - Wage Tax Due to the City

The Revenue Commissioner has established the following parameters for filing frequency:

Effective January 1, 2011, if you remit more than \$20,000 in any type of Philadelphia tax or if you are a payroll service, you will have mandatory electronic filing of wage tax. You should receive a letter stating this.

<u>Filing Period</u>	<u>Amount</u>
Quarterly	Less than \$350 tax due per month
Monthly	From \$350 to \$16,000 tax due per month
Weekly	Greater than \$16,000 tax due per month

Due dates for the filing periods are as follows:

Quarterly	1 st Quarter	April 30 th
	2 nd Quarter	July 31 st
	3 rd Quarter	October 31 st
	4 th Quarter	January 31 st

Monthly The 15th day of the following month.

Weekly Three (3) banking days after the payment of each payroll.

Social Security Beneficiaries, Self-Employment & Wage Earnings Limits

As of January, 2011, the full retirement age is 65 years and 10 months for retirees born in 1942 and 66 years for retirees born between 1943 – 1954. If a beneficiary reaches the full retirement age in 2011 the earned income limit is \$37,680. Beneficiaries will lose \$1 of benefits for each \$3 of earned income over the earnings limit of \$37,680. In 2011, the earnings range is between \$14,160 and \$37,680 for those beneficiaries between 62 and full retirement age. These beneficiaries lose \$1 of benefits for each \$2 earned within the earned income range. There is no earnings limit for the years after the beneficiary attains full retirement age.

Maximum 401(k) Deferral

For 2011, the maximum amount permitted for elective deferrals for 401(k) plans and 403(b) plans is \$16,500.

For 2011, the catch-up provision for individuals who are at least fifty (50) years old before the end of the plan year is \$5,500 for 401(k) plans.

New Hire Reporting Law

All employers are required to report information on newly hired employees. The reporting requirement varies from state to state. Each state is required to inform business entities of their state requirements. If you have any questions with regard to your state filing requirements, please contact us.

For Pennsylvania, the new hire reporting form is sent to:

Commonwealth of Pennsylvania
New Hire Reporting Program
PO Box 69400
Harrisburg, PA 17106-9400
(or)
Facsimile: (717) 657-HIRE (4473)
Phone: (888) PAHIRES – (888) 724-4737
E-mail: www.panewhires.com

For New Jersey, within 20 days, send a complete Form W-4 to:

New Jersey New Hire Directory
PO Box 4654
Trenton, NJ 08650-4654
(or)
Telephone: 1-877-NJHIRES
Facsimile: 1-800-304-4901
E-mail: www.nj-newhire.com