



December 31, 2010

To our clients:

As we enter the New Year, we are once again updating you on the payroll regulations for the 2011 calendar year.

The most recent development has been the drop in the employee portion of social security tax rate from 6.2% to 4.2%. The Medicare and taxable wage base remains the same. In addition, the tax rate for the California State Disability Insurance (SDI) has increased from 1.1% to 1.2%. We have attached our schedule of payroll tax rates and wage bases. As most people employ the use of payroll services, these changes will be done automatically. However, we receive questions regarding the supplemental wages withholding rates. For 2011, generally the Federal and California rates are 25% and 6.6%, respectively. For Federal purposes, when supplemental wages are paid in the amount of \$1,000,000 or more, a supplemental rate of 35% is required. For California purposes, the withholding rate on stock options or bonuses (regardless of the amounts paid) is 10.23%.

The Federal and California deposit requirements and timing remain the same as in the past.

The Employment Development Department has replaced certain tax forms for reporting periods beginning in 2011. The form DE-6 will no longer be used; replacing that will be form DE-9. This form reports the Unemployment Insurance, Employment Training Tax, and State Disability Insurance contributions, along with the Personal Income Tax withholdings for the quarter. In addition, the details of wages paid and Personal Income Tax withheld will be reported on form DE-9C. The Employment Development Department will be sending the forms after the first of the year.

The requirements for 1099 forms have expanded going forward into 2011. For payments made after December 31, 2010, 1099 forms will be required to be issued by taxpayers who receive rental income. Those taxpayers will need to issue these forms to non-corporate service providers for payments of \$600 or more during the year. This differs from prior years as the forms were only required to be issued by taxpayers engaged in a trade or business. Because of these stricter requirements, we recommend all taxpayers receiving rents begin asking for service providers to supply their Federal identification number before issuing payments. This can be done by having the service provider fill out form W-9 which is available on the IRS website. Please note, all payments made to attorneys are required to be reported on form 1099 regardless of corporate status.

Beginning in 2012, 1099 forms will be required to be issued to Corporations. In addition, they will no longer be required for services only. The issuance will be required for goods purchased as well.

Also enclosed is the schedule of Payroll and Information Return deadlines.

If you have any questions, please call your RINA contact for assistance.

Very truly yours,

RINA ACCOUNTANCY CORPORATION

PAYROLL AND INFORMATION RETURNS

Annual payroll and information return deadlines are listed below:

Due JANUARY 31, 2011:

1. Employee/recipient: 2010 Forms W-2, 1099-DIV, 1099-INT, 1099-R, and 1099-MISC
2. Federal: Fourth quarter 2010 Forms 941 and Annual 2009 Forms 940 or 940 EZ
3. California: Fourth quarter 2010 DE 6 and Form DE 7

REMINDER: On Form W-2, make sure the pension plan box is checked for employees who are active participants in a qualified plan, and the deferred compensation box is checked for employees who are participants in a Sec. 401(k) plan.

Due FEBRUARY 28, 2011:

1. Federal: 2010 Forms 1096, 1099-DIV, 1099-INT, 1099-R, and 1099-MISC
2. Social Security Administration: 2010 Forms W-3 and W-2 (Copy A)

REMINDER: Independent contractor fees, rents, royalties, and other nonemployee compensation totaling \$600 or more should be reported on Form 1099-MISC. Distributions from pensions, annuities, retirement pay, profit-sharing plans, IRAs, SEPs, etc. are to be reported on Form 1099-R. Also, all attorney fees should be reported on Form 1099-MISC.

Payers who file more than 250 W-2 forms or information returns (1099 series) are required to file these documents on magnetic media. Please call us if you need assistance in meeting the magnetic media requirements. Most of the forms enumerated above have detailed instructions.

All returns should be postmarked on or before the due dates. If the returns are mailed on the due date, postage should be applied by stamp rather than postage meter.

INFORMATION RETURN PENALTIES

There are penalties for failing to file correct information returns. The amount of the penalty is assessed based on the filing date of the correct information return. The penalty ranges from \$15 to \$50 per individual document, maximum annual penalty can range from \$75,000 to \$250,000. Lower annual maximum penalties apply to small businesses. In general the penalties will not apply to any failure that was due to reasonable cause.

California has adopted federal penalties in addition to their own penalties. The Employment Development Department will assess a 10% failure to file penalty in addition to interest for a quarterly return that is more than 60 days past due. The Franchise Tax Board has the discretion to disallow deductions for payments not reported on required information returns.

Also, persons who do not furnish their correct taxpayer identification number to payers of interest, dividends, etc. are subject to Federal back-up withholding at the rate of 28%.

**SUMMARY OF PAYROLL TAX RATES
WAGE BASES AND DEPOSIT REQUIREMENTS**

<u>Federal Social Security (FICA)</u>	<u>2011</u>	<u>2010</u>
1. Social Security:		
Wage Base	\$106,800.00	\$106,800.00
Rate - Employee	4.2%	6.2%
Employer	6.2%	6.2%
Maximum per employee:		
Employee Tax	\$ 4,485.60	\$ 6,621.60
Employer Tax	\$ 6,621.60	\$ 6,621.60
2. Medicare:		
Wage Base	No Limit	No Limit
Rate - Employee	1.45%	1.45%
Employer	1.45%	1.45%
Maximum per Employee:		
Employee Tax	No Limit	No Limit
Employer Tax	No Limit	No Limit
 <u>Federal Social Security Self-Employment Tax</u>		
Wage Base (Social Security)	\$106,800.00	\$106,800.00
Rate	10.4%	12.4%
Maximum payable	\$ 11,107.20	\$ 13,243.20
 Wage Base (Medicare)	No Limit	No Limit
Rate (net of credit)	2.9%	2.9%
Maximum payable	No Limit	No Limit
 <u>Federal Unemployment Tax (FUTA)</u>		
Wage Base	\$ 7,000.00	\$ 7,000.00
Rate (6.2% less state credit 5.4%)	.8%	.8%
 <u>California State Unemployment Insurance (SUI)</u>		
Wage Base	\$ 7,000.00	\$ 7,000.00
Rate	Variable Rates 1.5 to 6.2%	Variable Rates 1.5 to 6.2%
 <u>California State Disability Insurance (SDI)</u>		
Wage Base	\$ 93,316.00	\$ 93,316.00
Rate	1.2%	1.1%
Maximum per employee	\$ 1,119.79	\$ 1,026.48
 <u>California Employment Training Tax (ETT)</u>		
Wage Base	\$ 7,000.00	\$ 7,000.00
Rate	0.1%	0.1%