

CARLTON, HEALY & FREDERICK LLP
4 TIOGA WAY
MARBLEHEAD, MA 01945-1590

TEL. (781) 631-8410

FAX (781) 639-0575

2016 PAYROLL UPDATE

The “core” **2016** Circular E, Employer’s Tax Guide (Pub. 15), has general information for small business employers and payroll staffs. IRS Pub. 15-A & 15-B has specialized payroll information. Find all of these on the IRS website at www.irs.gov.

FEDERAL TAX DEPOSIT (FTD) RULES: IRS notices advising employers of deposit frequency should be reviewed. Penalties will be assessed for following the wrong rule. Employers with annual 941 deposits of \$50,000 or less during the “lookback period” will usually follow the monthly rule; if more than \$50,000, follow the semiweekly rule. There are two exceptions: the \$100,000 (next-day deposit) and \$2,500 rules. If the 941 liability will be less than \$2,500/quarter, it can be paid quarterly versus monthly. The “lookback period” for 2016 includes the total of form 941 employment taxes for the third and fourth quarters of 2014 and the first and second quarters of 2015. For 944 annual filers the “lookback period” for 2016 is calendar year 2014. Look at “Depositing Taxes” in the 2016 Circular E for examples. If estimated employment tax liability is \$1,000 or less for a calendar year, employers can make a request to the IRS for annual filing of form 944; or employers can opt out of filing an annual form 944, for any reason, if the procedures in Rev Proc 2009-51 are followed.

ELECTRONIC DEPOSIT REQUIREMENT: All tax types are required to be paid using the Electronic Federal Tax Payment System (EFTPS), which can be accessed online or by telephone. Deposits can be made up to **365 days** in advance of the liability due date with the withdrawal of funds from bank accounts “warehoused” until the actual due date. Warehoused payments can be cancelled up to 2 days before the payment due date, if the amount or date needs to be changed. A deposit transaction must be initiated at least one business day before the liability due date to be timely. For more information visit the website at www.eftps.gov or call 800-555-4477.

SOCIAL SECURITY AND MEDICARE TAX (FICA): The **2016 tax rates** for both the employee and employer are the same for the two components of FICA. For the social security (SS) component of FICA, the SS tax rate is **6.2% (.062)** for the first **\$118,500** of 2016 subject wages (same as 2015), and for the Medicare component of FICA, the tax rate is **1.45% (.0145)** for all 2016 subject wages (no maximum limit). **Also an additional 0.9% (.009) Medicare tax must be withheld on an employee wage in excess of \$200,000 in a calendar year (there is no employer match).**

FEDERAL WITHHOLDING TAX (FWT): Use the tables contained in the **2016** Circular E, as they have been modified from the 2015 tables in order to incorporate changes in the tax laws.

FEDERAL UNEMPLOYMENT TAX (FUTA): For **2016** the effective FUTA rate, remains at **0.6% (.006) for MA employers** on the first **\$7,000** of gross wages per employee, per year, since MA is not a credit reduction state. The actual FUTA rate is **6.0%** less a 5.4% credit allowed to **most** employers for state unemployment taxes (SUTA), as long as all SUTA has been paid to the state by the due date (2/1/16 for 2015) of form 940 and the employer is not in one of the designated credit-reduction states for 2015. The accumulated FUTA deposit threshold is \$500.

W-2 and W-3 FORMS / SOCIAL SECURITY ADMINISTRATION (SSA): SSA accepts black and white **approved laser-printed** W-2 and W-3 forms, however, if using a typewriter, the red, dropout-ink forms are still required. For **2016** the W-3/W-2 forms will be due 1/31/17 (rather than 2/29/16 for **2015**). An employer can register for Business Services Online at www.ssa.gov/employer and can file up to 50 W-2 forms online and also print employee, state and employer copies. To match employee names and social security numbers before submission of W-2 forms, the SSA offers an online social security number verification service (SSNVS). To learn more call 800-772-6270 or visit the SSA website.

MASS. WITHHOLDING TAX (MWT) / W-2 & M-3 FORMS: For **2016** wages use the Mass. income tax withholding tables found in Circular M, **Effective January 1, 2016**. Circular M is available on the MA Department of Revenue (DOR) website, www.mass.gov/dor, or by calling (617) 887-MDOR. As of **11/30/15**, DOR consolidated the annual (M-941A), quarterly (M-941) and monthly (M-942) withholding forms to a **revised M-941**; the M-941A & M-942 forms are obsolete, but the filing requirements have not changed. Employers need to submit a state copy of the 2015 W-2 forms with the **revised transmittal form M-3** (for all filers since the M3-M is obsolete, although DOR will accept the M-3M for 2015); mail to the MA Department of Revenue, Forms W-2, P.O. Box 7015, Boston, MA 02204. Note that all sales tax is now filed on a **revised ST-9 form**. Most business returns will now have an amended checkbox.

MASS. MANDATORY ELECTRONIC FILING: Most businesses with trustee taxes, such as wage withholding tax, sales tax, meals tax, etc. **must** file and pay electronically. TIR 15-9 outlines the current electronic filing and payment requirements. As of **11/30/15**, “WebFile for Business” (WFB) has been replaced by a new online portal, www.mass.gov/masstaxconnect. The WFB username and password will be used on MassTaxConnect (MTC) and self-help tutorials are available on MTC. Employers

using an outside payroll service must authorize a Professional Tax Preparer (PTP) to file and pay MWT forms. Quarterly wage reporting, as well as filing and payment of the Mass. Division of Unemployment Assistance (DUA) tax and the Mass. Employer Medical Assistance Contribution (EMAC), formerly Unemployed Health Insurance (UHI), **must** be reported to DUA via their UI online website www.mass.gov/lwd/unemployment-insur/employers/. NOTE: All employers must be registered on this website and have a DUA Account Administrator. For companies using an outside payroll service, a Third-Party Administrator (TPA) must also be authorized to conduct business on the company's behalf.

MASS. UNEMPLOYMENT TAX: The unemployment insurance (UI) taxable wage base for **2016** remains at **\$15,000** of gross wages per employee, per year. The MA UI taxable wages are subject to the assigned experience rate and the workforce training fund surcharge, which remains at **0.056% (.00056) for 2016**. DUA experience rate assignment notices were issued in late January 2016 and are also posted on your UI online account. **Notify outside payroll services of the experience rate ASAP since DUA generally doesn't refund overpayments.** If this tax is required, it is filed and paid via UI online.

MASS. EMPLOYER MEDICAL ASSISTANCE CONTRIBUTION (EMAC): Reporting is required by any employer who has an **average** of 6 or more employees, **per quarter**. The first **\$15,000** in wages paid to an employee each year is subject to the EMAC contribution rate. Generally, if employers are in business for five or more years, the EMAC rate remains at **0.34% (.0034) for 2016**. New businesses are exempt for the first two years of operation and graduated rates apply for the third and fourth years of business. These 2016 rates are shown on the DUA annual rate assignment notices, and are posted on your UI online account. If this tax is required, it is filed and paid via UI online.

AFFORDABLE CARE ACT (ACA): ACA reform mandates can be found on the IRS website. Small employers are fewer than 50 full-time employees or equivalents for **2016** (<100 for 2015), and large employers are 50 or more full-time employees or equivalents for **2016** (100 or > for 2015).

W-4 & I-9 FORMS: Employers are required to obtain (and keep) a W-4 form (Employee's Withholding Certificate), and if hired after 11/6/86, an I-9 form (Employment Eligibility Form) from all employees. Generally, employers **do not** have to give the IRS a copy of W-4 forms. For **all** new hires or rehires, federal law mandates that all employers transmit certain information (**employer's** name, address, federal employer ID #, **employee's** name, address, social security number and date hired or rehired) to a designated state agency within 20 days, however, Mass. law requires this reporting be done to the **MA DOR within 14 days of employment**. A company with 25 or more employees and/or independent contractors is required to register to transmit this information online. A company with less than 25 employees and/or independent contractors can use form NHR (New Hire Reporting), which is available online. Either fax the completed form to DOR at 617-376-3262 or mail it to the MA Department of Revenue, P.O. Box 55141, Boston, MA 02205-5141. New hire reporting also applies to independent contractors to whom you anticipate paying \$600 or more over the course of the year. For detailed information, visit the DOR website and type in "New Hire Reporting" in the "Search" field. From the Department of Homeland Security/U.S. Citizenship and Immigration Services (USCIS) website at www.uscis.gov/I-9, you can obtain the most recent **form I-9 (Rev. 03/08/13, Expires 03/31/16; no updated version is currently available)** and the instructions (**M-274 Rev. 04/30/13, Handbook for Employers**), or call 800-870-3676. **Using a wrong version can cause penalties.**

WORKERS' COMPENSATION (W/C) INSURANCE: **All employees must be covered, except** a corporate shareholder who owns at least 25% of the issued and outstanding stock **and** is a corporate officer and/or director. File a written waiver with the Department of Industrial Accidents. Sole proprietors and partners have the option of securing W/C insurance coverage.

LIFE INSURANCE: Group-term life insurance coverage in excess of \$50,000 provided by the company for employees is taxed to employees based on premium rates determined by the IRS. The 2015 tables (no changes) are in Pub. 15-B. This imputed income is subject to FICA withholding, but exempt from income tax withholding and Federal/MA unemployment tax.

HOUSEHOLD EMPLOYEES: For **2016**, the social security and Medicare (FICA) tax threshold for cash wages paid to household employees increases to **\$2,000** a year per employee (up from **\$1,900 for 2015**). FUTA and Mass unemployment tax is required if an employer paid total cash wages of **\$1,000** or more in any calendar quarter in the current or preceding year. This is **per employer, per quarter**, not per employee, per year, as with FICA. Once subject to MA unemployment, household employers must continue to file and pay UI taxes even if wages fall below \$1,000 per quarter. Household Employers report and pay FICA and FUTA taxes on Schedule H of their 1040 forms. See the 2016 Circular E and Pub. 926 (Household Employer's Tax Guide).

OUTSIDE PAYROLL SERVICES: If considering an outside payroll service for processing payroll, **there will be benefits to your company if CH&F makes the initial contact to the payroll company.**

Call if you need any payroll-related information and it will be provided upon request. A copy of this letter will be posted on our firm's website at www.chfcpa.com, and through it, you will be able to link to the tax-related websites referenced herein.