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2006 PAYROLL UPDATE

The "core" Circular E, Employer's Tax Guide (Pub. 15 - Rev. January 2006), has general information to cover the needs of small business employers and payroll staffs. Specialized payroll information is available in IRS Publication 15-A & 15-B. All of these can be obtained on the IRS website @ www.irs.gov.

FEDERAL TAX DEPOSIT (FTD) RULES: Review any IRS notice advising employers whether they are monthly or semiweekly depositors. Penalties will be assessed for following the wrong rule. **Beginning early in 2006, certain small employers will be eligible to file a new annual form 944 (due 1/31/07) rather than the quarterly 941 form. It has been reported that form 944 will be available to employers who owe \$1,000 or less in total employment tax. Look for details from the IRS.** 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 exception rules: the \$100,000 (next-day deposit) and \$2,500 rules. If the 941 liabilities will be less than \$2,500/quarter, the liability can be paid quarterly versus monthly. The "lookback period" for 2006 includes the total of form 941 employment taxes for the third and fourth quarters of 2004 and the first and second quarters of 2005. See pages 19-23 of 2006 Circular E for examples.

ELECTRONIC DEPOSIT REQUIREMENT: A company is required to use the Electronic Federal Tax Payment System (EFTPS) in 2006 if the aggregate of **all** their Federal Tax Deposits (such as deposits for employment tax, excise tax, corporate income tax, etc.) in calendar year **2004** exceeded \$200,000 or were required to use EFTPS in 2005. Any company can voluntarily participate in EFTPS rather than making deposits using the FTD coupon (form 8109). EFTPS can be used online or by telephone. Deposits can be made up to **120 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 call 1-800-555-4477 or visit the website @ www.eftps.gov.

SOCIAL SECURITY AND MEDICARE TAX (FICA): Tax **rates** for both employee and employer are the same for the two components of FICA for 2006. The social security tax rate is 6.2% (.062) for the first **\$94,200** of wages (up from \$90,000 in 2005) and **all** 2006 wages are subject to the Medicare tax rate of 1.45% (.0145).

FEDERAL WITHHOLDING TAX (FWT): Use the tables contained in the January 2006 revised Circular E.

FEDERAL UNEMPLOYMENT TAX (FUTA): The effective FUTA rate remains at .8% (.008) on the first **\$7,000** of gross wages per employee per year. The actual FUTA rate is 6.2% less a 5.4% credit allowed to all employers for state unemployment taxes (SUTA), as long as all SUTA has been paid to the state by the due date (1/31/06 for 2005) of form 940 or 940-EZ. **Note: The accumulated FUTA deposit threshold is \$500.**

SOCIAL SECURITY ADMINISTRATION (SSA): SSA accepts black and white **approved laser-printed** W-2 and W-3 forms. If using a typewriter, the red, dropout-ink forms are still required. PLEASE NOTE THAT THE IRS STILL REQUIRES THE RED DROPOUT INK FOR 1099 FORMS. If an employer files 20 or fewer W-2 forms they can be filed electronically on the SSA website, www.ssa.gov/employer. SSA also has a social security number verification service (SSNVS) that can be used to match employee names and social security numbers before the W-2 forms are sent to SSA. To learn more call 800-772-6270 or visit their website.

MASS. WITHHOLDING TAX (MWT): For 2006 use Circular M, **Effective January 1, 2006**, which will be available on the DOR website, www.mass.gov/dor, using the Quick Link "Withholding Tables" or by calling (617) 887-MDOR.

MASS. MANDATORY ELECTRONIC FILING: Any business collecting an annual combined total of \$10,000 or more of business taxes (wage withholding tax; sales/use tax; sales tax on meals; tax on telecommunication services; and/or room occupancy tax) must file and pay electronically. Look for registration and filing information on the DOR website (use the quick link "WebFile for Business"). Business telefile is also available. Technical Information Release (TIR) 04-30 explains the mandatory e-filing, which requires **corporations** with \$100,000 in gross receipts or sales, **effective 1st quarter 2005**, to electronically file and pay DOR forms. It also requires employers with 50 or more employees to file quarterly wage reports (**form WR-1**) via electronic means. This is in addition to e-filing of zero-balance returns, e-filing and paying taxes of new businesses regardless of the dollar amount, and e-filing for existing businesses when registering for additional taxes or

locations. **DOR can now impose a \$100 penalty, per occurrence, due to failure to file, report or pay electronically.**

MASS. UNEMPLOYMENT TAX: The Division of Unemployment Assistance (DUA) continues the taxable wage base for 2006 at **\$14,000** of gross wages per employee per year. The MA taxable wage for unemployment insurance (UI) is subject to the regular experience rate and the workforce training surcharge, which remains at **.06% (.0006)** for 2006. Look for the DUA notices with the 2006 regular experience rate during January. If using an outside payroll service notify them of the 2006 rate ASAP. **Reminder:** On the DOR website (link "WebFile for Business") all employers can register to file and pay **DUA** taxes electronically if registered to file and pay DOR taxes electronically.

MASS. HEALTH INSURANCE: DUA form 1700-HI is a quarterly form that must be filed by any employer who has an **average** of 6 or more employees **per quarter**. The first **\$14,000** in wages paid to an employee each year is subject to the contribution. If your company has been in business for 5 years or more the contribution rate is .12% (.0012). New businesses are exempt for the first two years of operation; in the third year the rate is .04% (.0004); and in the fourth year the rate is .08% (.0008).

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. The IRS now provides an online W-4 calculator for the number of withholding allowances. It can be found on the IRS homepage, click on the "individuals" link, scroll down and click on the "IRS Withholding Calculator" link. **Effective 4/14/05**, employers no longer have to give the IRS a copy of W-4 forms when employees claim more than 10 allowances or complete exemption from withholding (see page 15 of Circular E for details). **The New Hire Law** requires that all employers transmit certain information (**employer's** name, address, federal employer ID # (FEIN), **employee's** name, address, social security number (SSN) and date hired or reinstated) to a designated state agency (MA DOR for all new MA hires or rehires), **within 14 days of employment**, satisfying the less stringent Federal law. Visit the DOR website @ www.cse.state.ma.us for detailed information. 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), available online or by calling DOR @ 617-626-4154. The completed form can be faxed to DOR @ 617-376-3262 or mailed to the Department of Revenue, P.O. Box 55141, Boston, MA 02205-5141. DOR prefers online filing for all employers with internet access. **This New Hire Law also applies to independent contractors to whom you anticipate paying \$600 or more over the course of the year.** The U.S. Citizenship and Immigration Services (USCIS), has not issued a revised instruction handbook and I-9 form (current version dated 11/21/91), but some acceptable documents were removed as of 9/30/97. The USCIS website is <http://uscis.gov>. **Penalties can be assessed under government audit.**

WORKERS' COMPENSATION (W/C) INSURANCE: Business owners have options for themselves. A corporate shareholder who owns at least 25% of the issued and outstanding stock and is an officer and/or a director of the corporation is no longer required to obtain W/C insurance coverage on his or herself. File a written waiver with the Department of Industrial Accidents. Sole proprietors & partners now have the option of securing W/C insurance coverage. **All employees, except those mentioned above, must be covered.**

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. No changes are expected for 2006. Tables will be available in IRS Pub 15-B (Rev. 1/06). This imputed income is subject to FICA withholding, but exempt from income tax withholding and Federal/MA unemployment tax.

HOUSEHOLD EMPLOYEES: For the year 2006 the social security and Medicare (FICA) tax liability threshold for cash wages paid to household employees has been increased to **\$1,500** (from **\$1,400** in 2005) a year per employee. FUTA and Mass unemployment tax **remains unchanged** and is required if an employer paid total cash wages of **\$1,000** or more in any calendar quarter in the current or preceding year. Note: 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 the DUA 1 form even if wages fall below \$1,000 per quarter. Household Employers will use IRS Schedule H to report/pay the FICA and FUTA liabilities on their individual income tax returns. For details see the 2006 Circular E and Publication 926, Household Employer's Tax Guide.

OUTSIDE PAYROLL SERVICES: If you are considering an outside payroll service for processing payroll, contact the professional or partner handling your account to advise you on this matter. There will be benefits, including discounts, to your company if the contact with such services is done through our office.

If you need any payroll-related information just give me a call, and I will provide it 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 some of the forms, publications and tax-related websites referenced herein.

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