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2008 PAYROLL UPDATE

The "core" Circular E, Employer's Tax Guide (Pub. 15 - Rev. January 2008), 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. Note: the IRS has not yet produced a form 941X for amending employment taxes but it was due to be available by 2008.

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. 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 2008 includes the total of form 941 employment taxes for the third and fourth quarters of 2006 and the first and second quarters of 2007. For examples, see "Depositing Taxes" in the 2008 Circular E. Beginning in 2006, some small business employers with a prior employment tax liability of \$1,000 or less were notified by the IRS that they must file an annual 944 form rather than a quarterly 941 form.

ELECTRONIC DEPOSIT REQUIREMENT: A company is required to use the Electronic Federal Tax Payment System (EFTPS) in **2008** if the aggregate of **all** their Federal Tax Deposits (such as deposits for employment tax, excise tax, corporate income tax, etc.) in calendar year **2006** exceeded \$200,000, or was required to use EFTPS in **2007**. 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 2008. The social security tax rate is 6.2% (.062) for the first **\$102,000** of wages (up from \$97,500 in 2007) and **all** 2008 wages are subject to the Medicare tax rate of 1.45% (.0145).

FEDERAL WITHHOLDING TAX (FWT): Use the tables contained in the January 2008 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 (1/31/08 for 2007) of form 940. **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. THE IRS STILL REQUIRES THE RED DROPOUT INK FOR ALL 1099 FORMS. An employer can file W-2 forms online at the SSA website, www.ssa.gov/employer (limit 20 employees per transaction; use a second submission for more than 20). Also print the employee, state and employer copies of the W-2 forms. 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 the SSA. To learn more call 800-772-6270 or visit the SSA website.

MASS. WITHHOLDING TAX (MWT): Use Circular M, **Effective January 1, 2008**, which is available on the DOR website, www.mass.gov/dor (type in "Circular M" in the search box), or by calling (617) 887-MDOR. Employers need to submit a state copy of the W-2 forms with transmittal form M-3 (quarterly MWT filers) or with M-3M (monthly MWT filers) to the MA Department of Revenue, P.O. Box 7015, Boston, MA 02204.

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. Use the tab "For Businesses" and the link "WebFile for Business" (WFB) on the DOR website for registration and filing information. Business telefile is also available. Technical Information Release (TIR) 04-30 explains the mandatory e-filing requirements and TIR 05-22 expands and clarifies it. **Corporations with \$100,000 in gross receipts/sales and certain other income** are required to electronically file and pay DOR forms **as of 1/1/06**. **Employers with 50 or more employees** are also required 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. **Failure to file, report or pay electronically can result in a \$100 penalty, per occurrence.**

MASS. UNEMPLOYMENT TAX: The Division of Unemployment Assistance (DUA) continues the taxable wage base for 2008 at **\$14,000** of gross wages per employee per year. The MA unemployment insurance (UI) taxable wage is subject to the

assigned experience rate and the workforce training surcharge, which remains at **.06% (.0006)** for 2008. Look for the DUA notices with the 2008 regular experience rate during January. If using an outside payroll service, notify them of the 2008 rate ASAP. All employers can register to file and pay **DUA** taxes electronically using the DUA link on the DOR website.

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**; however **all** employers **must** file for the first quarter of every year. 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).

MASS. FAIR SHARE CONTRIBUTION (FSC) & HEALTH INSURANCE RESPONSIBILITY DISCLOSURE (HIRD): Due to health care reform, some employers are now responsible for annual online reporting for the FSC/HIRD. The initial 12-month period ran from 12/1/06 through 9/30/07 and reporting should have been done, if applicable, from 10/1/07 through 11/15/07 online at <https://fsc.detma.org>. Any employer with 11 or more full-time equivalent (FTE) employees could be subject to the FSC of up to \$295/employee/year if they do not make a "fair and reasonable contribution" to their employees' health insurance. Any employers who are under this limit, but received a DUA letter must also do the online reporting. Additional information is available on the above-referenced DUA website.

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 provides an online W-4 calculator for the number of withholding allowances that can be found on the IRS homepage, click on the "individuals" link, scroll down and click on the "IRS Withholding Calculator" link. Employers **do not** have to give the IRS a copy of W-4 forms. **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 at 617-626-4154. The completed form can be faxed to DOR at 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 Department of Homeland Security/U.S. Citizenship and Immigration Services (USCIS), has finally issued revised Handbooks for Employers (**Rev. 11/11/07**) and I-9 forms (**Rev. 6/5/07**) which changes the acceptable documents on List A. **Providing a SSN on the I-9 form is now optional, unless the employer participates in the voluntary USCIS E-Verify program (employment eligibility program).** As of 11/7/07, the 6/5/07 I-9 version must be used and **penalties can be assessed if this version is not used by 12/26/07.** The USCIS website is <http://uscis.gov>.

WORKERS' COMPENSATION (W/C) INSURANCE: Options for business owners. A corporate shareholder who owns at least 25% of the issued and outstanding stock and is a corporate officer and/or director is not required to obtain W/C insurance coverage on his or herself. File a written waiver with the Department of Industrial Accidents. Sole proprietors and partners 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 2008. Tables will be available in IRS Pub 15-B (Rev. 1/08). This imputed income is subject to FICA withholding, but exempt from income tax withholding and Federal/MA unemployment tax.

HOUSEHOLD EMPLOYEES: For the year 2008 the social security and Medicare (FICA) tax liability threshold for cash wages paid to household employees increased to **\$1,600** (from \$1,500) a year per employee. 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. 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 2008 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.

Give me a 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 some of the forms, publications and tax-related websites referenced herein.

Lynn K. Foster, EA