

Radakovich, Shaw & Blythe, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Mike Radakovich, CPA/ABV/CFF, CVA
Edwin Shaw, CPA
Anne M. Blythe, CPA
Bonnie Blanchard, EA

Pamela Bower, CPA
Ashley Woodring, CPA
Michelle Curry, CPA
Vanessa Woods, CPA
Alison G. Dale, CPA
Heather Arnold, CPA
Jacqueline Zucker, CPA
Charleen Fariselli, CPA
Kittie Vicars, EA
Tom Jones, CPA

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Dear Clients and Friends,

Greetings from Radakovich, Shaw & Blythe, LLP! Please take a few minutes to read the following sales tax and payroll information. If you have any questions regarding the following, please do not hesitate to contact us.

Additional Medicare Tax

Effective January 1, 2013, a new Additional Medicare Tax of 0.9% is imposed on earned income exceeding \$200,000. Employers must begin to withhold 0.9% of wages in the pay period that the employee earns more than \$200,000.00. There is no employer portion or match to this tax. There is no annual ceiling to this additional tax, similar to regular Medicare Tax. Once the employer begins to withhold this extra .09% they must continue withholding until the last payroll of the calendar year.

FUTA Tax

For 2016 the base Federal Unemployment Tax rate (FUTA) - net of credits for payments made to state unemployment programs - remains 0.6% of the first \$7,000 of wages paid to each employee. The full rate for FUTA is 6.0% but employers are then given a credit of 5.4% for the unemployment taxes paid to their state and this results in the 0.6%. Some states have outstanding loans from the federal government for funds that were loaned to the state to be used to shore up their unemployment programs. Employers in these states are subject to a reduced credit for the state taxes they paid. This includes California. The reduced credit causes an increase in FUTA tax due from the employer. Starting in 2011, for each year that these loans are unpaid, the credit reduction goes up 0.3%. Because of this California employers are required to pay an extra 1.8% (.018) of the first \$7,000 of wages paid to each employee in 2016. The entire penalty for 2016 will be assessed with the fourth quarter FUTA payment that is due by January 31, 2017. Quarterly payments during 2017 (if required) should still be calculated at the 0.6% base rate.

Federal Tax Deposits

Taxpayers must use electronic funds transfer to make all federal tax deposits such as deposits of employment tax, excise tax, and corporate income tax. Generally, electronic fund transfers are made using the Electronic Federal Tax Payment System (EFTPS). If taxpayers do not want to use EFTPS, they can arrange for their financial institution, payroll service, or other trust third party to make deposits on their behalf. Also they may arrange for their financial institution to initiate a same-day tax wire payment on their behalf. EFTPS is a free service provided by the Department of the Treasury. Services provided by a third party may have a fee.

California Payroll Reporting: DE-9 and DE-9C

California employers must file Form DE 9, *Quarterly Contribution Return and Report of Wages* and Form DE 9C, *Quarterly Contribution Return and Report of Wages (Continuation)*.

3220 S. HIGUERA STREET, SUITE 201 – SAN LUIS OBISPO, CA 93401-3689
1704 SPRING STREET, SUITE 102 – PASO ROBLES, CA 93446-1678
805 544-1557 fax 805 544-1573

www.Radshaw.com

California Payroll Reporting: DE-9 and DE-9C – continued

These forms DE-9 and DE-9C require employers to report their unemployment insurance, employee training tax, state disability insurance contributions and the personal income tax withholding on a quarterly basis instead of annually.

Beginning January 1, 2017 employers with 10 or more employees will be required to electronically submit employment tax returns, wage reports, and payroll tax deposits (Form DE 88) to the Employment Development Department. Employers with less than 10 employees will be subject to this requirement beginning January 1, 2018. Any employer already required to electronically submit wage reports and/or electronic funds transfer will remain subject to those requirements. Failure to not comply with the electronic requirement will incur penalties of \$50 per return on payroll reports, \$20 per wage item on wage reports and a 15% of amount due on tax deposit payments.

The 2016 DE 44, *California Employer's Guide* and 2016 DE 8829, *Household Employer's Guide* contain details about payroll but neither will be mailed to employers unless they request it by going to the Annual Mailing Preference page at www.edd.ca.gov.

Federal Earned Income Tax Credit Notification to Employees Requirement

California employers must notify all employees irrespective of income that they may be eligible for the Federal Earned Income Tax Credit. Notice must be given within one week before or after, or at the same time that the employer provides a Form W-2 or similar wage statement to the employee. Employers must notify employees by either handing the notice directly to the employee or mailing it to the employee's last known address. The notice shall include instructions on how to obtain any notices available from the IRS regarding the Earned Income Tax Credit, including, but not limited to, IRS Notice 797 or any successor notice or form. Please visit the EDD website www.edd.ca.gov for sample language for the notice.

Sales & Use Tax Information

The minimum combined state and county city sales and use tax rate decreased to 7.25% for California due to the expiration of Proposition 30 which imposed the 0.25% temporary increase as of December 31, 2016. The cities of Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach and San Luis Obispo remain at a higher rate of 8.00% because of city sales and use tax.

In late July 2009, the California Legislature enacted strict new use tax registration and reporting requirements for "qualified purchasers." The law requires separate use tax returns to be filed by April 15th every year, for the preceding year's use tax purchases. Please visit our website www.radshaw.com for additional information regarding use tax reporting.

Minimum Wage

The California minimum wage will increase to \$10.50 per hour effective January 1, 2017. The Federal minimum wage remains at \$7.25 per hour and was last increased July 24, 2009.

Overtime Wages – Hourly Employees

With certain key exceptions, employers must pay non-union employees (who are not working an alternative workweek schedule) at least time and one-half of their regular wage pay for:

- Hours worked in excess of eight hours in one day;
- Hours worked in excess of 40 hours in one workweek; and
- The first eight hours worked on the seventh day of work in a given workweek.

In addition, employers must pay employees at least double time for:

- Hours worked in excess of twelve hours in any day;
- Hours worked in excess of eight hours on any seventh day of the work week

Overtime Wages – Hourly Employees-continued

There are exceptions for employees that work an alternative workweek schedule. Affected employees may elect by two-thirds vote to work an alternative workweek schedule of up to a 10-hour workday within a 40-hour workweek without being subject to the overtime rules. Also, agricultural employees continue to be exempt from the overtime rules. For more detailed information visit the Department of Industrial Relations website, www.dir.ca.gov.

Overtime Wages – Salary Employees

Salary employees can be eligible for overtime pay for more than 40 hours of work in a week. In order to be exempt for the overtime requirement the employee must meet certain tests regarding job duties (executive, administrative, or professional) and be paid on a salary basis not less than \$455 per week.

The Department of Labor issued Final Rule in 2016 to update the standard salary level to more effectively distinguish overtime eligible salary employees and automatically update the salary threshold.

On November 22, 2016 the U.S. District Court of Eastern District of Texas granted a preliminary injunction to the Department of Labor's Final Rule and enjoined the implantation. As of this time there is no change to the salary base for exempt salary employees for overtime payment. For more information on the status of this new rule visit www.dol.gov/whd/overtime/final2016.

CA Paid Family Leave (SB 1661)

SB 1661 allows employees who are covered by State Disability Insurance (SDI) to receive up to six weeks of paid leave so they can care for the sickness or injury of a family member, including a domestic partner or to bond with their new child, either new born, newly adopted or a new foster-care placement. Employees must take one week of unpaid leave prior to being paid under this law. The SDI withholding rate includes the tax that pays for the Paid Family Leave (PFL) program.

SB 1661 does not require employers to hold open a position for employees on this leave although they may be required to do so under some other law, such as the Federal Family and Medical Leave Act (FMLA) or the California Family Rights Act (CFRA). Both FLMA and CFRA apply to employers that have 50 or more employees and further information is available at www.dol.gov – search for FLMA and www.dfeh.ca.gov – search for CRFA.

SB 1661 will not extend the 12 weeks of unpaid leave available to employees under FMLA or CFRA.

The IRS has ruled that benefits paid under the Paid Family Leave program **are taxable for federal income tax** purposes although payments under SDI are not. However, Paid Family Leave benefits are not subject to California income tax. A 1099G needs to be issued to employees who took Paid Family Leave to include with their federal income tax return.

CA Paid Sick Leave (AB 1522)

The Healthy Workplaces, Healthy Families Act of 2014, provides that, beginning July 1, 2015, all California employers, regardless of size, are required to offer paid sick leave to their employees. This bill specifically requires employers to provide paid sick leave to employees who work 30 or more days within a year from the commencement of their employment. The employee then earns a minimum of one hour of paid sick leave for every 30 hours worked and must work at least 90 days before using any paid sick leave. Employers may limit an employee's use of paid sick leave to 24 hours or three days per year. Employers are prohibited from discriminating or retaliating against an employee for using paid sick days.

Unused sick leave must carry over to the following year unless the full amount of sick leave (24 hours) is received at the beginning of the year rather than being accrued as noted above. Employers are not required to have more than 48 hours of accrued sick leave roll over from one year to the next. Employers are not required to compensate employees for unused accrued sick leave upon termination. However, if the employee is rehired within one year, the previously accrued and unused sick leave must be reinstated upon rehiring.

CA Paid Sick Leave (AB 1522) – continued

Employees are required to provide reasonable advanced notice if the sick leave is foreseeable. Where the need to use paid sick leave is unforeseeable, the employee must provide notice as soon as practicable. Employers must not require the employee to locate a replacement employee to cover for the employee when the employee uses a paid sick day. Employers have the discretion to lend paid sick leave to an employee for use before the employee accrues it. An employee may determine how much sick leave the employee needs to use, but the employer may set a reasonable minimum increment for the use of paid sick leave, not to exceed two hours. Employees using sick leave are entitled to be compensated at the employee's normal rate of pay.

Employees are entitled to use paid sick leave for diagnosis, care, or treatment of an existing health condition, or preventative care for an employee or an employee's family member. Family members include (1) a child (biological, adopted, or foster child, stepchild, legal ward, or a child to whom the employee stands in loco parentis and this definition is applicable regardless of age or dependency status; (2) a biological, adoptive, or foster parent, stepparent, or legal guardian of an employee or the employee's spouse or registered domestic partner, or a person who stood in loco parentis when the employee was a minor child; (3) a spouse; (4) a registered domestic partner; (5) a grandparent; (6) a grandchild; and (7) a sibling. Paid sick leave is also available to be used for an employee who is a victim of domestic violence, sexual assault, or stalking.

Employers must display a poster notifying employees of these paid sick leave rights. Employers are also required to provide employees written notice of the amount of sick leave available to them on either the employee's itemized wage statement or in a separate writing provided on the designated pay date with the employee's payment of wages.

Employers are required to retain, for at least three years, records documenting the hours worked, paid sick days accrued, and paid sick leave used by each employee.

CA Notifications to Employees

Employers must post a copy of Notice *DE 1857A* in the workplace where it is easily available for all employees to read.

Employers must supply a copy of the following notices and pamphlets to each new employee:

- *DE 35 - Notice to Employees*
- *DE 2320 – For Your Benefit: California's Programs for the Unemployed*
- *DE 2515 – Disability Insurance Provisions*
- *DE 2511 – Paid Family Leave*

All of these notices can be found on the EDD website www.edd.ca.gov

CA EDD Form DE 542, Independent Contractor Reporting

Any business or government entity that is required to file a Federal Form 1099-MISC for an independent contractor providing services must report specific information to the EDD regarding the independent contractor using Form DE 542. They must submit the DE 542 to the EDD within 20 days of the earlier occurrence of either of these situations:

- Making payments totaling \$600 or more in the calendar year, or
- Entering into a contract with an independent contractor, which equals or exceeds \$600

CA EDD Form DE 34, Employee Registry for New Employees

Employers must report the hiring of all new employees to the EDD within 20 days of their hire using Form DE 34 or a copy of the employee's W-4. The requirement applies to all employers, including household employers, nonprofit organization employers as well as state and local government regardless of the number of employees. These new hire regulations were passed as part of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, enacted to help enforce child support rulings and collections. Another significant benefit for California employers is EDD's increased ability to identify people who are working but fraudulently collecting Unemployment Insurance benefits. As noted above, the required information can be reported on DE 34, *Report of New Employees* or a copy of the employee's W-4 can be sent to the EDD. If using the employee's Form

CA EDD Form DE 34, Employee Registry for New Employees-continued

W-4, the employer must add the following information; (1) the employee's start-of-work date; (2) their California employer account number and (3) their Federal employer identification number. A penalty may be assessed by the EDD for failure to comply unless there is reasonable cause for the failure.

Both Form DE 542 and DE 34 can be filed on paper then mailed or sent by FAX to EDD. They can also be electronically filed through the EDD website, www.edd.ca.gov, using "e-services for business". Employers must first set up an "e-services for business" account on the website.

Federal Form W-4, Employee's Withholding Allowance Certificate

Employers should have a Form W-4, *Employee's Withholding Allowance Certificate*, on file for each employee to know how much federal income tax to withhold from employee's wages. The information on a W-4 remains valid until a new one is submitted by the employee, so the employer should encourage employees to check their income tax withholding situation for 2017 to see if there are any changes from 2016.

Examples of such changes include the employee getting married or divorced, adding a child or other dependent, or owing a large amount of tax or receiving a large refund for 2016. If there have been changes the employee may need to file a new Form W-4 for 2017 to correct their withholding amounts.

Federal Form W-2, Wage and Tax Statement

Employers are required to furnish Form W-2 to employees after December 31, 2016 but no later than January 31, 2017. This is to enable individuals to file their income tax returns early. The W-2 should report total wages paid in the calendar year and all withholding from those wages. The definition of wages includes salaries, vacation allowances, bonuses, commissions, as well as fringe benefits. Other categories that should be included as compensation include but are not limited to:

- Group-term life insurance in excess of \$50,000;
- Dependent care assistance;
- Personal use of a company vehicle, and;
- Health and accident insurance premiums paid by an S Corporation on behalf of 2% or more shareholders/employees.

Advances paid to employee(s) are included in the definition of wages, and therefore are taxable as wages. Advances are considered taxable when the advance is actually or constructively paid rather than when you charge the advance against later earnings.

Employers must file the 2016 Form W-3 along with federal copies of all 2016 W-2s with the Social Security Administration by January 31, 2017. If they choose to file the 2016 federal forms electronically the due date is also January 31, 2017. More information on electronically filing can be found at the SSA's web site [www.socialsecurity.gov/employer under Employer W-2](http://www.socialsecurity.gov/employer_under_Employer_W-2) - search "Filing Instructions and Information".

Employers do not file a copy of Form W-2 with the state. The Franchise Tax Board will receive the wage and withholding information directly from the Employment Development Department using the information filed quarterly on your 2016 Forms DE 9 and DE 9C.

W-2 Reporting of Health Plan Costs

The Patient Protection and Affordable Care Act requires employers who file 250 or more Forms W-2 to report the "aggregate reportable cost" of certain employer-sponsored group health plans on Form W-2. If the employer filed less than 250 Forms W-2 in the prior year they are exempt from this reporting requirement for 2012 and future years until further guidance is issued by the IRS. No such further guidance has been issued as of the date this letter was written. Only the cost of medical health care plans is included on the Form W-2 in Box 12, coded DD. Separate dental, vision, long term care, or disability income insurance plans are not included. Contributions to medical savings accounts, health savings accounts, and flexible spending accounts are also excluded, although special rules apply to calculating the "aggregate reportable cost" for employers who offer flexible spending accounts.

Fringe Benefits

Fringe benefits are taxable as wages, as explained above, unless they qualify for exclusion under an Internal Revenue Code (IRC) provision. Fringe benefits include the personal use of company vehicles, flights on aircraft that you provide, free or discounted commercial flights, vacations, loans (either interest free or below the statutory rate), housing (either rent free or at a reduced rate), debt waiver, vacations, memberships in country clubs or other social clubs, as well as tickets to entertainment or sporting events.

The value of an employee's personal use of a company car is includable in gross income and subject to employment tax, unless it can be specifically excluded from wages because it is a vehicle that is not likely to be used personally more than a "de minimis" amount. Some examples of this are a police vehicle, ambulance, delivery truck, etc. in which case it is considered a "working condition fringe."

If not considered a "working condition fringe" the value used to calculate the amount of wages to include on the employee's W-2 is generally its fair market value. However, the following optional valuation rules are available:

- auto lease valuation rule
- vehicle cents-per-mile rule
- commuting-use-only rule

The employer must notify the employee about their election to use a special valuation rule no later than January 31 of the calendar year for which the election is to apply. The notice must also alert the employees to the substantiation requirements and the effect of their failure to comply with such requirements.

The employer may choose whether or not to withhold income tax on the value of the employee's personal use of a company car. If the employer elects not to withhold, however, they must notify the employee of that election. If the employer elects to withhold, they may treat the value of the personal use that is included in wages as having been paid on a pay period, paid quarterly, paid semiannually, or paid on an annual basis. The employer does not have to choose the same period for all employees.

The employer is required to withhold and pay federal and state employment taxes (except income tax as noted above) on the computed personal use of company provided vehicles each calendar year.

Federal Form 944 Small Business Owners

Form 944 *Employer's Annual Federal Tax Return* exempts eligible small employers from filing quarterly returns and requires them to instead file Form 944. Eligible employers are those with estimated annual employment tax liability of \$1,000 or less. The IRS will notify the employer if they must file Form 944 and employers who have not been notified of this requirement must not file Form 944. Beginning with tax year 2010, employers that are required to file annually using Form 944 can notify the IRS that they want to file quarterly instead, using Form 941 *Employer's Quarterly Federal Tax Return*. They need to contact the IRS at 1-800-829-4933 to apply for this change.

Federal Payroll Tax Deposit Rules

The Internal Revenue Service payroll-tax deposit rules require employers to deposit withheld taxes on either a monthly or semi-weekly basis. All employers must make payroll deposits based on the following rules in order to avoid penalties:

- Employers who reported \$50,000 or less in employment taxes during the look back period - July 1 through June 30 of the prior year - will deposit monthly. Payment is due by the 15th day of the month after the payroll is paid.
- Employers reporting over \$50,000 in employment taxes during the look back period are required to make their deposits on a semi-weekly basis.
- Whenever an employer has total accumulated employment taxes equal to \$100,000 or more on any day during a deposit period, they need to make a federal tax deposit the next banking day, whether they are a monthly or semiweekly schedule depositor.

Federal Payroll Tax Deposit Rules-continued

The IRS tax deposit threshold for withheld income and employment (social security and Medicare) taxes is \$2,500. This means that employers with less than \$2,500 of accumulated withheld income and employment taxes in a return period do not have to deposit monthly, but can make their payment quarterly with their Form 941 or annually with their Form 944. This rule also applies to annual returns like Form 943, *Employer's Annual Tax Return for Agricultural*.

CA Payroll Tax Deposit Rules

As with CA Payroll Tax returns employers with 10 or more employees are required to electronically submit payroll tax deposits to the Employment Development Department. Employers with less than 10 employees will be subject to this requirement beginning January 1, 2018. Any employer already required to make electronic fund transfers will remain subject to those requirements.

Failure to not comply with the electronic requirement will incur penalties of 15% of amount due on tax deposit payments.

Employers may request a waiver from the mandate due to lack of automation, severe economic hardship, current exemption from the federal government, or other good cause. The E-file and E-pay Mandate Waiver Request (Form DE 1245W) is available from the Employment Development Department (www.edd.ca.gov) website.

Other electronic filing and payment options include paying taxes by credit card using EDD's credit card vendor, Official Payments Corp., but they will charge a convenience fee of 2.3 % of the amount being paid.

Taxpayers whose average amount of SDI and PIT deposits was \$20,000 or more during the look back period - July 1 through June 30 of the preceding year - are required to remit all SDI and PIT deposits electronically during the next calendar year. First time mandatory EFT (electronic funds transfer) filers are notified of their status by October 31 prior to the year of mandatory EFT participation. If you are required to use EFT and fail to do so, you may be subject to a 15% penalty.

Employers are required to make semiweekly California PIT and SDI deposits if they are required to make federal semiweekly deposits and have accumulated more than \$500 in PIT withholding during one or more payroll periods.

Employers are required to make monthly PIT and SDI deposits if they are required to make federal monthly or quarterly deposits and have accumulated \$350 or more in PIT withholding during one or more months of a quarter.

Employers who don't fall into the above categories will make their payment of all state payroll taxes (PIT, SDI, UI, and ETT) quarterly. The Employment Development Department (www.edd.ca.gov) website has a good summary of California's payroll tax deposit requirements and options for payment.

Payroll Tax Rate Changes

The IRS and EDD have changed some payroll tax rates and subject wages for 2017. The attached *2017 Payroll Guide* outlines the current withholding percentages and wage base limitations. Please keep this sheet with your payroll information for future reference.

Federal Forms 1099, 1096 Information Returns

Employers may need to file information returns to report certain types of payments to individuals that are made during the year and are not reported as payroll. For example, businesses must file Form 1099-MISC to report payments of \$600 or more to persons not treated as employees (i.e. independent contractors) for services performed for their trade or business. The Form 1099-MISC is also required if the business paid rent to an entity that is not a corporation.

Federal Forms 1099, 1096 Information Returns-continued

It is important to have a Form W-9, *Request for Taxpayer Identification Number*, completed by all independent contractors when services are initially performed or when a contract is signed. It is also important to get a W-9 from the entity that the business pays rent to. Please keep a copy for your reference when you issue 1099's.

Individual recipients of rental income from real estate (landlords) filing a Schedule E on their individual income tax return are not required to issue Form 1099-MISC to service providers for payments of \$600 or more during the year. However, if rental activity is significant enough to constitute a trade or business for the landlord then Form 1099-MISC reporting is required, as in any business.

Small Business Health Care Tax Credit

The federal Small Business Health Care Tax Credit is intended to encourage small employers to offer health insurance to their employees. The maximum tax credit was 35% of the employer's premium payments made on behalf of employees in tax years 2010 – 2013. However, this credit amount increased to 50% of the employer's premium payments beginning in the 2014 tax year. Also starting in 2014 this credit is only available for a 2 consecutive tax year period.

To be eligible for a portion of the Small Business Health Care Tax Credit the employer must have fewer than 25 full-time equivalent employees who are making an average of \$50,000 a year or less. To be eligible for the full amount of the tax credit the employer must have fewer than 10 full-time equivalent employees who are making an average of \$25,000 a year or less. (The Owner, if a sole-proprietor, will typically be excluded from these calculations.) To qualify for the Small Business Health Care Tax Credit, the employer must pay at least 50% of full-time employees' premium costs (employee only coverage). The employer does not need to offer coverage to part-time employees or to dependents. Beginning in 2014, the employer must purchase a qualified health plan offered through a Small Business Health Options Program (SHOP Exchange) in order for the premiums paid to be counted when calculating the credit.

Federal Form 1095-C

An applicable large employer (ALE) is one who has 50 or more employees. Whether you are an ALE is determined each calendar year based on the average number of employees you had during the prior year. For example, if you had on average at least 50 full time employees, including full time equivalent employees in 2015, you are an ALE for 2016.

Starting in 2016 all applicable large employers (ALE) must file Form 1095-C and the corresponding Form 1094-C with the IRS. The 1095-C reports information about health care coverage that the employer offered or did not offer to each of its employees in the prior year. A separate 1095-C is filed for each full – time employee. The 1094-C is the transmittal form for the 1095-C's.

The ALE is also required to provide a statement to each employee that includes the same information that was provided to IRS on Form 1095-C. The employer can fulfill this requirement by furnishing a copy of the actual 1095-C filed with the IRS. The employer must furnish the 1095-C to each full time employee on paper by mail unless the employee gives written consent to receive it electronically. The consent can be on paper or made electronically but if the employee consents on paper they must confirm that consent electronically.

An ALE who fails to file these forms, either with the IRS or with their full time employees, may be subject to penalties. Penalties are also imposed when payroll reports or W-2's are not filed.

On November 30, 2016 the Internal Revenue Service extended the reporting deadline for the 2016 Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage*, the 2016 Form 1095-B, *Health Coverage from January 31, 2017, to March 2, 2017*, and (2) for filing with the Service the 2016 Form 1094-B, *Transmittal of Health Coverage Information Returns*, the 2016 Form 1094-C, *Transmittal of Employer-Provided Health Insurance Offer*

Federal Form 1095-C-continued

and Coverage Information Returns, and the 2016 Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage*, remains unchanged with due date of February 28, 2017, if not filing electronically, and March 31, 2017, if filing electronically.

An automatic 30-day extension of time to file is available by completing Form 8809, Application for Extension of Time to File Informational Returns available through the Internal Revenue Service (www.irs.gov) website. This form may be submitted on paper or through the Filing Information Returns Electronically (FIRE) system either as a fill-in form or an electronic file.

The Employer's Shared Responsibility Payment

An ALE may owe an employer shared responsibility payment to the IRS if it chooses to

- not offer affordable minimum essential coverage that provides minimum value to at least 95% of its full-time employees and at least on employee purchases insurance through the Marketplace and receives a premium tax credit; or,
- fails to offer *affordable* minimum essential coverage that provides minimum value to at least 95 % their full time employees and at least on employee purchases insurance through the Marketplace and receives a premium tax credit.

There are two types of payment and how each is calculated is somewhat complex. More detail is available at www.irs.gov – search “Types of Employer Payments and How They Are Calculated.”

These payments are nondeductible for income tax purposes and an ALE is not responsible to calculate or include them on any tax return that it files. The IRS will calculate if either payment is due and contact the ALE to inform them that they have a potential liability to allow the ALE a chance to respond before any payment is assessed.

Standard Mileage Rates

The IRS has announced the standard mileage rates effective January 1, 2017:

- \$ 0.535 (53.5 cents) per mile for business miles driven
- \$ 0.17 (17 cents) per mile driven for medical or moving purposes
- \$ 0.14 (14 cents) per mile driven in service of charitable organizations

The portion of the business standard mileage rate treated as depreciation is \$0.25 (25 cents) per mile for 2016.

Federal Differential Wage Payment Credit

Starting January 1, 2016 any size employer can take this credit when they pay differential wages to employees. These are payments for periods when the employee is called to active duty within the U.S. uniformed services for more than 30 days and they are in essence the wages the employer would have otherwise paid the employee. The credit is 20% of up to \$ 20,000.00 of differential pay per employee, per year. The employee must have worked at least a 91-day period immediately preceding the time they are paid differential pay.

AN IMPORTANT REMINDER TO PUBLIC WORKS CONTRACTORS - Electronic Certified Payrolls Required on All Projects Effective January 1, 2016

We want to remind all contractors and subcontractors who perform public works about one more deadline in the State's new prevailing wage enforcement program (SB 854) January 1, 2016. On that date, certified payrolls on ALL PROJECTS must be electronically filed using the Department of Industrial Relations' (DIR) Electronic Certified Payroll Reporting System (eCPR).

Projects monitored and enforced by Caltrans, City of Los Angeles, Los Angeles Unified School District, and County of Sacramento are exempted, as are projects covered by qualifying project labor agreements. Also, a reminder that contractors and subcontractors bidding or performing work on public works projects in California must be registered with DIR and pay an annual \$300 fee. Registration with DIR and the \$300 fee covers the fiscal year, July 1 - June 30. The penalty for lapsed contractor registration (in addition to the \$300 annual renewal fee) is \$300 for accidental lapse and \$2,000 for not accidental lapse.

For technical assistance, please contact the DIR at PublicWorks@dir.ca.gov or call the Labor Commissioner's office.

Internet Resources

If you have Internet access, please refer to the three sites listed below regarding further payroll issues. They are a good source for payroll updates and downloadable payroll forms. In addition, the Radakovich, Shaw & Blythe, LLP site contains a wealth of useable general tax information.

IRS:	www.irs.gov
EDD:	www.edd.ca.gov
Radakovich, Shaw & Blythe, LLP:	www.radshaw.com

If we may assist you with any payroll or related issues, please feel free to contact our office.

Have a Happy New Year!

Radakovich, Shaw & Blythe, LLP

Radakovich, Shaw & Blythe, LLP
Certified Public Accountants

NOTICE TO CLIENTS 2017 PAYROLL GUIDE

The following is an employer's tax guide for 2017 payroll taxes:

	<u>Rate</u>	<u>Limit</u>
<u>STATE DISABILITY INSURANCE (SDI)</u>		
Do not withhold more than \$998.12 from any employee in 2017.	.0090	\$110,902
<u>STATE INCOME TAX (SIT)</u>		
Use California withholding schedules for 2017 found in <i>California Employer's Guide (DE44)</i> from the Employment Development Department.		
<u>STATE UNEMPLOYMENT INSURANCE (SUI)(ETT)</u>		
The EDD will mail your 2017 rate to you shortly. Figure the SUI tax by multiplying your rate by that part of the first \$7,000 of each employee's annual wages that you paid during the year. Depending on your SUI rate, you may also need to pay ETT (Employment Training Tax). This is figured the same way as SUI and the notice showing your SUI rate will also show if you will pay ETT in 2017.	Your Tax Rate	\$7,000
	.0010	\$7,000
<u>FEDERAL INCOME TAXES (FIT)</u>		
Use Federal Withholding Schedules for 2017 found in <i>Circular E, Employer's Tax Guide</i> Publication 15, from the IRS.		
<u>FEDERAL INSURANCE CONTRIBUTION ACT (FICA)</u>		
Social Security: Withhold 6.2% from the first \$127,200 in wages.	.062	\$127,200
Medicare: Withhold 1.45% from wages, with no maximum limit.	.0145	None
<u>FEDERAL UNEMPLOYMENT TAX (FUTA)</u>		
Figure the total tax by multiplying .006 by that part of the first \$7,000 of each employee's annual wages that you paid during the year. Since California's federal loan for unemployment insurance is still outstanding at the end of 2016 an additional 1.8% (.018) will be applied to 2016 FUTA wages as a Credit Reduction, payable with the fourth quarter FUTA deposit, using Schedule A of Form 940.	.006	\$7,000
<u>ADDITIONAL MEDICARE TAX</u>		
Withhold 0.9% of employee wages that exceed the threshold of more than \$200,000. As with regular Medicare tax, there is no maximum limit.	.009	>\$200,000 None
<u>EMPLOYEE CONTRIBUTIONS TO RETIREMENT PLANS</u>		
The employee elective deferral (contribution) limit for section 401(k), 403(b) or 457(b) plans and the federal government's Thrift Savings Plan.		\$18,000
Catch-up contribution limit for those age 50 and over.		\$6,000
All the above figures were confirmed as of this date; however, these figures are subject to change. December 20, 2016		