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CERTIFIED PUBLIC ACCOUNTANTS



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Dear Client:

This letter outlines changes for the coming new year regarding bookkeeping and payroll. Please review the following updates and reminders for 2019.

***** Action Items for 2019 *****

- **Update all rates and taxable limits in your accounting software BEFORE preparing the first payroll of 2019.**
- **California Minimum Wage changes effective January 1, 2019:**
 - **\$11.00 per hour for Employers with 25 employees or less**
 - **\$12.00 per hour for Employers with 26 employees or more**
 - **Note: Update Labor Law posters to reflect these changes**

Although there are some exceptions, employees in California must be paid the minimum wage as required by state law. Please visit the Department of Industrial Relations website for a complete listing of exceptions at www.dir.ca.gov/dlse/SB3_FAQ.htm.

If you prepare your own payroll, below is a list of the tax rates that are effective January 1, 2019:

	<u>EMPLOYEE TAX RATE</u>	<u>EMPLOYER TAX RATE</u>	<u>TAXABLE LIMIT</u>
FICA	6.20%	6.20%	\$132,900
MEDICARE	<u>1.45%</u>	<u>1.45%</u>	No Limit
Combined FICA and MEDI	<u>7.65%</u>	<u>7.65%</u>	

**Additional Medicare withholding of 0.9% is required when an employee's calendar year wages exceed \$200,000 (\$250,000 for married couples filing jointly).

FUTA	N/A	0.6%	\$7,000
SDI (includes Paid Family Leave)	1.0%	N/A	\$118.371

Each year the IRS notifies employers of which deposit schedule to use for depositing federal income tax withheld for the coming year. Most small businesses will use the monthly deposit schedule. Please see IRS Publication 15 (Circular E) for complete information on monthly and semi-weekly deposit requirements.

You must make your deposits (such as employment tax, excise tax, and corporate income tax) electronically in 2019. IRS regulations began requiring electronic deposits January 1, 2011. If you are not already enrolled for Electronic Federal Tax Payment System (EFTPS), please visit the EFTPS website for enrollment information. An exception to the EFTPS payment rule is a taxpayer on a monthly deposit schedule with a total tax liability of less than \$2500 for the quarter. The taxpayer may choose to pay their taxes by check along with the quarterly filing of their Form 941 payroll tax return. Please see IRS Publication 15 (Circular E) Depositing Taxes for complete information.

Each year the Employment Development Department notifies employers of their new State Unemployment Insurance (SUI) rate. Before preparing your first payroll of 2019, be sure to update the rate in your accounting software or on any Excel spreadsheet you use to calculate your payroll. This will ensure that your payroll taxes are correctly calculated. The EDD requires all employers to electronically submit employment tax returns, wage reports, and payroll tax deposits.

Bonuses (including Christmas bonuses) are subject to employment taxes. If you have questions or would like assistance with calculating the tax, please contact our office.

At the beginning of 2019, have your employees complete a new 2019 Federal Form W-4. The employee should complete California Form DE-4 only if the employee wants the number of state allowances to be different than what is claimed on their Federal W-4.

When hiring new employees, be sure to have them fill out forms W-4, I-9 and *DLSE-Notice to Employees LC 2810.5 **at the time of hire. These forms are updated annually, please be sure to use the current form.** The Form I-9 must be retained by the employer for three years after the date of hire; or one year after the termination of employee, whichever is later. Instructions for filling out W-4s and I-9s are on the back of the forms. Please read the instructions **carefully** to be sure the forms are filled out properly. **It is up to the employer to make sure that the information is accurate, and the forms are complete.**

*DLSE-Notice To Employees – Provide this form to all nonexempt employees. Be sure to provide a copy to the employee and retain the signed original for your records.

Don't forget to file the *Report of New Employee(s)*, Form DE-34, with the Employment Development Department. Federal law requires all employers to report all newly hired employees, who work in California, to the Employment Development Department (EDD) within 20 days of their start-of-work date (first day of work). In addition, any employee who is rehired after a separation of at least 60 consecutive days must also be reported within the 20 days. Failure to report a new hire or a re-hired employee within 20 days of their start-of-work date can result in a fine of \$24 per employee. If the failure to report is an intentional agreement between the employer and employee to not supply the required information or to supply a false or incomplete report, a penalty of \$490 may be charged.

For those of you with exempt employees, there are strict guidelines on both the determination of the type of position that may be exempt as well as the overtime compensation required for exempt employees. If you have exempt employees, please contact our office or the appropriate agencies to review these guidelines and related restrictions so that you are in compliance with federal and state regulations. More information may be found at the following websites:

- <https://www.dol.gov/whd/overtime/final2016/faq.htm#G6>
- https://www.dol.gov/whd/overtime/fs17a_overview.pdf
- <https://www.dol.gov/whd/overtime/final2016/faq.htm>

A brief reminder regarding who must issue Forms 1099: Any service recipient who, in the course of his or her trade or business (including those activities deemed non-profit) will be making payments totaling \$600 or more to any person for services rendered (other than a corporation) in a calendar year must file an information return on Form 1099. Payments to attorneys (including legal corporations) for legal services are reportable on Form 1099-Miscellaneous. Do not report payments to employees such as Christmas bonuses, reimbursements for travel or car expenses on Form 1099; report these on Form W-2. File Form DE-542 for independent contractors within 20 days of either making payments or entering into a contract totaling \$600 or more, whichever is earlier.

As an employer, you are required by the Internal Revenue Service and the Employment Development Department to keep any and all records relating to payroll for at least seven years. If you employ independent contractors or exempt employees, the state of California requires records to be maintained for at least eight years. The following is a suggested list of records to keep which refers to payroll related records only; it is not intended to be a complete list of all business records that you should retain:

- Names, addresses, social security numbers, dates of employment, and occupations of employees
- Records of reported and allocated tips
- Any records of sick and/or vacation pay
- Amounts and dates of all wage, annuity, and pension payments
- Time cards and time sheets
- Copies of income tax withholding allowance certificates (Forms W-4, W-4P, W-4(SP), W-4S, and W-4V)
- Copies of Forms W-2 and W-2c (including employee copies that were returned to you as undeliverable)
- Payroll tax deposit records including confirmation numbers for electronically filed deposits
- Copies of payroll tax returns filed (Forms 941, DE9, DE9C, etc.)
- Any records of fringe benefits and expense reimbursements
- I-9 Forms

Effective January 1, 2008, employers are required to notify employees with Forms W-2 that they may be eligible for the Earned Income Credit. For more information, please read Notice 1015 enclosed with this letter or refer to IRS Publication 15 (Circular E), page 26. Note - Additional copies of W-2s must be requested in writing and signed by the employee.

Affordable Care Act Reminders:

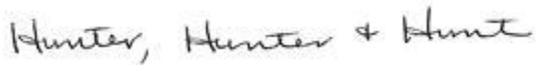
- Under certain conditions, Qualified Small Employers may reimburse employees for health care coverage purchased through the individual market. If you think you may meet the stipulations for a Qualified Small Employer or would like more information, please contact our office.
- Applicable Large Employers (defined as employers with 50 or more full-time employees, including full-time equivalents) are required to report health coverage offered or not offered to employees. Reporting is completed on Forms 1094-C and 1095-C. If you need assistance with determining whether you are an 'ALE', please contact our office.

California Labor Law requires all employers to post certain notices to employees. Fines may be levied for non-compliance. Please visit the Department of Industrial relations website for a list of required posters at <https://www.dir.ca.gov/dlse/RequiredPosters.html>.

Please be sure to read all notices you receive from regulatory agencies, as there may be regulatory changes that affect your business.

If you have any questions about the information contained in this letter, please contact our office at (707) 476-0674 and one of our team members will be happy to assist you.

Sincerely,



Hunter, Hunter & Hunt, LLP

Enclosure