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December 31, 2014

Dear Client:

Enclosed are our year-end payroll tax memos which will cover the year 2015 filing requirements and the new rates and law changes that effect the year 2015 payroll taxes:

- Client Memo #1 Tax Deposit Requirements
- Client Memo #2 Filing of Form 1099 Statements
- Client Memo #3 EDD Reporting of Independent Contractors
- Client Memo #4 Employee Registry
- Client Memo #5 Minimum Wage Requirement
Business Standard Mileage Rates – effective 1/01/15
California Sales and Use Tax Rates
- Client Memo #6 Household Employees
- Client Memo #7 Paid Family Leave
- Client Memo #8 Federal Holidays
- Client Memo #9 Obamacare/New Taxes

Please call our office if you have questions regarding any of these filing requirements.

Very truly yours,

Wiebe & Associates
WIEBE & ASSOCIATES

CLIENT MEMO #1 - January 2015
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TAX DEPOSIT REQUIREMENTS

Please be advised that you are required to deposit the following taxes at the specified times indicated:

<u>EMPLOYMENT TAX DEPOSITS</u>	<u>DUE DATES</u>
1) <u>Federal</u> - FICA and W/H income tax Penalty for noncompliance: 2% to 15% of underpayment plus interest.	See Pages 2 & 3 Attached
2) <u>State</u> - SDI and W/H income tax Penalty for noncompliance: 10% to 20% of underpayment plus interest.	See Page 4 Attached
3) <u>Sales Tax</u> - State Penalty for noncompliance: 10% of underpayment plus interest.	Monthly-Quarterly-Annually
4) <u>Estimated Income and Self-Employment Tax</u> Federal and State Penalty for noncompliance: Approximately 8%-9% per year. (Subject to change quarterly)	Quarterly
5) <u>Corporation Income Tax</u> - Federal and State Penalty for noncompliance: Approximately 8%- 9% per year. (Subject to change quarterly)	Quarterly

NOTE: There is a penalty for not reporting social security numbers for each employee on payroll reports.

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TAX DEPOSIT REQUIREMENTS

Due to the numerous depository requirements, which vary substantially with the taxing authority, as well as, the amount of the tax, it may be difficult to determine at any particular time what is required. Accordingly, we are providing you with this information with the hope that you will contact us with reference to specific items.

We will attempt to remind you, where possible, of your tax depository requirement prior to their due dates. However, in some instances, this information will not be available to us until the records have been reviewed, which may be after the due date has passed. Since there are various penalties for nonpayment and/or underpayment, we urge you to review those requirements, which pertain to your situation.

FEDERAL PAYROLL TAX DEPOSITS

- I) Determine if you are a monthly or semi-weekly depositor. The IRS should have sent you a letter notifying you of what they believe is your correct category. Send us a copy of that letter so that we can decide if they have correctly categorized you. The IRS letter is not final. You are responsible for making the final determination. Starting in 1998, the annual deposit schedule notification will be mailed only to employers identified as having a change in their deposit schedule (monthly or semi-weekly) for the next calendar year.

While the IRS instructions are fairly complicated and include various exceptions etc., the following are the basic rules:

- 1) Monthly deposit rule: Make your deposits by the 15th of the current month for the prior month's withholding and expense.
- 2) Semi-Weekly Deposit rule:
 - A) If your payday falls on Saturday, Sunday, Monday or Tuesday, the deposit is due on the following Friday.
 - B) If your payday falls on Wednesday, Thursday or Friday, the deposit is due on the following Wednesday.

Threshold for Quarterly deposits – If your total federal tax liability for the quarter is \$2,500 or less, you do not have to deposit monthly. You can pay the employment taxes each quarter of the tax year.

For new employers, you are a monthly depositor for the first calendar year of your business. After the first calendar year, you may receive a notice from the IRS, stating you have become a semi-weekly depositor based on your lookback period. It is your responsibility to notify your payroll service provider of this new depositing requirement. Failure to do so may result in penalties and interest.

However, we always suggest that you make your deposits with each payroll and thus insure you will not miss a deposit and be subject to penalties.

- II.) If the deposit amount is over \$100,000, the deposit must be made within 1 banking day.

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CHANGES TO MAKING FEDERAL TAX DEPOSITS EFFECTIVE 2011

Beginning January 1, 2011, all businesses using Forms 8109/8109B will be required to make Federal Tax Deposits electronically. Otherwise, you may be charged a 10% penalty for each non-electronic deposit. The IRS is mailing out letters to businesses, stating that you can no longer make required deposits using Form 8109/8109B, Federal Tax Deposit coupons.

In addition, financial institutions are no longer accepting Federal Tax Deposit coupons beginning January 1, 2011 and the IRS will no longer issue businesses Federal Tax Deposit coupon booklets to employers.

What you need to do:

- Check with your financial institution to ask if they offer any services to help you make your federal tax deposits electronically. Financial institutions are not required to initiate payments for you and may charge you a fee. Check in advance for cutoff times, which may be earlier than if you make a payment yourself electronically.
- For a convenient and quick way to make timely electronic deposits, we encourage you to use EFTPS (Electronic Federal Tax Payment System). This system is a free, secure service available from the U.S. Department of the Treasury.
- You must be enrolled in EFTPS to pay via their website or voice response system. Some businesses have already been pre-enrolled in EFTPS and have been mailed a PIN. You will need to contact EFTPS at 1-800-555-3453 to activate your enrollment.
- If you have not received a pre-enrollment letter from EFTPS, you can visit their website at www.eftps.gov or call 1-800-555-4477 to enroll.

It is your responsibility as an employer, to make your payroll tax deposits on time. Please take the necessary steps to ensure that you have the proper access to submit your federal tax deposits electronically and on time.

Please do not hesitate to contact our office, if you have questions or need assistance with these procedures.

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STATE PAYROLL TAX DEPOSITS

The Employment Development Department (EDD) depositing requirements comply with the Federal depositing requirements. However, if your company's personal income tax and state disability insurance deposits averaged \$20,000 or more during the prior state fiscal year (July 1, 2013 to June 30, 2014) you may be required to make EFT deposits. The EDD will mail a notification letter to first time mandatory filers.

DEPOSITING REQUIREMENTS:

After determining your federal depositing requirement, you will follow the same depositing requirement for your state tax deposits.

1. Semi-weekly Depositor - If you have accumulated more than \$500 in state Personal Income Tax (PIT) withholding, you will be required to deposit all state withholding taxes (PIT and disability insurance) to the EDD using the federal semi-weekly schedule.
2. Monthly Depositor - If you have accumulated more than \$350 in state Personal Income Tax (PIT) withholding, you will be required to deposit all state withholding taxes (PIT and disability insurance) to the EDD by the 15th of the following month.

If you have any questions regarding these deposit requirements, please contact us so that we may help you avoid any possible underpayment penalties.

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PAYROLL TAX LIMITS FOR THE YEAR 2015

Please be advised of the following new rates and limits for the year 2015:

<u>EMPLOYEE TAX LIMITS FOR THE YEAR 2015</u>		<u>MAXIMUM TAX</u>
SDI Rate 0.9% (.09) This includes the rate for Paid Family Leave (See Client Memo #7)	Wage limit \$104,378*	\$ 939.40*
Social Security Rate 6.2%	Wage limit \$118,500*	\$7,347.00*
Medicare Rate 1.45%	No Wage limit (on all earnings)	Unlimited

<u>EMPLOYER TAX LIMITS FOR THE YEAR 2015</u>		<u>MAXIMUM TAX</u>
Social Security Rate 6.2%	Wage limit \$118,500*	\$7,347.00*
Medicare Rate 1.45%	No Wage limit (on all earnings)	Unlimited
Federal Unemployment Tax (FUTA) 0.6%	Wage limit \$7,000	\$42.00 Per employee
State unemployment tax (Rate varies with employer)	Wage limit \$7,000	

SELF-EMPLOYMENT TAX

Total Rate 15.30%		
Social Security Rate 12.40%	Wage limit \$118,500*	\$14,694.00*
Medicare Rate 2.90%	No limit (on all earnings)	Unlimited

Also in the year 2015, all of the self-employment tax will be allowed as a deduction on the self employed person's individual tax return.

*** New for 2015**

PAYROLL TAX LIMITS FOR THE YEAR 2015

0.9% ADDITIONAL MEDICARE TAX ON EARNED INCOME 2015

Beginning in 2013, individual will pay an additional 0.9% Medicare Hospital Insurance (HI) tax on wages and self-employment (SE) income on amounts earned above certain threshold amounts.

The threshold amounts are:

- \$250,000 for joint returns;
- \$125,000 for married filing separate; and
- \$200,000 for all others.

These threshold amounts are not indexed for inflation.

Under current law, the HI tax rate is 2.9% of earned income without limit. Half (1.45%) is paid by the employee through withholding and half (1.45%) is paid by employer. A self-employed individual pays the entire 2.9%.

Under the new law, if income exceeds the threshold amounts, the employee's share will increase, but the employer's share will remain at 1.45%. For self-employed individuals, the rate will increase from 2.9% to 3.8%. In other words, there is no employer match.

CLIENT MEMO #2 - January 2015
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FILING OF FORM 1099 STATEMENTS

Please read this client memo regarding the requirements for filing 1099s thoroughly. The Internal Revenue Service will levy significant penalties on taxpayers who are not filing 1099s properly.

WHO MUST FILE:

Individuals, partnerships, corporations, trusts or estates must file 1099s if, in the course of their business or trade, they make certain payments of \$600 or more to individuals or businesses. The payments, which must be reported, are as follows:

1. Interest - \$10 or more
2. Dividends - \$10 or more
3. Prizes and awards
4. Rents
5. Royalties - \$10 or more
6. Commissions
7. Nonemployee compensation such as for services rendered for your trade or business
8. Other similar payments
9. Sales by you of \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other basis for resale. Use 1099 - MISC, check box 9, no money amount is needed on the form.
10. Any distribution from a pension plan

ADDITIONAL NOTES:

For 2014, if the IRS or FTB requires you to provide an information return (Form 1099) to an independent contractor, failure to provide such form by February 2, 2015, may result in a penalty. The amount of the penalty is determined based upon the unreported remuneration for personal services multiplied by the maximum rate (9.55%).

INFORMATION REPORTING FOR RENTAL PROPERTY

The Internal Revenue Service may take the position that, if you own rental property, you can be considered a 'business' for 1099 reporting requirement purposes.

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FILING OF FORM 1099 STATEMENTS

Payments to Attorneys:

Gross Proceeds Reporting: TRA 1997 requires gross proceeds reporting on all payments to attorneys made by a trade or business in the course of that trade or business. The committee reports anticipate that gross process reporting will be required on Form 1099-B (currently used by brokers to report gross proceeds). The only exception to this new reporting requirement is for payments reported on either form 1099-Misc (payments of income) or on Form W-2 (payments of wages).

Incorporated Attorneys

The present exception in the regulations exempting Form 1099 reporting for payments made to corporations will not apply to payments made to attorneys.

Forms 1099 for Attorney Trust Funds

An attorney who paid for expert witness and investigator fees from the client's trust fund is required to file Forms 1099. Generally someone acting as an agent of the payer is not required to file a Form 1099. But if the middleman has general oversight or management functions in making the payments, the middleman is treated as the payor. Thus, the attorney and not the client must issue the 1099s.

WHEN TO FILE:

Each recipient should receive a copy of the 1099 by February 2, 2015.

All 1099s, along with transmittal Form 1096, for the 2014 calendar year must be filed with the Internal Revenue Service by March 2, 2015.

The Internal Revenue Service will forward the information to the Franchise Tax Board. When federal and state payment amounts differ, you may file information returns with the Franchise Tax Board by attaching paper copies to the Internal Revenue Service Form 1096 and forwarding to: Franchise Tax Board, P. O. Box 942840, Sacramento, CA 94240-2000.

You should check your records as soon as possible to see if you meet the requirements for filing 1099s. If you should have questions or need assistance in filing the 1099s, do not hesitate to contact our office.

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EDD Reporting of Independent Contractors

Effective January 1, 2001, California has a new law that requires businesses and government entities to report on independent contractors to the Employment Development Department (EDD). The reporting requirements are somewhat complex and burdensome. However, it is extremely important that you take the time now to understand the impact of this new law to your business. Following are highlights of this new law for your reference.

A. Who must be reported to the EDD?

The law defines an independent contractor as an individual who is not an employee of the business or government entity for California purposes and who receives compensation or executes a contract for services performed for that business or government either in or out of California. Please note that under this new law, a partnership, corporation or limited liability company would not fall under this definition of independent contractor and thus would not need to be reported on Form DE 542.

B. When must the information be reported?

As of January 1, 2001, you must report information to EDD within twenty (20) days of either (1) making payments totaling \$600 or more; **or** (2) when entering into a contract for \$600 or more with an independent contractor in any calendar year; whichever is earlier.

C. What information must be reported to the EDD?

The Form DE 542 will require the following information on the independent contractor:

1. Name – first, middle, last
2. Social security number
3. Address
4. Start date of contract *or* date payments equal \$600 or more
5. Amount of contract
6. Contract expiration date
7. Ongoing contract

D. What happens if you fail to report the independent contractor as required?

The EDD may assess a penalty of \$24 for each failure to comply within the required time frames. In addition, if there is a conspiracy between the business and the independent contractor not to provide the required reporting, the penalty is \$490.

The form is available from the EDD by calling their Hotline at (916) 657-0529 or the EDD Web Site at <http://www.edd.ca.gov>.

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EMPLOYEE REGISTRY

To assist California's Department of Social Services and Department of Justice in the collection of delinquent child support obligations, the "NEW EMPLOYEE REGISTRY" (NER) program was established within the Employment Development Department. Federal law requires all employers to report to EDD within 20 days of start of work all employees who are newly hired, rehired or returning to work from a furlough, separation, leave of absence without pay, or termination.

Employers may choose one of several methods to report their new employees.

- 1.) Report of New Employee(s) - Form DE 34 is provided by the EDD for the employer's convenience.
- 2.) Submit a copy of the employee's W-4 form. You must add the employee's start-of-work date, your state payroll account and federal ID number.
- 3.) Employers may also choose to use their own reporting form. The following information **must** be included on the reporting form:
 - a.) Employer name, contact person name, address, phone number, state payroll account number, and federal ID number.
 - b.) Employee's first name, middle initial, and last name
 - c.) Employee's social security number
 - d.) Employee's home address and start-of-work date.

Reporting forms should be mailed to:

**Employment Development Department
Document Management Group, MIC 96
P. O. Box 997016
West Sacramento, CA 95799-7016**

Or faxed to:
Fax **(916) 319-4400**

- 4.) Submit a Report of New Employee(s) (DE 34) electronically using e-Services for Business.

A prerecorded telephone message has been provided to answer common New Employee Registry questions and may be accessed by calling (916) 657-0529. At the end of the message, you may leave your name and telephone number and your call will be returned as soon as possible. You may also contact your local Employment Tax District Office.

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MINIMUM WAGE REQUIREMENT

- Effective July 1, 2014, the California minimum wage is \$9.00 per hour. **It will increase to \$10.00 per hour effective January 1, 2016.**
- The Federal minimum wage is \$7.25 per hour effective July 24, 2009.

BUSINESS STANDARD MILEAGE RATES

- Effective January 1, 2015, the Standard Mileage Rate for all business use of a car (including vans, pickups or panel trucks) will be:
 - * 57.5 cents per mile for business miles driven **(1 1/2 cent more than 2014)**
 - * 23 cents per mile for medical or moving purposes **(1/2 cents less than 2014)**
 - * 14 cents per mile driven in service to a charitable organization **(same as 2014)**

CALIFORNIA SALES and USE TAX RATES

Proposition 30 increase sales tax rate by .25% for four years beginning on January 1, 2013. The California Sales and Use Tax overall base rate will be 7.50%. An additional percentage rate is added according to your local and county districts. See the chart below for rates relating to your county. Call our office if you need additional county rates.

*	Los Angeles County	9.00%
*	Orange County	8.00%
*	Riverside County	8.00%
*	San Bernardino County	8.00%
	- Montclair	8.25%
	- City of San Bernardino	8.25%

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HOUSEHOLD EMPLOYEES

Taxpayers who have household employees can pay the related payroll taxes with their personal tax returns. This will be accomplished by filing a Schedule "H" with their tax return.

In order to do this you must have an Employer Identification Number and issue a W-2 to the household employee by February 2, 2015.

If you have household employees and have not already applied for ID numbers, please contact our office by January 15, 2015 so that we may apply for an Employer Identification Number and prepare the W-2s in time.

We will need the name, address, social security number and the amount paid (during 2014) of each household employee.

Please call our office if you have any questions.

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PAID FAMILY LEAVE

In 2002, California legislation extended disability compensation to individuals who take time off work to care for a seriously ill child, spouse, parent, domestic partner, or to bond with a new minor child. This program, known as Paid Family Leave, is funded by employee contributions included with the Disability Insurance withholding. The combined withheld SDI and PFL rate is .9%, beginning January 1, 2015. Benefits are payable for claims that begin on or after July 1, 2004. Effective January 1, 2004, you must provide each newly hired employee with a copy of “Paid Family Leave” – Form DE2511 and to each employee leaving work to care for a seriously ill child, spouse, parent, or registered domestic partner, or to bond with a new child. For California workers covered by SDI, PFL provides up to six weeks of benefits.

Beginning July 1, 2014, California workers may be eligible to receive PFL benefits when taking time off of work to care for a seriously ill parent-in-law, grandparent, or sibling.

These informational brochures are available online at www.edd.ca.gov.

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FEDERAL HOLIDAYS

- Federal legal holidays for 2015 are listed below. Keep in mind these are holidays for when processing your federal and state tax deposits.
 - * January 1 - New Year's Day
 - * January 19 - Birthday of Martin Luther King Jr. (Federal Observance)
 - * February 16 - Presidents' Day
 - * May 25 - Memorial Day
 - * July 3 - Independence Day
 - * September 7 - Labor Day
 - * October 12 - Columbus Day (Federal Observance)
 - * November 11 - Veterans' Day (Federal Observance)
 - * November 26 - Thanksgiving Day
 - * December 25 - Christmas Day

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OBAMACARE/NEW TAXES

The Patient Protection and Affordable Care Act of 2010 (ACA) and the Health Care and Education Reconciliation Act of 2010 include more than \$400 billion in revenue raisers, as well as new health care provisions for individuals and employers.

Starting in 2010 and phasing in through 2018, the Acts will provide a host of new deductions, lost deductions, new credits, new taxes, and entirely new tax concepts.

In summary, the Acts mandate that all individuals have health care coverage by 2014 or pay a penalty. For those who do not have employer-sponsored coverage, insurance 'exchanges' will be set up to facilitate shopping for insurance. The available plans must be 'qualified health plans' that meet certain standards set by the government. There will be financial assistance, funded by the government, to ensure that individuals are not spending more than a certain percentage of their income on their health care premiums. There are also other resources available that provide individual private policies in order to facilitate shopping for health care insurance coverage (i.e. 'ehealthinsurance.com').

For 2015 only, employers with 99 or less employees are not required to offer health insurance to their employees. Although employers with 100 or more 'full-time equivalent' (FTE) employees are required to offer their employees health insurance coverage effective January 1, 2015.

Effective January 1, 2016, employers with 50 or more 'full-time equivalent' (FTE) employees are required to offer their employees health insurance coverage,

Since these rules and laws are changing on a daily basis, please contact our office or your insurance broker if you have any questions or need additional information.