



# Eckhoff Accountancy Corporation

*Empowered professionals meeting client challenges*

145 North Redwood Drive  
P.O. Box 6088  
San Rafael, California 94903-0088  
(415) 499-9400 · FAX (415) 499-1408  
cpas@eckhoff.com

## **2014 PAYROLL TAX MATTERS**

Following is a summary of some of the 2014 payroll withholding and employment tax rules, and reporting and deposit requirements. For a complete explanation of the Federal and California rules and requirements see the appropriate government publication (i.e. IRS Publication 15 "Circular E, Employer's Tax Guide," EDD "2014 California Employer's Tax Guide," etc.). This memorandum applies to business employers only and does not encompass any domestic/household employment tax issues (i.e. the "Nanny Tax").

If you have any questions or would like further assistance, please call one of our Payroll Consultants at 415-499-9400.

### **2014 NEW PAYROLL CHANGES**

Mileage reimbursement rate for 2014: \$ .56 cents/mile.

The **employee** tax rate for social security **remains at 6.2%**.

**Employer** tax rate for social security remains unchanged at 6.2%.

**Additional Medicare tax may apply to certain employee.** See page 6 for details on the [Additional Medicare Tax on Wages Over \\$200,000](#).

Please click on following links for additional information on the subject.

[Deductions From Employees' Checks \(Withholding Taxes\)](#)

[Employer's Expenses / Accruals \(Employment Taxes\)](#)

[Reporting Requirements](#)

[Deposit Requirements](#)

[What's new](#)

## Withholding and Employment Taxes

### Deductions From Employees' Checks (Withholding Taxes):

Type of Tax	Tax Rate	Wage Limit on first	Maximum Deduction per employee
<b>Federal Income Tax</b>	Refer to 2014 Circular E		N/A
<b>Federal Social Security Tax</b>	6.20%	\$ 117,000.00 <sup>1</sup>	\$ 7,254.00
<b>Federal Medicare Tax</b>	1.45% <sup>2</sup>	All Wages	N/A
<b>California Personal Income Tax/PIT</b>	Refer to 2014 EDD Employer's Guide		N/A
<b>California State Disability Insurance/SDI</b>	1.00%	\$ 101,636.00	\$ 1,016.36

### Employer's Expenses / Accruals (Employment Taxes):

Type of Tax	Tax Rate	Wage Limit on first	Maximum Expense per employee
<b>Federal Social Security Tax</b>	6.20%	\$ 117,000.00 <sup>1</sup>	\$ 7,254.00
<b>Federal Medicare Tax</b>	1.45%	All Wages	N/A
<b>Federal Unemployment Tax Act/FUTA</b>	0.60% <sup>3</sup>	\$ 7,000.00	\$ 42.00
<b>California State Unemployment Insurance/SUI</b>	<sup>4</sup>	\$ 7,000.00	N/A
<b>California Employment Training Tax/ETT</b>	0.10%	\$ 7,000.00	\$ 7.00

The Federal tax withholding rate for bonus and supplemental wages is 25% for payments that do not exceed \$1,000,000. For payments that exceed \$1,000,000 the rate is 35%. The California tax withholding rate is 10.23% for bonus and stock options and 6.6% for other types of supplemental payments.

<sup>1</sup> Wages include tips reported to you by your employees.

<sup>2</sup> Employee Medicare rate increases by .9% to 2.35% on wages over \$200,000.00 (see page 6).

<sup>3</sup> Effective rate includes California credit reduction and assumes California State SUI is paid timely, otherwise .6% if SUI is not paid timely. California has been designated a Credit Reduction State. This may result in an effective rate of 1.8% for 2014, with the additional 1.2% due for the 4<sup>th</sup> quarter.

<sup>4</sup> The California EDD mails your applicable rate annually in December. You can obtain the rate information by calling 916-653-7795.

## Reporting Requirements

### Federal:

**Form 941:** Filed quarterly by the last day of the month following the calendar quarter. This form is used to report (1) income taxes, social security taxes, and Medicare taxes withheld from employees, (2) the employer's employment taxes, which are its social security tax and Medicare tax contributions, and (3) Advanced Earned Income Credit. **Form 944** is only used when employers are notified by the Internal Revenue Service.

**Form 940:** Filed annually by January 31. This form is used to report the employer's FUTA tax. California no longer qualifies for the entire credit reduction of 5.4%. As such, there was a .3% credit reduction on wages beginning 2011 and increasing by .3% each year until the credit reduction no longer applies. This requires that employers file a Schedule A with their Form 940. At this time, the credit reduction also will apply to 2013.

**Form W-2:** Provided to each employee in triplicate annually by January 31.

**Form W-3:** Filed annually by the last day of February. This form is to be accompanied by the Federal copies of Form W-2. However, if you have 250 or more Form W-2's you must file electronically. Contact the IRS or our office if this requirement applies.

### California:

**Form DE 9 & 9C:** Filed quarterly by the last day of the month following the calendar quarter. DE 9C is used to report the employees' wages and withheld PIT. DE 9 reconciles California payroll tax liability quarterly and reports UI and ETT.

**Form DE 34 - Report of New Employee(s):** All employers are required to report newly hired, rehired, or returning employees to the Employment Development Department (EDD). The new employees must be reported to EDD within 20 days of being hired. Form DE 34 may be used to report new employees. Form DE 34 may be faxed to 916-319-4400, submitted online or mailed to the following address:

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

## Deposit Requirements

### Federal:

**Form 941:** The deposit rules for 2014 classify an employer as a Monthly Depositor, Semi-weekly Depositor, or \$100,000 One-Day Depositor depending on the total payroll liability for the last two quarters of 2012 and the first two quarters of 2013.

Payroll Tax Liability	Depositor Rule To Use
\$0 to \$50,000.00	Monthly Depositor Rule
\$50,000.01 & Larger	Semi-weekly Depositor Rule

Make your deposits via the Electronic Federal Tax Payment System (EFTPS) program. The deposit coupons (Form 8109) have been phased out and banks will no longer accept them. If your quarterly liability is less than \$2,500.00, you may pay by check with Form 941.

**Monthly Depositor Rule:** You must deposit federal employer's employment taxes and employees' taxes withheld (withholding taxes) during a calendar month by the 15<sup>th</sup> day of the following month.

**Semi-weekly Depositor Rule:** You must deposit federal employment taxes and withholding taxes on Wednesday and/or Friday depending on what day of the week you pay your employees as shown below:

<u>Wages Paid on:</u>	<u>Must Be Deposited on:</u>
Wednesday, Thursday, or Friday	the following Wednesday
Saturday, Sunday, Monday, or Tuesday	the following Friday

**\$100,000 One-Day Deposit Rule:** If you accumulate federal employment taxes and withholding taxes of \$100,000 or more on any day during a deposit period, you must deposit it by the close of the next banking day, whether you are a monthly or semi-weekly depositor. When a monthly depositor meets the \$100,000 One-Day Deposit Rule, they immediately become a semi-weekly depositor for the remainder of the calendar year and for the following year.

Generally, you must make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax)

#### Methods to deposit your payroll tax electronically:

- EFTPS <https://www.eftps.gov/eftps/>
- Pay electronically with a credit card or debit card. Visit the following website to find a service provider. <http://www.irs.gov/efile/article/0,,id=101316,00.html>
- Wire transfer from your bank (check with your bank if they provide this service and what charges will apply.)

The taxes to be deposited electronically include those reported on Form 940, Form 941, and Form 943. In addition, you are also required to deposit taxes electronically for Form 720, Form 945, Form 990-C, Form 990-PF, Form 990-T, Form 1042, and Form 1120.

If you accumulate less than a \$2,500 Form 941 tax liability during the quarter, or a \$500.00 Form 940 tax liability during the year, you may make a payment with the Forms 941 or 940 using the 941V or 940V voucher.

## Deposit Requirements (Cont'd)

**Form 940:** Quarterly deposits are required if, at the close of any calendar quarter, your accumulated liability for FUTA exceeds \$500. Quarterly deposits are due April 30<sup>th</sup>, July 31<sup>st</sup>, October 31<sup>st</sup>, and January 31<sup>st</sup>. Be sure to indicate Form 940 with your EFTPS payment. The state credit reduction is applied at year end and due by January 31<sup>st</sup>.

Social Security and Medicare taxes withheld from employee and employer contribution rates are equal. In order to calculate federal payroll deposits, multiply the Social Security wages by 12.4% and the Medicare wages by 2.9%, and then add to the total the federal income tax withheld. This is the estimated amount to be deposited:

Example: Estimated amount of deposit =

Federal income tax withheld from employee plus  
Social Security wages x 12.4% plus  
Medicare wages x 2.9% \*\*

\*\*The "Additional Medicare Tax" of 0.9% on wages over \$200,000.00 is not subject to the employer match. See below for more information on the "Additional Medicare Tax".

W-2 reporting requirements include medical premiums paid through the employer. However, the IRS has issued a transition relief for employers filing fewer than 250 Forms W-2. This relief remains in effect until the IRS publishes new guidance. Until that time, reporting of medical premiums is voluntary. You may wish to begin tracking this information per employee in anticipation of future reporting requirements.

### California:

**Form DE 9 & 9C:** Payments for these forms are made by EFT or DE 88 coupons as follows.

Whichever deposit rule (Monthly, Semi-weekly, or \$100,000 One-day Depositor) is used for federal deposits, the same rule is used to make state deposits, except that the state threshold for depositing withheld SDI and PIT is based on the amount of PIT withheld. A deposit of withheld SDI and PIT accompanied with Form DE 88 is required by the 15<sup>th</sup> of the following month when PIT withheld accumulates to \$350 during a month or cumulative of two or more months and no federal deposit requirement has been met.

#### **Electronic Funds Transfer (EFT):**

If your average (per payment) deposit for SDI and PIT is \$20,000 or more for the prior State fiscal year (July 1 to June 30), you are required to pay all SDI and PIT deposits by Electronic Funds Transfer during the next calendar year, regardless of the dollar amount.

**Form DE 88:** If you need additional state deposit coupons, tear out the reorder blank included with your state deposit form booklet and mail your request to the address shown on the form. Remember to verify your State Employer ID# on the deposit coupons.

**Payroll Tax Deposit Errors:** The IRS and California EDD continue to assess penalties for payroll tax deposit errors. It also seems to take an inordinate amount of time to get simple errors corrected. Therefore, care needs to be exercised when calculating the amount due and when designating pay period and other information on EFTPS. We recommend that confirmations be printed for ETF payments when each payroll tax deposit is made, and retained as proof of the date you made the deposit.

## Additional Medicare Tax On Wages Over \$200,000

The Additional Medicare Tax, which began January 1, 2013, applies to an individual's Medicare wages, Railroad Retirement Tax Act compensation, and self-employment income that exceeds a threshold amount based on the taxpayer's filing status.

Employers are responsible for withholding the 0.9% Additional Medicare Tax on an individual's wages and compensation paid in excess of \$200,000 in a calendar year. An employer is required to begin withholding Additional Medicare Tax in the pay period in which it pays wages and compensation in excess of \$200,000 to an employee.

\*\*There is no employer match for the Additional Medicare Tax.

To help answer some common questions about the additional tax, we are providing the following IRS link:

<http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>

If you have further questions or concerns that have not been addressed, please call us for further assistance.

### What's New

**Same-sex marriage.** For federal tax purposes, individuals of the same sex are considered married if they were lawfully married in a state (or foreign country) whose laws authorize the marriage of two individuals of the same sex, even if the state (or foreign country) in which they now live does not recognize same-sex marriage. For more information, see Revenue Ruling 2013-17, 2013-38 I.R.B. 201, available at [www.irs.gov/irb/2013-38\\_IRB/ar07.html](http://www.irs.gov/irb/2013-38_IRB/ar07.html).

Notice 2013-61 provides special administrative procedures for employers to make claims for refunds or adjustments of overpayments of social security and Medicare taxes with respect to certain same-sex spouse benefits before expiration of the period of limitations. Notice 2013-61, 2013-44 I.R.B. 432, is available at [www.irs.gov/irb/2013-44\\_IRB/ar10.html](http://www.irs.gov/irb/2013-44_IRB/ar10.html).