

December 27, 2011

2012 PAYROLL TAXES

Following is a brief summary of the most current information available regarding payroll related taxes and requirements. **Please read this letter carefully as there are some significant changes in effect for 2012.**

Tax	Wage Base Limit	Rate	Maximum Contribution
Social Security-Employer	\$110,100	6.20%	\$6,826.20
Social Security -Employee	\$110,100	4.20%	\$4,624.20
Medicare	No Limit	1.45%	No Limit
NV Unemployment	\$26,400	Varies	Varies
FUTA	\$7,000	0.80%	\$56.00

TAXABLE WAGES - Wages subject to employment taxes include **all** compensation you give to an employee for services performed. Except where excluded specifically by law, fringe benefits are includable in gross income and are subject to income and employment taxes. Neither the IRS nor the State Unemployment Dept. recognizes an exemption for casual labor.

WITHHOLDING -FEDERAL INCOME TAX – New withholding tables for 2012 have been issued by the IRS and you should receive them shortly (Circular E - Employer’s Tax Guide). For all computerized payroll systems, please be sure to update all limits and tables before processing your first payroll for 2012.

SOCIAL SECURITY - MEDICARE – At the last minute, Congress has extended the **employee** tax rate for social security at 4.2%, **BUT ONLY FOR A TWO MONTH PERIOD THROUGH FEBRUARY 29, 2012. In the new year, a conference committee of representatives and senators will be appointed to discuss extending the reduced rate for the rest of 2012. The employer tax rate remains unchanged at 6.2%. The social security wage base limit is \$110,100 for both employer and employee taxes. The Medicare tax rate is 1.45% for both employers and employees and there is no wage base limit for Medicare taxes.**

PAYROLL TAX DEPOSIT REQUIREMENTS - An employer is either a monthly depositor or a semi-weekly depositor based on an annual determination made by the IRS. The following is a summary of the deposit requirements.

Monthly Depositor – Deposit by 15th day of following month.

Semi-Weekly Depositor – Payroll Wednesday, Thursday or Friday – Due by the following Wednesday
Payroll on Saturday, Sunday, Monday or Tuesday – Due by the following Friday

Accelerated Deposits – At anytime taxes reach \$100,000, the deposit must be made by the next banking day, and you automatically become a semi-weekly depositor.

Quarterly Tax Under \$2,500 – No deposit required

All deposits must be made using the Electronic Federal Tax Payment System (EFTPS). You can sign up by going to the EFTPS website at www.eftps.gov or by calling EFTPS customer service at 1-800-555-4477. Failure to make electronic deposits could result in a 10% penalty for each deposit.

FUTA – FEDERAL UNEMPLOYMENT - Federal unemployment tax reporting has become more complicated for 2011, due to the rate change last July 1, 2011 and the designation of Nevada as a credit reduction state. For wages paid between January 1, 2011 and June 30, 2011 the rate of tax is generally 0.8% (paid by the employer) on the first \$7,000 of each employee's wages. Effective for wages paid on or after July 1, 2011, the rate is reduced to 0.6%.

In addition, effective for the 2011 FUTA tax returns due by January 31, 2012, Nevada has been designated a "credit reduction state" because we have not repaid money borrowed from the federal government to pay unemployment benefits. This means that you must also complete Schedule A for the form 940 and compute an additional 0.3% of taxable FUTA wages as an additional tax due with your return. This additional tax does not affect your deposit requirements during the year.

For 2012, the FUTA tax rate is 0.6% on the first \$7,000 of each employee wages. The tax liability must be deposited electronically by the end of the month following a calendar quarter if the cumulative un-deposited liability exceeds \$500. According to IRS instructions, the liability owed for credit reduction must be included in your fourth quarter deposit.

NEVADA STATE UNEMPLOYMENT – The State Employment Security Division has mailed employers notice of their tax rates effective January 1, 2012. The tax is computed on wages up to the first \$26,400 of each employee's wages in calendar year 2012. In addition, all employers are required to report newly hired or rehired employees to the Department within twenty (20) days of hire. You may use Form W-4 for reporting if you include the employer's name, address and Federal ID # on the bottom of the form.

NEVADA MODIFIED BUSINESS TAX – Every employer who is subject to Nevada Unemployment Insurance Tax is obliged to pay this quarterly tax. For any "general business" if taxable wages, after a deduction for health insurance paid by the employer, does not exceed \$62,500 for the quarter, there is no tax. If the total exceeds \$62,500 the tax 1.17% of the amount the wages exceed \$62,500. Even if you have no tax due you are required to file a tax return. Any business classified as a financial institution will pay a higher rate of tax.

MINIMUM WAGE –Nevada minimum wage is currently \$7.25 per hour with health insurance available and \$8.25 without.

OVERTIME PAYMENTS The Nevada Labor Commissioner has determined the requirements for daily overtime payments. Employers must pay 1 ½ times an employee's regular wage rate whenever an employee who is paid less the \$10.875 per hour-with health insurance available or less than \$12.375 per hour- without health insurance available, if the employee works more the 40 hours in a workweek or more than 8 hours in a workday unless they are otherwise exempted.

WORKERS' COMPENSATION INSURANCE - All employers are required to maintain workers' compensation insurance. Employers are able to procure this insurance from the Employers Insurance Company of Nevada or other licensed insurers. Rates of premiums and reporting requirements vary based on the insurer and underwriting practices.

PAYMENTS FOR SERVICES (NONEMPLOYEE) - The Internal Revenue Code specifically requires the reporting of payments for any services to nonemployees aggregating \$600 or more in a calendar year. Penalties for failure to file these information returns and failure to furnish correct taxpayer identification numbers are substantial. In addition, if the payee fails to provide a taxpayer identification number then you must deduct and withhold income tax at 28%. You should obtain a completed Form W-9 from any nonemployee prior to payment.

BUSINESS MILEAGE – The IRS has announced that the standard mileage rate for business will be 55.5 cents per mile for 2012.

USE/SALES TAX – As a reminder, all purchases of supplies, furniture, equipment, subscriptions, etc. for use in a business are subject to sales tax when purchased. If you obtain the property from an out-of-state retailer and are not charged a sales tax, these purchases must be reported by you for use tax to the Department of Taxation.

401(k) CONTRIBUTION LIMITS

	<u>Year 2012</u>	<u>Year 2011</u>
Maximum 401 (k) deductible contributions	\$17,000	\$16,500
Additional allowed – age 50 or older	<u>5,500</u>	<u>5,500</u>
Total	<u>\$22,500</u>	<u>\$22,000</u>

Tax Credit for Providing Health Care Coverage

Eligible small employers can claim a tax credit on their income tax returns filed in 2012 for paying at least one-half of the cost health care coverage for their employees. Generally, the credit is available to those employers who have fewer than 25 full-time equivalent employees with average annual wages of less than \$50,000 per employee. These averages are computed without regard to the owners of the business and their family members or their wages. The maximum credit is 35% of the premiums paid for the year, which can be a very worthwhile tax credit. The credit is also available to tax-exempt qualified employers. Payments made for health care coverage under a Section 125 cafeteria plan are not eligible for the credit. You should contact our office if you believe you may qualify for this credit, even partially, as the calculation can be complicated.

If you have any questions regarding payroll taxes, compensation, or other employment requirements, please contact our office.

Sincerely,

CONANT, NELSON & CONANT, LTD.