

**2010
ANNUAL UPDATE FOR PAYROLL AND VARIOUS TAX MATTERS
For Amounts Paid Beginning January 1, 2010**

EMPLOYEE PAID TAXES:		
Social Security:	6.20%	.062 x gross wages up to \$106,800 maximum withholding amount \$6,622
Medicare:	1.45%	.0145 x gross wages (all wages)
SDI:	1.10%	.011 x gross wages up to \$93,316 (State Disability Insurance) maximum withholding amount \$1,026.48
EMPLOYER PAID TAXES:		
Social Security:	6.20%	.062 x gross wages up to \$106,800 maximum withholding amount \$6,622
Medicare:	1.45%	.0145 x gross wages (all wages)
FUTA:	0.80%	.008 x gross wages up to \$7,000 (Federal Unemployment Tax Act) *Deposit taxes when at the end of a quarter it is \$500 or more
SUI:	Variable	Employer rate x gross wages up to \$7,000 (State Unemployment Insurance)
ETT:	0.10%	.001 x gross wages up to \$7,000 (Employment Training Tax)
SELF-EMPLOYMENT TAXES:		
Social Security:	12.40%	.124 x gross wages up to \$106,800 maximum withholding amount \$13,243
Medicare:	2.90%	.029 x gross wages (all wages)
FEDERAL NANNY TAX THRESHOLD:		\$1,700
CA MINIMUM WAGE:		\$ 8.00 per hour
City of San Francisco, CA:		\$ 9.79 per hour
BUSINESS MILEAGE RATE (Subject to change):		\$.50 per mile
MEDICAL & MOVING:		\$.165 per mile
CHARITABLE MILEAGE:		\$.14 per mile
REMINDERS:		
NEW EMPLOYEES: Complete W-4, I-9 and DE 34		
INDEPENDENT CONTRACTORS: Each year file a DE 542 after you pay them \$600 or more		

CALIFORNIA MANDATORY E – PAY- (2009 RECAP)

Individuals are required to remit their CA tax payments to the Franchise Tax Board electronically if either of the following conditions is met:

An estimated tax or extension payment greater than \$20,000 was made for a taxable year beginning on or after January 1, 2009; or

An original return with a tax liability greater than \$80,000 was filed for a taxable year beginning on or after January 1, 2009.

Once you meet either of these conditions, **all** future payments, regardless of type, amount, or tax year, must be remitted electronically. If you fall below the mandatory e-pay amount requirement at a later date, you may request to discontinue making electronic payments by filing a waiver form with the Franchise Tax Board.

In addition, if you are required to remit payments electronically, but fail to do so, you will be subject to a one percent penalty on the amount paid; unless the failure to pay electronically was due to a reasonable cause.

SINGLE-MEMBER LLC PAYROLL TAX REPORTING

If you are a single member/single owner of a Limited Liability Company that hasn't elected to be treated as a corporation, you may be required to change the way you report and pay your federal employment taxes.

For wages paid after January 1, 2009, employment taxes must be reported and paid solely in the name and EIN of the single member LLC. If you do not have an EIN for your single member LLC, you may secure an EIN by applying online at www.irs.gov or by filing for SS-4, Application for Employer Identification Number.

Please contact us if you have any questions or would like our assistance in applying for an EIN for your LLC.

EARNED INCOME CREDIT: Don't Forget to Notify Employees About Possible Refunds

Employers are required to notify each employee who worked during the year and from whom no income tax was withheld that they may be eligible for a tax refund generated by an earned income credit. However, any employee who has not had any income tax withheld because he or she claimed exemption from withholding on Form W-4, Employee's Withholding Allowance Certificate, need not be notified.

Employees can be notified by using Form W-2, which contains a statement on the back of Copy B concerning the earned income credit. If a substitute Form W-2 is used which does not have the statement on the back of Copy B, employers must notify the employees within 1 week of the date the substitute W-2 is given.

If a required W-2 is not timely provided, the employee must be furnished with IRS Notice 797, "Possible Federal Tax Refund Due to the Earned Income Credit", or your own written notice form containing an exact reproduction of IRS Notice 797 on or before the date the W-2 should have been given. If a W-2 is not required to be furnished, the notice must be given on or before February 1, 2010. Please let us know if you need a copy of Notice 797.

Make sure that your employees who qualify for the Earned Income Credit have executed a 2010 Form W-5, Earned Income Credit Advance Payment Certificate. A new certificate must be filed annually.

Employer's who pay for Recovery Act's COBRA subsidy can be repaid through a payroll tax credit. Applies to employees involuntarily losing their job between 9/1/2008 and 12/31/2009.

IRS Notice 2009-91: Income tax withholding requirements for employers of non-resident alien employees, under guidance of IRC 3402. Modification is effective for wages paid on or after January 1, 2010.

FORMS 1099

File all required 1099's. An information return is required whenever payments of \$600 or more are made in the form of compensation for services, rents and other gains and income to persons in the course of your business. For purposes of 1099 reporting, a corporation is not considered a "person" to whom a 1099 should be sent.

Form 1099-INT is required for payments of interest of at least \$10 (or at least \$600 of interest paid in the course of your trade or business).

Form 1099-DIV is required for payments of dividends (including capital gains dividends) and other distributions on stock of \$10 or more.

The proper Form 1099 is due to the recipient by February 1, 2010 and the summary report, Form 1096, is due by March 1, 2010. Non-employee compensation is reported on Form 1099-MISC. The due date for furnishing statements to recipients for Forms 1099-B, 1099-S and 1099-MISC (if amounts are reported in boxes 8 or 14) has been extended to February 15, 2010. Be especially diligent about filing the information returns along with the correct social security numbers. For purposes of 1099 reporting, special rules apply for individuals, self-employed individuals (sole proprietors), and partnerships. In the case of an individual, the person's social security number should be used as the recipient's identification number. For self-employed individuals or sole proprietors, the social security number or employer identification number can be used as the recipient's identification number. However, the individual's name must show on the first name line of the 1099. The business name may be entered on the second name line below the individual's name, although it is not necessary. If you are dealing with a partnership, the partnership's employer identification number must be used as the recipient identification number. The IRS is matching these forms by computer to the income recipients by ID number. If they cannot locate the recipient, the IRS will notify you, and backup withholding of 28% can be required for 2009 and 2010.

If you file 250 or more of one type of information return, you are required to file electronically. The only method to report information returns to the IRS electronically is through the FIRE system, "Filing Information Returns Electronically." This system can be accessed with an internet connection at <http://fire.irs.gov>.

Payors must list their phone numbers on the recipient copies of certain information returns, including Form 1099-MISC. The penalty for failure to list the payer's phone number will be \$50 per form issued to each recipient.

EMPLOYEE VS. INDEPENDENT CONTRACTOR

Be very careful to file Form 1099's only for truly independent contractors. An officer of a corporation is an employee and must receive a W-2, with proper withholding and payroll taxes. Any person under the control of the business is an employee, regardless of the duration or nature of employment.

An individual who receives remunerations for services performed, whether such remunerations are in the form of cash or a noncash payment will be deemed your employee unless you have a reasonable basis for not treating the individual as an employee. Treatment with respect to an individual should be consistent as to information returns such as Form 1099 and W-2.

California law requires that all businesses and government entities report independent contractors to the Employment Development Department (EDD). Independent contractors who must be reported include individuals who are subject to the federal Form 1099 reporting requirements as outlined above in paragraph C. The report must be made to the EDD using Form DE 542 within 20 days of the earlier of (1) making payments totaling \$600 or more; or (2) entering into a contract for \$600 or more with an independent contractor in any calendar year. The form must include the independent contractor's name, address, and social security number, as well as the amount of the contract, contract expiration date, and the start date of the contract or date payments equal \$600 or more. Failure to file each report on time can result in a penalty of \$24, and conspiracies between the business and independent contractor not to provide the required reporting can result in a penalty of \$490.

If you have any questions regarding Form DE 542, you can call the Employment Development Department at (916) 657-0529.

DEPOSITS:

The deposit requirements for Federal and State purposes can be complicated. Be sure you have carefully read the deposit instructions accompanying your quarterly tax returns. The following is a review of the rules regarding such deposits.

Federal

To avoid federal tax deposit penalties for deposits beginning January 1, 2010, you need to comply with the rules listed below.

Rules for withheld income taxes, social security taxes and Medicare taxes:

Under the regulations, employers deposit withheld taxes on either a monthly or semi-weekly basis. To decide which deposit schedule applies, the IRS will look at the employment taxes reported for a 12 month look back period -- July 1 through June 30 of the prior year. The IRS will notify you each November concerning which schedule to follow for the coming year.

- (1) Employers who reported \$50,000 or less of employment taxes during the look back period will deposit monthly. All new employers will be monthly depositors. Monthly deposits will be due by the 15th day of the following month.
- (2) Employers who reported over \$50,000 in employment taxes during the look back period will deposit semi-weekly. For paydays on Wednesday, Thursday, or Friday, deposits will be due by the Wednesday after the payday. For all other paydays, deposits will be due by the Friday following payday.
- (3) Employers who are semi-weekly depositors will have at least three banking days after payday to make deposits. There are special rules and exceptions which carry over from the present rules. Employers accumulating \$100,000 during a monthly or semi-weekly period must deposit by the next banking day. Also, employers accumulating less than \$2,500 during the quarter may skip the deposits and send full payment with their Form 941.

As a safe harbor, an employer who under deposits will not be penalized if both of the following conditions are met:

1. Any deposit shortfall does not exceed the greater of \$100 or 2% of the amount of taxes otherwise required to be deposited, and
2. The deposit shortfall is paid or deposited by the shortfall makeup date as described below:
 - Monthly depositor – Deposit the shortfall or pay it with your return by the due date of the Form 941 for the quarter in which the shortfall occurred. You may pay the shortfall with Form 941 even if the amount is \$2,500 or more.
 - Semiweekly depositor – Deposit by the earlier of:
 - i. The first Wednesday or Friday that falls on or after the 15th of the month following the month in which the shortfall occurred, or
 - ii. The due date of Form 941 (for the quarter of the tax liability).

Rule for Federal Unemployment Insurance:

- If, at the end of any calendar quarter, the employer's aggregate undeposited FUI taxes exceed \$500, the employer must deposit the amount by the last day of the first month following the end of the quarter by Electronic Federal Tax Payment System (EFTPS) or with an authorized financial institution using Form 8109, Federal Tax Deposit Coupon.
- Federal tax deposits (FTD) must be made with tax deposit coupons. Use FTD coupons only for current taxes, not for delinquent taxes. The Federal coupons, which are preprinted with taxpayer identification, are packaged in a Federal Tax Deposit Coupon Book.

The following Federal taxes are paid with the coupons:

- Corporate income taxes.
- Withheld income and FICA taxes.
- Federal unemployment taxes. (You may pay your FUTA tax shown on Form 940, Part II, line 12 using a major credit card if you Efile.)

Electronic Federal Tax Payment System

You must make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2010 if:

- Your total deposits of such taxes in 2008 were more than \$200,000, or
- You were required to use EFTPS in 2009.

If you are required to use EFTPS and fail to do so, you may be subject to a 10% penalty. EFTPS is a free service provided by the Department of Treasury. If you are not required to use EFTPS, you may participate voluntarily. To get more information or to enroll in EFTPS, call 1-800-555-4477. You can also visit the EFTPS website at www.eftps.gov.

EFTPS Payment Methods

The EFTPS system allows employers to choose whether to use the EFTPS-Direct or EFTPS-Through a Financial Institution method of remitting payments.

EFTPS-Direct. With this method, you access EFTPS directly to report your tax information via Internet, PC software, or phone. Essentially, you are sending instructions on when the amount owed should be debited from your bank account (The IRS does not have access to your checking account). The payment instructions must be received at least one calendar day before the payment is due.

EFTPS-Through a Financial Institution. This payment option is available to business taxpayers only. You are required to initiate your tax payments in accordance with your financial institution's reporting deadlines. Once you initiate your tax payment, your financial institution will debit your bank account for the payment amount and send the payment electronically to EFTPS.

The IRS has EFTPS-Online, accessible via the Internet. Businesses and individuals can enroll online and will then receive a confirmation kit and PIN by mail. This online service allows business taxpayers to schedule payments up to 120 days in advance. Please let us know if you would like more information about EFTPS-Online.

Please contact us if you have any questions or if you would like our assistance in complying with these payroll tax deposit procedures.

California

In January 2010, employers must complete the fourth quarter Form DE-6, Quarterly Wage and Withholding Report, and the 2009 Form DE-7, Annual Reconciliation Statement. Both of these forms are due by February 1, 2010.

Certain corporate taxpayers must pay their payroll taxes by Electronic Funds Transfers. If the Employment Development Department has not notified you that you are subject to electronic filing, then your deposit rules are as follows:

All tax deposits must be made under the federal monthly or semi-weekly deposit schedules. State deposit due dates are generally still the same as the federal deposit due dates. Employers required under federal law to remit the total amount of income tax withheld within three banking days must also make their state deposits within three banking days. In addition, employers required to deposit federal taxes by the next banking day (i.e., withholding of \$100,000 or more) must also deposit their state taxes by the next banking day. State disability insurance payments are due and payable at the same time as income tax withholding payments, while employer contributions for unemployment insurance and the employment training tax are due quarterly.

All deposits should be remitted with the tax deposit coupon, DE88. The deposit coupon reflects four main components: Payroll date, payment type, payment quarter, and payment amounts. It also includes space for voluntary payment of penalty and interest on late deposits. Employers remitting via electronic funds transfer (EFT) are not required to use the DE88 coupon.

The deposits should be reconciled for the year 2009 using Form DE-7. Form DE-7 is due February 1, 2010. Employers do not need to file copies of the employee W-2 with the Employment Development Department.

The Employment Development Department has phased out 9-track magnetic media standard ½ inch reel. Additionally, CD-RWs (compact disc read write) are not acceptable.

Electronic Funds Transfer Requirements - California

The Employment Development Department will notify all employers if they will be required to make payments by Electronic Funds Transfer.

Employers who are required to use Electronic Funds Transfer will receive a Form DE 26, Electronic Funds Transfer Authorization Agreement, for choosing which method of payment will be used. Form DE 26 is also used as an application for employers who wish to use Electronic Funds Transfer voluntarily. The Employment Development Department will mail a letter informing voluntary EFT users of the effective date of their participation. Once approved, voluntary employers are recommended to use Electronic Funds Transfer for at least one complete year.

The requirement for mandatory use of Electronic Funds Transfer is as follows:

The Employment Development Department will notify you that you are required to use Electronic Funds Transfer if, in the 12 month period ending June 30th of the prior year, the cumulative average state withholding tax payment was \$20,000 or more. Generally, deposits are due within the same number of days that federal deposits are due. Payment is deemed complete on the date the EFT is initiated if settlement to the state's demand account occurs on or before the banking day following the date the transfer is initiated. If settlement to the state's demand account does not occur by that time, payment is deemed to occur on the date settlement occurs.

You can receive more information on this by contacting the Employment Development Department by phone at (916) 654-9130 or by fax at (916) 654-7441. You can also write to: EFT Unit, MIC 15A, Employment Development Department, P.O. Box 826880, Sacramento, CA 94280-0001.

For those who have employees in New York or other states, different rules apply. We will be happy to furnish the applicable information upon request.

PAID FAMILY LEAVE

The Paid Family Leave Insurance Program went into effect several years ago. California employers are required to provide a notice to new hires informing them of this latest insurance benefit. Under this law, eligible employees receive up to six weeks of paid leave for the sickness or injury of a spouse, domestic partner, parent, or for the birth, adoption or foster-care placement of a new child.

Paid Family Leave is included in the State Disability Insurance (SDI) rate withheld from the employee's wages. The Paid Family Leave insurance contribution rate will be incorporated into the base SDI contribution rate for 2006 and beyond. Employers do not need to report Paid Family Leave employee contributions as a separate line item on the EDD tax forms. For more information, visit the EDD website: www.edd.ca.gov.

CHILD SUPPORT PAYERS

Federal law requires all employers to file Form DE 34 to report all new hires, all rehired employees, and all employees returning to work from any unpaid leave of absence, which includes furloughs and layoffs. This report will assist state and county agencies in locating parents who are delinquent in their child support obligations. This report must be submitted within 20 days from their state-of-work date. The start-of-work date is the first day services were performed for wages.

If you have any questions regarding Form DE 34, you can call the Employment Development Department at (916) 657-0529.

MINIMUM WAGE

January 1, 2010, the California minimum wage rate remains at \$8.00 per hour.

January 1, 2010, the City of San Francisco minimum wage rate remains at \$9.79 per hour.

OVERTIME

The daily overtime requirement law requires that an employer pay time-and-one-half for hours worked beyond eight in a workday and/or for hours worked beyond 40 in a workweek. In addition, employers are required to pay double time for hours worked beyond 12 hours in a workday and pay time-and-one half for the first 8 hours worked on the seventh consecutive day worked in a workweek.

The daily overtime requirement does not apply to exempt employees employed in administrative, executive or professional capacities as defined by the Fair Labor Standards Act (FLSA). Furthermore, some outside sales representatives and highly compensated computer professionals may also be exempt from overtime. These employees must meet specific duties tests and compensation amounts.

CALIFORNIA SALES TAX RATE

For 2010, California's sales tax rate is 8.25%. Selected county sales tax rates are as follows:

Los Angeles	9.75%*
Orange County	8.75%
Contra Costa	9.25%
San Francisco	9.50%

*Please note that California has many special taxing jurisdictions (districts), which are funded by a sales and use tax rate that is added to the standard statewide rate of 8.25%.

CITY OF LOS ANGELES BUSINESS TAX

The 2010 Business Tax Renewal filing is due on January 1, 2010 and delinquent if filed after March 1, 2010. To qualify for business exemptions, the Office of Finance must receive your renewal form in a timely manner. If you need to register for a tax registration certificate or for further information on the City of Los Angeles business Tax, visit their website www.lacity.org/finance/.

COUNTY OF LOS ANGELES BUSINESS PROPERTY STATEMENT

The 2010 Business Property Statement Form 571-L is due April 1, 2010 and delinquent if filed after May 7, 2010. You must report the value of all property subject to taxation as of 12:01 a.m., January 1, 2010. For further information on the County of Los Angeles, Business Property Statement, visit their website www.assessor.lacounty.gov.