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PAYROLL, PAYROLL TAX AND INFORMATION RETURN UPDATE

January 2018

Dear Client:

We strive to provide the highest quality service at all times, to all our clients. As part of our commitment to you, we endeavor to provide you with valuable information to assist you in the management of your business.

Included for your review and reference are our annual Payroll, Payroll Tax and Information Return Update. We anticipate that this information will be an invaluable resource to you for the coming year and as always, we are available to answer any questions you may have concerning any of the information presented. **Please visit the Tax Tools section of our website for additional info and instructions on many of the items covered in this update.**

The recently enacted **Tax Cuts and Jobs Act (TCJA)** is a sweeping tax package, affecting income tax rates, deductions, exemptions, a new deduction for “qualified business income and much more, with changed effective for tax years beginning in 2018. The new law affects many areas of taxation. If you wish to discuss the impact of the law on your particular situation, please give me a call. Due to the timing of the legislation, the **2018 IRS Publication 15 (Circular E) for employee withholding has been delayed to January 2018**, with implementation expected in February 2018.

We encourage all clients to subscribe to the Boles Metzger Brosius & Walborn PC e-mail newsletter. The newsletter is available at no cost to you, and is full of valuable information on managing your business. Also featured are helpful tips you can use to improve your tax knowledge, and the latest business headlines. If you are interested in receiving our newsletter in your inbox, please contact Deanna Boles at (717) 238-0446, or by e-mail at DeannaBoles@bmbwcpa.com

Finally, if you have questions, please do not hesitate to contact our office. We will be pleased to assist you in any way we can.

Very truly yours,

Boles Metzger Brosius & Walborn PC

PAYROLL, PAYROLL TAX AND INFORMATION RETURN UPDATE

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KEY POINTS TO CONSIDER

- **Due to the federal tax changes the 2018 Circular E (Employer's Tax Guide) is not available at this time, but is expected to be released in January 2018 for implementation in February 2018.**
- Employers with less than **250 employees** are still **not** required to report the cost of employer-sponsored health coverage in box 12 of 2017 Form W-2, using code DD.
- The Social Security Wage base increases to \$128,400 in 2018. **The social security tax rate paid by employees and the employer will remain at 6.2%.**
- Continuing to be in effect for 2018, **employers will be responsible for withholding an additional 0.9% Medicare tax** on an employee's wages and compensation paid in excess of **\$200,000** in the calendar year.
- The IRS caps the dollar amount on salary reduction contributions to a **health flexible spending account (health FSA)** at \$2,650 for 2018.
- The **taxable wage base for PA Unemployment** for employer contributions will **increase to \$10,000.00 in 2018.**
- **The employee unemployment tax withholding rate for 2018 will decrease to .06 percent** (six-one hundredths of one percent) tax on their **total wages**, equal to 60 cents per \$1,000 earned.
- **Act 32 Local Earned Income Tax Reform** brought major changes to Pennsylvania's income tax collection system. Employers are now required to obtain and maintain residency certifications from employees. Please see our Act 32 Local Earned Income Tax Changes Guide available in the Resources section of our website for a complete guide on this new legislation.
- The due date for **filing form W-2 with SSA** for 2017 is January 31, 2018. The due date to your employees continues to be January 31, 2018.
- **Filing date for 1099-Misc is January 31, 2018**, when you are reporting **nonemployee compensation in box 7**. Otherwise, for all other reported 1099-Misc payments, file by February 28, 2018, if you file on paper, or April 2, 2018, if you file electronically. **The date to furnish the returns to recipients is generally January 31, 2018.**
- **The IRS is advising filers that they should not file 1099-MISC with non-employee compensation (NEC) reported in box 7, and 1099-MISC that don't report NEC on the same Form 1096.**
- **New legislation, effective December 31, 2017, requires companies that bring out-of-state independent contractors into Pennsylvania for work that pays in excess of \$5,000 to withhold Pennsylvania personal income tax.**

PAYROLL AND PAYROLL TAX UPDATE

Mileage Rates for 2018

Internal Revenue Service's standard mileage rates for **2018** are (**please note increase**):

- 1) 54.5 cents per mile for business use;
- 2) 14 cents per mile driven in service of charitable organizations;
- 3) 18 cents a mile for medical and moving purposes.

Mandatory Postings for Pennsylvania Employers

- The Pennsylvania Department of Labor and Industry has an excellent listing of mandatory employer postings included on its web site at www.dli.state.pa.us.

Hiring New Employees

- You must verify that each new employee is legally eligible to work in the United States. This will include completing the U. S. Citizenship and Immigration Services (USCIS) **Form I-9**, Employment Eligibility Verification. You can get the form from USCIS offices or by calling **1-800-375-5283**, or visit the USCIS Web Site at www.uscis.gov for further information.
- Instructions on how to verify social security numbers can be found in the Resources section of our website.

Form W-4, Employee's Withholding Allowance Certificate

- Employers must request each new employee to complete and sign a Form W-4, indicating the number of withholding allowances the employee intends to claim.
- Under certain circumstances (change in marital status or birth of a child for example) an existing employee may need to file an updated W-4 with you.

New-Hire Reporting

- All employers must complete a New Hire Report with the required information and submit it to the Commonwealth of Pennsylvania (or other appropriate state government) within 20 days of hiring a new employee. For more information, the New Hire Reporting Program in Pennsylvania can be reached at 1-888-724-4737 or visit their website at www.cwds.state.pa.us

FICA and Federal Income Tax

- The wage base for 2018 is \$128,400 for social security (old age, survivors, and disability insurance) and all wages (no limit) for Medicare (hospital insurance). For social security, the tax rate is 6.2% for both employers and employees. For Medicare, the rate is 1.45% each for employers and employees on all wages.

- Effective January 1, 2013, and going forward, employers will be responsible for withholding an additional 0.9% Medicare tax on an employee's wages and compensation paid in excess of \$200,000 in the calendar year.
- All cash tips must be reported for the employee and employer's share of FICA.
- Wages of a husband or wife employed by the other spouse's proprietorship and of a child age 18 or older employed by a parent's proprietorship or partnership are subject to FICA. FICA must be withheld from the employee and be matched by the employer at the same rates as other employees.

Tax Deposits

- Withheld FICA and federal income tax plus the employer's share of FICA are paid to the federal government by depositing the taxes by electronic funds transfer or by telephone.
- The timing and frequency of deposits are determined annually based on the employer's deposit history during the look back period which covers the 12 month period ending the previous June 30th. For 2018, the look back period is July 1, 2016 - June 30, 2017.
- An employer is a monthly depositor for the entire calendar year if the aggregate amount of employment taxes reported for the look back period is \$50,000 or less. Conversely, an employer is a semi-weekly depositor for the entire calendar year if the aggregate amount of employment taxes reported for the look back period exceeds \$50,000.
- Although the IRS should notify you if they identify you as having a change in your deposit schedule from 2018, you should review your tax liability for the look back period to ensure compliance with the rules.

Federal Unemployment

- The 2017 Form 940 is due January 31, 2018, and will also require you to file Schedule A if you are a multi-state employer or a credit reduction state.
- The Federal Unemployment (FUTA) rate for 2018 remains at .6% (.006) on the first \$7,000 of wages per employee. Payments must be made quarterly by EFTPS, if required. They can be sent in with the annual Form 940 if they are under \$500.00 for the year.

Employee contribution limitations

- For 2017, the maximum annual employer contribution to a **health savings account (HSA)** is \$3,400 for self-only coverage and \$6,750 for family coverage. For 2018 the amounts will be \$3,450 for self-only coverage and \$6,900 for family coverage.
- For tax years 2018 and on, the IRS caps the dollar amount on salary reduction contributions to a **health flexible spending account (health FSA)** at \$2,650.
- The elective deferral (contribution) limit for employees who participate in **401(k), 403(b), most 457** plans, and the federal government's **Thrift Savings Plan** increases to \$18,500 in 2018. The catch-up pre-tax contribution limit available to employees over 50 remains the same at \$6,000 in 2018.

Form W-2 reporting

- The IRS has posted a new version of its 2017 Form W-2 and the Forms W-2/W-3 instructions on its website, www.irs.gov. The 2017 Form W-2 looks identical to the 2016 version. However, many employers will now be required to report the cost of employer-sponsored health coverage in box 12 of Form W-2, using code DD. This requirement is optional for small employers (those filing fewer than 250 W-2s).

Pennsylvania Income Tax

- The PA Department of Revenue replaced the paper coupon booklets for filing and paying Employer Withholding Taxes with two electronic filing systems: via the internet and over the telephone. Visit their website at www.etides.state.pa.us for additional information.
- The rate of withholding for Pennsylvania Income Tax for 2018 is continuing at 3.07% of gross wages.
- Employers are required to file a reconciliation return for each quarter, whether you pay the tax semi-weekly, monthly or quarterly. These returns must be received on or before the last day of April, July, October and January for the quarters ending on the last day of March, June, September and December respectively.

Pennsylvania Unemployment Compensation

- The **2018** taxable wage base for employers' contributions **increases to \$10,000.00** per employee.
- **The rate for employee withholding in 2018 will decrease to .06 percent** (six-one hundredths of one percent) tax on their **total wages**, equal to 60 cents per \$1,000 earned.
- Paper forms are no longer being sent to employers who file electronically. The mandatory electronic filing requirement went into effect January 1, 2014.

Local Services Tax

- The Local Services Tax (LST) is different depending upon the municipality in which the business is located. The rate varies from \$10 to \$156, which must be withheld from every employee. For employees working in a municipality that levies a \$10 LST, the amount will be withheld in a lump sum at the beginning of the year. If the municipality levies a tax in excess of \$10, the tax will be withheld in equal installments based upon the number of pay periods in a year. Municipalities that levy an LST in excess of \$10 must exempt Taxpayers whose total earned income and net profits from that municipality are less than \$12,000. Further information, and exemption and refund forms are available at www.newpa.com. Search for Local Services Tax. **Please note that Harrisburg City increased their rate to \$156 in 2017 and the annual earned income limit is now \$24,500 and will continue for 2018. The weekly rate will be \$3 starting on January 1st.**

Local Earned Income Tax

- PA Act 166 uniformly defines earned income and net profits for local income taxes. The definitions of earned income are now essentially the same for PA and for local income taxes.
- Many school districts have passed tax reforms that have changed the earned income tax rate. It is vital that you know the municipality where each employee lives so that your earned income tax withholding is accurate.
- Under Act 32, employers are required to withhold the higher of the employee's resident earned income tax amount (rate of total resident EIT where they reside) vs. the employee's municipal non-resident earned income tax amount (rate of non-resident EIT where they are employed).
- Employers are required to obtain information in the Residency Certification Form for every new employee and employee who has a change of address. Information of the Act 32 Local Earned Income Tax Changes can be found in the Resources section of our website: www.bmbwcpa.com and additional information on Act 32 can be found at www.newpa.com

Non-Payroll Income Tax Withholding

- Non-payroll withholding on payments is to be reported on Form 945, Annual Return of Withheld Federal Income Tax. The Form 945 is due by January 31, 2018. Non-payroll items include backup withholding and withholding for pensions, annuities, IRA's and gambling winnings. Separate deposits will be required for non-payroll withholding. All Form 945 deposits are required to be deposited by EFTPS.

INFORMATION RETURN UPDATE

Introduction

We would like to remind you of some important filing and reporting requirements. In order to track unreported income, the Internal Revenue Service has developed a program for cross-referencing information by identification number. Therefore, there has been increasingly stringent enforcement of the regulations requiring the filing of annual information returns and statements to recipients of certain types of payments. These are primarily the 1099 series of forms. Please be sure to file the required forms as further described below.

Frequently Used Forms

- In our experience, the three most frequently used 1099 forms by small businesses and non-profits are the 1099-MISC, 1099-INT and 1099-DIV.

Form 1099-MISC

- Form 1099-MISC, Miscellaneous Income, is used for several types of payments. However, the most frequent use for small businesses and non-profit organizations is to report payments of at least \$600 in rents, services (including parts and materials used to perform the services) and director's fees;

Payments to Attorneys

- Attorney's fees of \$600 or more paid by your business continue to be reportable in box 7 of Form 1099-MISC. Two important compliance rules are:
 - **You must report attorney's fees (or gross proceeds) to corporations that provide legal services.**
 - If you make a payment to an attorney in connection with legal services and the attorney's fee is not separately identified, the total amount paid to the attorney (gross proceeds) must be reported in box 14
- You must obtain the attorney's tax identification number (social security or employer identification) on Form W-9, Request for Taxpayer Identification Number and Certification.

Form 1099-INT

- Form 1099-INT, Interest Income, is used to report, among other things, interest of at least \$10 you paid in connection with your trade or business. A typical use would be for interest paid to a person on a loan to the business made by that person.

Form 1099-DIV

- Form 1099-DIV, Dividends and Distributions, is used to report, among other things, dividend payments of \$10 or more or payments of \$600 or more as part of liquidation.

Penalties

- There are substantial penalties for failure to file these returns. There may be a penalty for non-filing or late filing of information returns of up to \$50 per return if you correctly file within 30 days of the due date up to a maximum of \$187,500 for small businesses, or \$536,000 for business with average gross receipts in excess of \$5,000,000 for the most recent 3 tax years ending before the calendar year in which the information returns were due. The \$50 per return penalty also applies in various situations for failure to furnish the recipient's identification number, for reporting incorrect identification numbers for recipients and for failure to timely furnish a statement to a payee.

Additional Information

- Available in the Payroll Tax page of the Tax Tools section of our website www.bmbwcpa.com is a *Guide to Information Returns* for your reference. This chart explains which forms to use for the various types of payments that must be reported. Generally, a copy of the information return that is filed with the Internal Revenue Service is sent to the payee as the required annual statement.
- Also available on our website is a copy of the Internal Revenue Service's instructions for where to file your information returns. Please note that the address for filing paper returns is different than for magnetic reporting.
- Generally, a Form 1096 (Annual Summary and Transmittal of U.S. Information Returns) must be used to summarize and transmit the required Forms 1099 to the Internal Revenue Service. A separate Form 1096 must be used for each type of Form 1099.

- The recipient's copy of Form 1099 must be issued to the recipient by January 31, 2018. The Form 1096 and the Internal Revenue Service copy of Form 1099 must be filed by January 31, 2018 whether you are paper filing or filing electronically, if you are reporting nonemployee compensation .
- If you are required to file 250 or more information returns, you must file electronically using the FIRE (Filing Information Returns Electronically) System at <http://fire.irs.gov>. The 250-or-more requirement applies separately to each type of form. For example, if you must file 500 Forms 1099-MISC and 10 Forms 1099-DIV, you are required to file the 1099-MISC Forms electronically.
- If you are required to file information returns electronically, but cannot comply, you may request a hardship waiver on Form 8508, Request for Waiver from Filing Information Returns Electronically.
- We recommend that any independent contractors, and others for whom you might have to file an information return, complete a Form W-9 as soon as you begin doing business with them.

Summary

In summary, the rules are being enforced more stringently and there are essentially no exceptions. You must comply with the requirements or you will be penalized.

Affordable Care Act Information

The Affordable Care Act (ACA) contains responsibilities for employers. **While the Individual Mandate (Shared Responsibility Payment) was repealed by the TCJA for tax years after 2018, the employer mandate and reporting requirements were unchanged.**

There are **three** main requirements for employers in 2018. They include:

1. Offering health care coverage and penalties for employers that do not offer coverage.
2. Reporting on W-2's
3. Reporting to employees/IRS

Offering insurance and Penalties

First an employer must determine the number of employees they currently have on payroll. This includes all persons that have an average of 30 hours of service or more per week. Once that is determined an employer will fall into one of three categories:

- A. Large employers: those with 100 or more employees. The large majority of companies with 100 or more employees already offer quality coverage. Employers need to offer coverage to to 95% of employees in 2016 and beyond. **Employers in this category that do not meet these standards will make an employer responsibility payment (penalty) for 2016 and beyond.** The penalty for each month the employer fails to offer coverage is \$2,000 times the number of full-time employees minus 30. (An employer with 100 employees would owe (\$2000 x (100-30)) or \$140,000.
- B. Employers with 50 to 99. Employers that do not yet provide quality, affordable health insurance to their full time workers **will report on their workers and coverage in 2016, and employer responsibility payments (penalty) will apply.**
- C. Small employers: those with fewer than 50 employees. Under the Affordable Care Act, **companies that have fewer than 50 employees are not required to provide coverage or fill out any forms in 2016 or in any subsequent year.**

Reporting on W-2's

Employers report the total cost (both employer and employee) of the employer-provided healthcare on W-2's using box 12, code DD; if an employer issued at least 250 W-2's in the prior year. The exception for employers who issued fewer than 250 W-2's is still in effect. This means that those employers with fewer than 250 W-2's DO NOT need to put this information on the W-2.

Reporting to the IRS

The IRS has issued the 2017 forms and instructions that will be used to comply with the reporting requirements for the Affordable Care Act. These forms are the 1094B or 1094C and the 1095B or the 1095C. The filing requirements are based on the employer's health plan and number of employees. A small employer is one with less than 50 full-time employees (or equivalents).

EMPLOYER SIZE	EMPLOYER HEALTH PLAN	EMPLOYER FILES 1095B/1094B	EMPLOYER FILES 1095C/1094C
Small Employer	None	No	No
Small Employer	Insured	No (insurer files)	No
Small Employer	Self-insured	Yes	No
Large Employer	None	No	No
Large Employer	Insured	No (insurer files)	Yes
Large Employer	Self-insured	Generally, No*	Yes

*Large employers that are self-insured usually use a company to manage their self-insurance that company would file the forms.