

Payroll Reference Manual

2011 - 2012



2011 - 2012 Payroll Reference Manual

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Section I - Year End Preparation

- Year End Checklist
- Year End Balancing/Reconciliations
 - Annual Reconciliation Worksheet

Year End Checklist

- Confirm that employee names and Social Security numbers are correct.
- Determine that all voided or reversed paychecks have been entered.
- Determine that all bonuses have been entered in the payroll system.
- Confirm that all manual checks written during the year have been entered.
- Ensure that other special tax items have been calculated and entered. These may include Other Compensation, Third-Party Sick Pay, Employee Business Expense Reimbursements, Taxable Fringe Benefits, Tip Allocation Information, and Dependent Care Benefits.
- Verify that withholding and reporting has been done properly for taxable fringe benefits –
 - These may include:
 - ___ Group-term life insurance in excess of \$50,000;
 - ___ Third-party sick pay (is the third party issuing a W-2?);
 - ___ Personal use of company vehicle;
 - ___ Non-qualified moving expenses;
 - ___ Non-cash payments; and/or
 - ___ 2% shareholder health insurance
- Determine what code should be placed on the W-2 for retirement plan and which employees should have the retirement plan box checked.
- Test the reasonableness of Social Security withholding and Medicare withholding by multiplying by the applicable rates.

Year End Checklist (cont.)

- Verify the Federal and state unemployment tax rate and taxable wage limit for each state and check with reports filed.
- Confirm that payroll register totals match Form W-3 totals.
- Confirm that monthly/quarterly reported amounts sum to annual totals on W-2's.
- Confirm that Forms W-2 coincide with state and local report totals.
- Confirm that the reported taxes from Form W-3 equal tax deposits.
- Confirm that contributions to and distributions from childcare and medical plans covered under Section 125 match.

Before First Payroll of the New Year

- Remind employees to fill out a new Form W-4 if their situation has changed.
- Obtain new W-5 Forms for Advanced Earned Income Credit for the new year.
- Review compliance with Form I-9 requirements.
- Check the "purge" coding of any terminated employees who should be removed from the database.
- Verify the employer's current year state unemployment tax rate and taxable wage limit for each state.
- Verify that employee requests for fringe benefit deduction changes for the new year have been applied.

Year End Balancing/Reconciliations

Here are a few basic tips to follow to confirm that your quarterly reports are in balance with your annual reports. Use these tips along with the Annual Reconciliation Worksheet on the following page.

Wages, tips and other compensation

- Quarter to date amounts - Form 941, line 2
- Employee level year to date amount - Form W-2, box 1
- Company total year to date amounts - Form W-3, box 1

The sum of line 2 for the four quarters on Form 941 should balance to the amount appearing in Box 1 of Form W-3.

Federal income tax withheld

- Quarter to date amounts - Form 941, line 3
- Employee level year to date amount - Form W-2, box 2
- Company total year to date amounts - Form W-3, box 2

The sum of line 3 for the four quarters on Form 941 should balance to the amount appearing in Box 2 of Form W-3.

Social Security Wages

- Quarter to date amounts - Form 941, line 5a
- Employee level year to date amount - Form W-2, box 3
- Company total year to date amounts - Form W-3, box 3

The sum of line 5a for the four quarters on Form 941 should balance to the amount appearing in Box 3 of Form W-3.

Medicare Wages

- Quarter to date amounts - Form 941, line 5c
- Employee level year to date amount - Form W-2, box 5
- Company total year to date amounts - Form W-3, box 5

The sum of line 5c for the four quarters on Form 941 should balance to the amount appearing in Box 5 of Form W-3.

Annual Reconciliation of Payroll Tax Returns

Federal and Indiana

Item	Form/Line	(a) Form 941/Form UC-1					(b)	(c)	Difference
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total	Form W-3	Form 940	
Taxable Wages	Form 941, line 2 Form W-3, box 1							N/A	(a) - (b)
Federal Income Tax Withheld	Form 941, line 3 Form W-3, box 2							N/A	(a) - (b)
Social Security Wages	Form 941, line 5a Form W-3, box 3							N/A	(a) - (b)
Medicare Wages	Form 941, line 5c Form W-3, box 5							N/A	(a) - (b)
Social Security Tax Withheld	Form W-3, box 4	Form W-3, box 3 multiplied by current SS rate						N/A	(a) - (b)
Medicare Tax Withheld	Form W-3, box 6	Form W-3, box 5 multiplied by current Medicare rate						N/A	(a) - (b)
Gross Unemployment Wages	Form 940, line 1 Form W-3, box 5 Form UC-1, line 2								(a) - (b) - (c)
Taxable Unemployment Wages	Form 940, line 5 Form UC-1, line 4						N/A		(a) - (c)

Item	Form/Line	Form WH-3	Form W-3	Difference
Indiana Income Tax Withheld	Form WH-3, line 1 Form W-3, box 17			
Indiana Local Income Tax Withheld	Form WH-3, line 2 Form W-3, box 19			

Section II - Annual Changes

- Social Security Wage Base and Tax Rate
- Medicare Tax Rate
- Social Security Earnings Limit
- Pension Plan Changes
- Federal Per Diem Allowances

2012 Social Security Changes

Based on the increase in the Consumer Price Index (CPI-W) through the third quarter of 2011, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a 3.6 percent COLA for 2012. Other important 2012 Social Security information is as follows:

Tax Rate	2011	2012
Employee	7.65%*	7.65%
Self-Employed	15.30%	15.30%

NOTE: The 7.65% tax rate is the combined rate for Social Security and Medicare. The Social Security portion (OASDI) is 6.20% on earnings up to the applicable taxable maximum amount (see below). The Medicare portion (HI) is 1.45% on all earnings.

*Section 601 of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced, for wages and salaries paid in calendar year 2011 and self-employment income in calendar year 2011, the OASDI payroll tax by 2 percentage points, applied to the portion of the tax paid by the worker and the self-employed individual. **At the time of this publication, the 2 percent employee rate deduction was not extended for wages paid after December 31, 2011.**

Maximum Earnings Taxable:	2011	2012
Social Security (OASDI only)	\$106,800	\$110,100
Medicare (HI only)	No Limit	

Quarter of Coverage:	2011	2012
Earnings required	\$1,120	\$1,130

Retirement Earnings Test Exempt Amounts:	2011	2012
Under full retirement age NOTE: One dollar in benefits will be withheld for every \$2 in earnings above the limit.	\$14,160/yr. (\$1,180/mo.)	\$14,640/yr. (\$1,220/mo.)
The year an individual reaches <u>full retirement age</u> NOTE: Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every \$3 in earnings above the limit.	\$37,680/yr. (\$3,140/mo)	\$38,880/yr. (\$3,240/mo.)

There is no limit on earnings beginning the month an individual attains full retirement age.

2012 Pension Plan Changes

	2011	2012
401(k) and 403(b) Deferral Limit	\$16,500	\$17,000
401(k), 403(b), 457 Catch-up Contribution Limit	\$5,500	\$5,500
Simple Deferral Limit	\$11,500	\$11,500
Simple 401(k) and IRA Catch-up Contribution Limit	\$2,500	\$2,500
Annual Compensation limit	\$245,000	\$250,000
DB 415 Limit	\$195,000	\$200,000
DC 415 Limit	\$49,000	\$ 50,000
Dollar Limit for HCE	\$110,000	\$115,000
Dollar Limit for Key Employee	\$160,000	\$165,000
Comp Limit for SEP Eligibility	\$550	\$550
457 Deferral Limit	\$16,500	\$17,000

Federal Per Diem Allowances

The maximum rates listed below are prescribed for reimbursement of per diem expenses incurred during official travel within CONUS (the continental United States).

The amounts shown in column (a) are the maximums that will be reimbursed for lodging expenses excluding taxes.

The M&IE rates shown in column (b) are fixed amounts allowed for meals and incidental expenses covered by per diem. The per diem payment calculated for lodging expenses plus the M&IE rate may not exceed the maximum per diem rate shown in column (c).

The maximum per diem rate for all Standard CONUS destinations will be \$123 (\$77 for lodging and \$46 for M&IE) effective October 1, 2011.

The following chart is for Indiana only. The complete listing for all states is located at www.qsa.gov/perdiem.

Per Diem rates for INDIANA							
Effective October 1, 2011							
Per diem locality <small>(Cities not listed or located in listed counties have a Standard CONUS rate of \$77 Lodging & \$46 M&IE for FY 2012)</small>		Maximum lodging (excludes taxes) (a)	+	M & IE rate (b)	=	Maximum per diem rate (4) (c)	
Key city (1)	County and/or other defined location (2, 3)						
Bloomington	Monroe	97		56		153	
Carmel	Hamilton	91		61		152	
Ft. Wayne	Allen	84		56		140	
Indianapolis	Hamilton, Marion, Fort Benjamin Harrison	91		61		152	
Lafayette	Tippecanoe	82		51		133	

Federal Per Diem Allowances (cont.)

Per Diem rates for INDIANA						
Effective October 1, 2011						
Per diem locality <small>(Cities not listed or located in listed counties have a Standard CONUS rate of \$77 Lodging & \$46 M&IE for FY 2012)</small>		Maximum lodging (excludes taxes) (a)	+	M & IE rate (b)	=	Maximum per diem rate (4) (c)
Key city (1)	County and/or other defined location (2, 3)					
South Bend	St. Joseph	86		56		142
Valparaiso/Burlington Beach	Porter	78		51		129

Footnotes for Per Diem tables:

1. Unless otherwise specified, the per diem locality is defined as "all locations within, or entirely surrounded by, the corporate limits of the key city, including independent entities located within those boundaries."
2. Per diem localities with county definitions shall include "all locations within, or entirely surrounded by, the corporate limits of the key city as well as the boundaries of the listed counties, including independent entities located within the boundaries of the key city and the listed counties (unless otherwise listed separately)."
3. When a military installation or Government-related facility (whether or not specifically named) is located partially within more than one city or county boundary, the applicable per diem rate for the entire installation or facility is the higher of the two rates which apply to the cities and/or counties, even though part(s) of such activities may be located outside the defined per diem locality.
4. Federal agencies may submit a request to GSA for review of the costs covered by per diem in a particular city or area where the standard CONUS rate applies when travel to that location is repetitive or on a continuing basis and travelers' experiences indicate that the prescribed rate is inadequate.

Federal Per Diem Allowances (cont.)

Special M&IE rate for transportation industry

A special rate applies to:

(1) an employer that pays a per diem allowance only for M&IE to an employee in the transportation industry; and

(2) a self-employed individual or employee in the transportation industry who computes the amount allowable as a deduction for meal and incidental expenses for travel away from home using the federal M&IE rate.

Effective October 1, 2011, these taxpayers may treat \$59 as the federal M&IE rate for any CONUS locality and \$65 for any OCONUS locality.

If a payor uses either or both of these special rates for an employee, then these special rates must be used for all such M&IE per diem allowances paid to that employee during the calendar year.

Similarly, an employee or self-employed individual that uses either or both of these special rates must use the special rate or rates for all M&IE amounts computed during the calendar year.

The employee or self-employed individual must substantiate the elements of time, place, and business purpose. Furthermore, the food and beverage deduction limitation under Code Sec. 274(n) applies to these amounts computed by an employee or self-employed individual in the transportation industry.

An employer paying travel expenses for an employee in the transportation industry may compute the amount of the employee's expenses that is deemed substantiated under the M&IE per diem method periodically (not less frequently than monthly) rather than compute the amount deemed substantiated daily. The payor may do so by comparing the total per diem allowance paid for the period to the sum of the amounts computed at the federal M&IE rate(s) for the localities of travel for the days or partial days the employee is away from home during the period.

Example:

Frederick Kelley, an employee in the transportation industry, travels away from home within CONUS for 17 days (including partial days) during the month of November and receives a per diem allowance for M&IE only. The amount deemed substantiated for November is equal to the lesser of the total per diem allowance paid for the month of November or \$1,003 (17 days at \$59 per day).

Section III - Year End Reporting and Taxation of Fringe Benefits

- Taxable Fringe Benefits
 - Withholding on Fringe Benefits
 - Depositing Taxes on Fringe Benefits
 - Special Accounting Rule

- Supplemental Wages
 - Federal Supplemental Wage Definitions
 - Federal Supplemental Tax Rate
 - State Supplemental Tax Rates

- Moving Expenses

- Personal Use of Company Cars

- Life Insurance
 - Group-term Life

- Health Insurance
 - S Corporation Shareholder
 - C Corporation Shareholder

- Employer Paid Benefits
 - Gifts, Awards, and Incentives
 - Qualified Transportation Fringes
 - Educational Assistance
 - Stock Options
 - Cafeteria Plans and Flexible Benefit Plans
 - Dependent Care Benefits
 - Adoption Assistance
 - Business Expense Reimbursements
 - Supplemental Military Pay

- Year End Reporting Issues
 - Third-Party Sick Pay Reporting
 - Corrections, Adjustments and Refunds

Taxable Fringe Benefits

Any fringe benefit that you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it. Any benefit not excluded is taxable.

Including taxable benefits in pay. You must include in a recipient's pay the amount by which the value of a fringe benefit is more than the **sum** of the following amounts.

- Any amount the law excludes from pay.
- Any amount the recipient paid for the benefit.

If the recipient of a taxable fringe benefit is your employee, the benefit is subject to employment taxes and must be reported on **Form W-2**, Wage and Tax Statement. However, you can use special rules to withhold, deposit, and report the employment taxes.

If the recipient of a taxable fringe benefit is not your employee, the benefit is not subject to employment taxes. However, you may have to report the benefit on one of the following information returns.

If the recipient

receives the benefit as:

Use:

An independent contractor

Form 1099-MISC

A partner

Schedule K-1 (Form 1065)

An S corporation shareholder

Schedule K-1 (Form 1120S)

Rules for Withholding, Depositing, and Reporting

Use the following guidelines for withholding, depositing, and reporting taxable noncash fringe benefits.

Valuation of fringe benefits. Generally, you must determine the value of noncash fringe benefits no later than January 31 of the next year. Before January 31, you may reasonably estimate the value of the fringe benefits for purposes of withholding and depositing on time.

Choice of period for withholding, depositing, and reporting. For employment tax and withholding purposes, you can treat fringe benefits (including personal use of employer-provided vehicles) as paid on a pay period, quarter, semiannual, annual, or other basis. But the benefits must be treated as paid no less frequently than annually. You do not have to choose the same period for all employees. You can withhold more frequently for some employees than for others. You can change the period as often as you like as long as you treat all of the benefits provided in a calendar year as paid no later than December 31 of the calendar year.

Taxable Fringe Benefits (cont.)

Transfer of property. The above choice for reporting and withholding does not apply to a fringe benefit that is a transfer of tangible or intangible personal property of a kind normally held for investment, or a transfer of real property. For this kind of fringe benefit, you must use the actual date the property was transferred to the employee.

Withholding and depositing taxes. You can add the value of fringe benefits to regular wages for a payroll period and figure income tax withholding on the total. Or you can withhold Federal income tax on the value of fringe benefits at the flat 25% rate applicable to supplemental wages.

You must withhold the applicable income, social security, and Medicare taxes on the date or dates you chose to treat the benefits as paid.

Amount of deposit. To estimate the amount of income tax withholding and employment taxes and to deposit them on time, make a reasonable estimate of the value of the fringe benefits provided on the date or dates you chose to treat the benefits as paid. Determine the estimated deposit by figuring the amount that you would have had to deposit if you had paid cash wages equal to the estimated value of the fringe benefits and withheld taxes from those cash wages. Even if you do not know which employee will receive the fringe benefit on the date the deposit is due, you should follow this procedure.

If you underestimate the value of the fringe benefits and deposit less than the amount that you would have had to deposit if the applicable taxes had been withheld, you may be subject to a penalty.

If you overestimate the value of the fringe benefit and over deposit, you can either claim a refund or have the overpayment applied to your next Form 941.

If you deposited the required amount of taxes but withheld a lesser amount from the employee, you can recover from the employee the social security, Medicare, or income taxes that you deposited on the employee's behalf and included on the employee's Form W-2. However, you must recover the income taxes before April 1 of the following year.

Paying your employee's share of social security and Medicare taxes. If you choose to pay your employee's social security and Medicare taxes on fringe benefits without deducting them from his or her pay, you must include the amount of the payments in the employee's income. Also, if your employee leaves your employment and you have unpaid and uncollected taxes for noncash benefits, you are still liable for those taxes. You must add the uncollected employee share of social security and Medicare tax to the employee's wages.

Taxable Fringe Benefits (cont.)

Special accounting rule. You can treat the value of benefits provided during the last 2 months of the calendar year, or any shorter period within the last 2 months, as paid in the next year. Thus, the value of benefits actually provided in the last 2 months of 2011 would be treated as provided in 2012 together with the value of benefits provided in the first 10 months of 2012. This does not mean that all benefits treated as paid during the last 2 months of a calendar year can be deferred until the next year. Only the value of benefits actually provided during the last 2 months of the calendar year can be treated as paid in the next calendar year.

Limitation. The special accounting rule cannot be used, however, for a fringe benefit that is a transfer of tangible or intangible personal property of a kind normally held for investment, or a transfer of real property.

Conformity rules. Use of the special accounting rule is optional. You can use the rule for some fringe benefits but not others. The period of use need not be the same for each fringe benefit. However, if you use the rule for a particular fringe benefit, you must use it for all employees who receive that benefit. If you use the special accounting rule, your employee also must use it for the same period that you use it. But your employee cannot use the special accounting rule unless you do.

You do not have to notify the IRS if you use the special accounting rule. You may also, for appropriate reasons, change the period for which you use the rule without notifying the IRS. But you must report the income and deposit the withheld taxes as required for the changed period.

Amount to report on Forms 941 and W-2. The actual value of fringe benefits provided during a calendar year must be determined by January 31 of the following year. You must report the actual value on Forms 941 and W-2. If you choose, you can use a separate Form W-2 for fringe benefits and any other benefit information.

Include the value of the fringe benefit in box 1 of Form W-2. Also include it in boxes 3 and 5, if applicable. You may show the total value of the fringe benefits provided in the calendar year or other period in box 14 of Form W-2. However, if you provided your employee with the use of a vehicle and included 100% of its annual lease value in the employee's income, you must also report it separately in box 14 or provide it in a separate statement to the employee so that the employee can compute the value of any business use of the vehicle.

If you use the special accounting rule, you must notify the affected employees of the period in which you used it. You must give this notice at or near the date that you give the Form W-2 but not earlier than with the employee's last paycheck of the calendar year.

Taxable Fringe Benefits (cont.)

Supplemental Wages

Supplemental wages are compensation paid in addition to an employee's regular wages. They include, but are not limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay and retroactive pay increases for current employees, and payments for nondeductible moving expenses. Other payments subject to the supplemental wage rules include taxable fringe benefits and expense allowances paid under a nonaccountable plan. How you withhold on supplemental wages depends on whether the supplemental payment is identified as a separate payment from regular wages.

Withholding on supplemental wages when an employee receives more than \$1,000,000 of supplemental wages from you during the calendar year.

Special rules apply to the extent that supplemental wages paid to any one employee during the calendar year exceed \$1,000,000. If a supplemental wage payment, together with other supplemental wage payments made to the employee during the calendar year, exceeds \$1,000,000, the excess is subject to withholding at 35 percent (or the highest rate of income tax for the year). Withhold using the 35% rate without regard to the employee's Form W-4. In determining supplemental wages paid to the employee during the year, include payments from all businesses under common control.

Withholding on supplemental wage payments to an employee who does not receive \$1,000,000 of supplemental wages during the calendar year.

If the supplemental wages paid to the employee during the calendar year are less than or equal to \$1,000,000, the following rules apply in determining the amount of income tax to be withheld.

Supplemental wages combined with regular wages. If you pay supplemental wages with regular wages but do not specify the amount of each, withhold federal income tax as if the total were a single payment for a regular payroll period.

Supplemental wages identified separately from regular wages. If you pay supplemental wages separately (or combine them in a single payment and specify the amount of each), the federal income tax withholding method depends partly on whether you withhold income tax from your employee's regular wages.

Taxable Fringe Benefits (cont.)

- 1) If you withheld income tax from an employee's regular wages, you can use one of the following methods for supplemental wages.
 - a) Withhold a flat 25% (no other percentage allowed)
 - b) Add the supplemental and regular wages for the most recent payroll period this year. Then figure the income tax withholding as if the total was a single payment. Subtract the tax already withheld from the regular wages. Withhold the remaining tax from the supplemental wages.
- 2) If you did not withhold income tax from the employee's regular wages, use method 1b above. This would occur, for example, when the value of the employee's withholding allowances claimed on Form W-4 is more than the wages

Regardless of the method that you use to withhold income tax on supplemental wages, they are subject to social security, Medicare, and FUTA taxes.

State Supplemental Tax Rates

Indiana	3.4%
Ohio	3.5%
Michigan	4.35%
Illinois	5.0%

Moving Expenses



Payments for an employee's moving expenses are treated as excludable fringe benefits if (1) the expenses would have been deductible by the employee if the employee paid them, (2) the employee did not deduct the expenses in a prior year, and (3) payments are made under an "accountable plan". These payments should not be included in taxable wages for income taxes or social security and Medicare taxes. Instead, report them in box 12 using code P. These payments are not subject to withholding.

To be an accountable plan, the employer's reimbursement arrangement must require the employee to meet all three of the following rules:

Employee expenses must be deductible moving expenses,
Employee must adequately account to employer for these expenses within a reasonable period of time, and
Employee must return any excess reimbursement or allowance within a reasonable period of time.

Deductible moving expenses are described as:

Moving your household goods and personal effects (including in-transit or foreign-move storage expenses) and
Traveling (including lodging) to your new home.

The employee cannot deduct any part of these expenses for meals.

If the employee uses their car to take themselves, members of the household, or belongings to the new home, figure the expenses by deducting either:

- The actual expenses, such as gas and oil for the car, if an accurate record of each expense is documented
- cents per mile (19 cents for 1/1/11-6/30/11, 23.5 cents for 7/1/11-12/31/11, and 23 cents for 2012)

The employee can also deduct parking fees and tolls paid in moving. The employee cannot deduct any part of general repairs, maintenance, insurance or depreciation on the car.

Moving Expenses (cont.)

The employee cannot deduct the following expenses as moving expenses:

- Pre-move house hunting expenses,
- Temporary living expenses,
- Meal expenses,
- Expenses of buying or selling a home (including real estate commissions),
- Expenses of getting or breaking a lease,
- Security deposits (including any given up due to the move),
- Home improvements to help sell the home,
- Loss on the sale of the home,
- Mortgage penalties,
- Losses from disposing of memberships in clubs,
- Any part of the purchase price of your new home,
- Real estate taxes,
- Car licenses fees,
- Driver's license,
- Refitting carpets and draperies, and
- Storage charges except those incurred in-transit and foreign moves.

If the employer reimburses the employee for any nondeductible moving expenses, or for expenses that the employee has already deducted in a previous year, the reimbursements must be included in the employee's income. The employer must withhold income tax, social security tax and Medicare tax. Taxable wages to the employee would also include any amounts reimbursed to the employee that exceed the employee's deductible expenses that are not returned to the employer.

Reporting requirements of the employer

Reimbursements to employee treated as nontaxable – report on Form W-2, box 12, code P.

Qualified moving expenses paid to a third-party (e.g. a moving company) on behalf of an employee should no longer be reported on the W-2, box 12, code P.

Reimbursements to employee treated as taxable – include as taxable wages subject to all withholding taxes; include in taxable wages in Form W-2, boxes 1, 3, and 5.

Personal Use of Automobile

1. **Employee owns automobile** - Subject to all withholdings
 - A. Employer reimburses employee for business miles driven at a flat mileage rate. The reimbursement amount is deductible on the employer's tax return and not included on the employee's tax return.
 - B. Employer reimburses employee for the business percentage of actual expenses paid by the employee: insurance, licensing, lease payments, depreciation, gas, oil, tires, maintenance, routine repairs.
 - C. If the employer does not reimburse employee, employee can deduct expenses on 1040, but only as an itemized deduction subject to a 2% of AGI floor.
 - D. Flat car allowances with no substantiation of expenses are totally taxable to the employee.

Note that A and B are only allowable if business miles and expenses are substantiated by the employee and if the employer has an accountable plan. Otherwise, any reimbursements are treated as taxable wages.

- The mileage rate effective January 1, 2011 to June 30, 2011 was 51 cents per mile.
- The mileage rate for July 1, 2011 to December 31, 2011 was 55.5 cents per mile.
- Effective January 1, 2012 the mileage rate will be 55.5 cents per mile.

2. **Employer owns automobile** - Subject to all withholdings

- A. **Annual lease value method:**

Fair market value at the time it is provided to employee is used to determine the annual lease value. The annual lease value is multiplied by personal usage multiplied by the portion of the year the vehicle was available. If the employer paid for gas, total personal miles are multiplied by 5.5 cents, and this amount is included as well. The total of the above calculations are included on the employee's W-2 and are subject to FICA (calculation worksheet and annual lease value table on following pages). Note that the fair market value of the vehicle is not re-evaluated until the fifth year after the employee begins using the vehicle. If the vehicle is leased by the employer, the FMV may be determined by the retail value as reported by a nationally recognized pricing source (e.g., blue book), www.kbb.com, the manufacturer's suggested retailed price less 8%, or the dealer's invoice price plus 4%.

Personal Use of Automobile (cont.)

- B. **Cents-per-mile Rule.** Under the cents-per-mile method, the standard mileage rate (as previously noted) is multiplied by the total number of miles driven for personal use. This method may only be used if the employer expects the vehicle to be regularly used for business throughout the calendar year, the vehicle is driven over 10,000 miles for business and personal use combined, the vehicle is primarily used by employees, and the FMV of the vehicle does not exceed \$15,300 in 2011. This value is indexed annually.

Cents-per-mile valuation limits.

For vehicles first placed in service:	Limit:
1-1-06 to 12-31-06	\$15,000
1-1-07 to 12-31-07	\$15,100
1-1-08 to 12-31-08	\$15,000
1-1-09 to 12-31-09	\$15,000
1-1-10 to 12-31-10	\$15,300
1-1-11 to 12-31-11	\$15,300

If the employer does not provide fuel, it may reduce the cents-per-mile rate by 5.5 cents.

Either A or B must be chosen when the vehicle is given to the employee to use. This election cannot be changed later.

- C. **Commuting Rule.** You determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute (that is, from home to work or from work to home) by \$1.50. If more than one employee commutes in the vehicle, this value applies to each employee.

The valuation rule may be used if:

- (1) the vehicle is owned or leased by the employer and provided to one or more employees for use in the employer's trade or business;
- (2) the employer, for bona fide business reasons, requires employees to commute to and from work in the vehicle (e.g., the need to respond to emergency service calls);

Personal Use of Automobile (cont.)

- (3) the employer has established a written policy under which the transportation is not provided for the employee's personal purposes;
- (4) the transportation is not used for any personal reason other than commuting due to unsafe conditions; and
- (5) the commuter receiving the transportation is not a control employee of the employer.

A control employee for 2011 is any employee who was:

- (1) a board- or shareholder-appointed, confirmed, or elected officer of the employer whose pay for the year was \$95,000 or more,
- (2) was a director of the employer,
- (3) received pay for the year of \$195,000 or more from the employer, or
- (4) owned 1% or more equity, capital, or profit interest in the employer.

You may elect to treat all highly compensated employees as control employees for the commuting valuation rule. Under this option, all employees who are not highly compensated are not control employees, regardless of their position. Further, for the exception to apply, there must be evidence that would enable the IRS to determine whether the use of the vehicle meets the conditions listed above.

Unsafe conditions

Employer-provided transportation for commuting solely because of unsafe conditions, furnished to employees who would otherwise walk to work or use public transportation, must be valued at \$1.50 per one-way commute. Unsafe conditions exist if a reasonable person would consider it unsafe to walk to or from home, or to walk or use public transportation, at the time of day the employee must commute. You must have a written policy stating that the transportation is not provided for personal use other than commuting due to unsafe conditions. The valuation is only available for employees paid on an hourly basis and who are nonexempt under the FLSA.

**EMPLOYER PROVIDED AUTOMOBILE
FRINGE BENEFIT CALCULATION
2011**

TO BE COMPLETED BY EMPLOYEE

Employee Name _____

Description of Vehicle _____

Dates Available for Use During 2011 _____

Business mileage _____ (A)
 Commuting mileage _____ (B)
 Other personal mileage _____ (C)
 Total mileage _____ (D)

	<u>Yes</u>	<u>No</u>
I have written documentation to support the above mileage figures.	_____	_____
Was the vehicle available for personal use during off-duty hours?	_____	_____
Do you have another vehicle available for personal use?	_____	_____
Was the vehicle available for commuting?	_____	_____
Are you an officer or 5% or more owner of the employer?	_____	_____
Average daily round trip commuting distance: _____	_____	_____

Notice: The Company has chosen not to withhold from employee paychecks income taxes payable on the value of personal use of Company automobiles during 2011. Since personal car use increases taxable income, affected employees may wish to submit to the Company a new Form W-4 to adjust the amount withheld from paychecks for income taxes. This could help you avoid penalties, as well as additional taxes, at the end of the year. FICA taxes will be withheld where applicable.

I have adequate records or sufficient corroborative evidence to support the above data.

Signed _____ Date _____

TO BE COMPLETED BY EMPLOYER

Company Name _____

Fair Market Value of Vehicle _____

Annual lease value per table _____ (1)

Nonbusiness mileage (B) _____ (C) _____ = _____ (2)

Percent of personal use (2) _____ / (D) _____ = _____ (3)

Total days available for use during the calendar year _____ (4)

Proration of availability (4) _____ / 365 = _____ (5)

Lease value (1) _____ x (3) _____ x (5) _____ = _____ (6)

Fuel cost (if paid by employer) (2) _____ x \$0.055 = \$ _____ (7)

Reimbursement to employer from employee _____ (8)

Income to employee (6) _____ + (7) _____ - (8) _____ = \$ _____

NOTE: Actual fuel cost may be used in lieu of the 5.5 cents per mile standard rate.

Annual Lease Value Table

For use in calculating employer provided automobile fringe benefit

Automobile fair market value	Annual lease value
\$0 to \$999	\$ 600
\$1,000 to \$1,999	850
\$2,000 to \$2,999	1,100
\$3,000 to \$3,999	1,350
\$4,000 to \$4,999	1,600
\$5,000 to \$5,999	1,850
\$6,000 to \$6,999	2,100
\$7,000 to \$7,999	2,350
\$8,000 to \$8,999	2,600
\$9,000 to \$9,999	2,850
\$10,000 to \$10,999	3,100
\$11,000 to \$11,999	3,350
\$12,000 to \$12,999	3,600
\$13,000 to \$13,999	3,850
\$14,000 to \$14,999	4,100
\$15,000 to \$15,999	4,350
\$16,000 to \$16,999	4,600
\$17,000 to \$17,999	4,850
\$18,000 to \$18,999	5,100
\$19,000 to \$19,999	5,350
\$20,000 to \$20,999	5,600
\$21,000 to \$21,999	5,580
\$22,000 to \$22,999	6,100
\$23,000 to \$23,999	6,350
\$24,000 to \$24,999	6,600
\$25,000 to \$25,999	6,850
\$26,000 to \$27,999	7,250
\$28,000 to \$29,999	7,750
\$30,000 to \$31,999	8,250
\$32,000 to \$33,999	8,750
\$34,000 to \$35,999	9,250
\$36,000 to \$37,999	9,750
\$38,000 to \$39,999	10,250
\$40,000 to \$41,999	10,750
\$42,000 to \$43,999	11,250
\$44,000 to \$45,999	11,750
\$46,000 to \$47,999	12,250
\$48,000 to \$49,999	12,750
\$50,000 to \$51,999	13,250
\$52,000 to \$53,999	13,750
\$54,000 to \$55,999	14,250
\$56,000 to \$57,999	14,750
\$58,000 to \$59,999	15,250

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to: (25% X the fair market value of the automobile) + \$500.

Group-Term Life Insurance



Include in wages for income, social security and Medicare tax purposes, the cost of group-term life insurance you provided to an employee for coverage over \$50,000, or for coverage that discriminated in favor of the employee. This amount is subject to withholding for social security and Medicare, but not income tax.

Figure the monthly cost of the insurance to include in the employee's wages by multiplying the number of thousands of dollars of insurance coverage over \$50,000 by the cost shown in the following table. You must prorate the cost from the table if less than a full month of coverage is involved.

Cost Per \$1,000 of Protection for One Month:

Age	Cost
Under 25	\$.05
25 through 2906
30 through 3408
35 through 3909
40 through 4410
45 through 4915
50 through 5423
55 through 5943
60 through 6466
65 through 69	1.27
70 and older	2.06

Sample calculation of fringe benefit for 2011:

X Corporation pays a premium on a \$70,000 group term life insurance policy on the life of its president, John. John is 50 years old. The cost of the policy includable in John's gross income is computed as follows:

\$70,000	Total insurance coverage
<u>(50,000)</u>	Tax-free insurance coverage
20,000	Insurance coverage subject to tax
<u>1,000</u>	Divide by 1,000
20	
<u>.23</u>	Rate per \$1,000
4.60	Cost per month
<u>x 12</u>	Multiply by 12 months
<u>\$ 55.20</u>	Cost for coverage

Health Insurance

Employer contributions to accident and health plans are not income. Contributions by an employer to accident and health plans to provide compensation (through insurance or otherwise) for employees in case of personal injury or sickness are exempt from federal income taxation and, thus, are not subject to federal income tax withholding.

This is true regardless of whether individual or group policies are involved, and regardless of whether the employer payment is made directly to an insurer or indirectly through an insurance fund. Employer contributions to maintain group health plans for reservists called to active duty and their families will continue to be excludable from the reservists' gross income. The exclusion from taxation applies to employer payments of supplementary medical insurance premiums under Medicare.

The exclusion, however, does not apply to shareholders who own more than 2% of the shares outstanding in an S corporation. Such shareholders are considered partners in a partnership. Consequently, any accident and health insurance premiums paid by the S corporation on behalf of its 2% shareholders are considered "wages" subject to income withholding. Such payments may be excluded from FICA tax if the payments were made under a plan for employees and their dependents or for a particular class of employees and their dependents. Employees that are children of a 2% shareholder should be treated the same for purposes of health insurance paid by the S Corporation.

2% S Corp. Shareholder Health Insurance

- Include as income taxable wages on W-2, boxes 1, 16 and 18
- Not subject to FICA or Medicare taxes (do not include on W-2 boxes 3 and 5)
- 100% deduction from AGI on Shareholder Individual tax return

Further guidance from IRS

Notice 2008-1, I.R.B. 2007-2, December 13, 2007. [Code Secs. 162 and 1372]

Deductions: Insurance premiums: S corporation: Two-percent shareholder.

The IRS has released special rules regarding the deduction by two-percent shareholder-employees of S corporations of health insurance premiums that are paid by or reimbursed by the S corporations and included in the shareholders' income. A two-percent shareholder-employee may deduct amounts paid for insurance under Code Sec. 162(l) if the insurance plan was established by the S corporation. A plan is

Health Insurance (cont.)

considered to be established by the S corporation if the S corporation makes the premium payments in the current tax year or the two-percent shareholder makes the premium payments and is, then, reimbursed by the S corporation in the current tax year. Payments, whether made directly by the S corporation or reimbursed by the S corporation, must be included in the shareholder's wages and reported on the shareholder's Form W-2, Wage and Tax Statement.

NOTE: C Corporation Shareholder Health Insurance is excluded from taxable wages.

Employer Paid Fringe Benefits

Gifts, Awards, and Incentives

The following are six general rules on the taxation of gifts, awards, and incentives given to employees:

- Monetary prizes, awards, bonuses and gift certificates, including achievement awards, are generally considered taxable compensation subject to federal and state income tax withholding, unemployment tax, and FICA taxes.
- Prizes, bonuses, awards that involve goods or services, such as a vacation trip for meeting a sales goal, also generally result in taxable income.
- "Tangible personal property" awarded to employees to recognize the employees' length of service or safety achievement is *not* taxable. However, there are strict rules to follow for tax-free treatment that we'll describe later.
- The term "tangible personal property" does *not* mean cash or gift certificates. Although the definition of "tangible personal property," is unclear, most tax advisers take the position that certificates and other types of awards redeemable for merchandise — such as points and cards with point values — are taxable. *One exception:* If the merchandise is given as an employee achievement award and meets IRS rules.
- Awards and gifts of minimal value, such as a holiday turkey, generally fall under the IRS's *de minimis* rule and are not taxable. That rule says if an employer provides an employee with a product or service that costs so little that it would be unreasonable for the employer to account for it, the value is not taxable income. (Cash awards and gift certificates redeemable for cash are not included under the *de minimis* rule.)
What's considered minimal? Most tax advisers say \$25 to \$75 to an employee in a year. Consult with your tax adviser on the *de minimis* amount to use in your situation.
- The value of holiday gifts, such as merchandise or tickets to sporting events, in excess of the *de minimis* amount is taxable income.



Tax-Free Employee Achievement Awards

In some cases, the value of employee achievement awards can be excluded from taxable income. However, the award must involve something other than cash, a gift certificate, or other cash-equivalent item, and must be given for length-of-service or safety achievement. The amount that the employee can receive tax free is limited to the employer's cost and cannot exceed \$1,600 (\$400 for awards that are not qualified plan awards) for all awards the employee receives during the year.

Employer Paid Fringe Benefits (cont.)

In addition, the employer must make the award as part of a meaningful presentation. The tax-free employee achievement award exception does NOT apply if:

- The length-of-service award is for less than five years of service or if the employee received another length-of-service award during the year or the previous four years.
- The safety achievement award is given to a manager, administrator, clerical employee, or other professional employee.
- More than 10 percent of eligible employees previously received safety achievement awards during the year.

Employee. For this exclusion, treat the following individuals as employees.

- A current employee.
- A former common-law employee that you maintain coverage for in consideration of or based on an agreement relating to prior service as an employee.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year if the services are performed under your primary direction or control.

Exception for S corporation shareholders. Do **not** treat a 2% shareholder of an S corporation as an employee of the corporation. A 2% shareholder is someone who directly or indirectly owns (at any time during the year) **more than** 2% of the corporation's stock or stock with **more than** 2% of the voting power.

Exclusion from wages. You can generally exclude the value of achievement awards that you give to an employee from the employee's wages if their cost is not more than the amount that you can deduct as a business expense for the year.

Employer Paid Fringe Benefits (cont.)

Qualified Transportation Benefits

This exclusion applies to the following benefits.

- A ride in a commuter highway vehicle between the employee's home and work place.
- A transit pass.
- Qualified parking.
- Bicycle commuters.

The exclusion applies whether you provide only one or a combination of these benefits to your employees.

Qualified transportation benefits can be provided directly by you or through a bona fide reimbursement arrangement. However, cash reimbursements for transit passes qualify only if a voucher or a similar item that the employee can exchange only for a transit pass is not readily available for direct distribution by you to your employee. A voucher is readily available for direct distribution only if an employee can obtain it from a voucher provider that does not impose fare media charges or other restrictions that effectively prevent the employer from obtaining vouchers.

Commuter highway vehicle. A commuter highway vehicle is any highway vehicle that seats at least 6 adults (not including the driver). In addition, you must reasonably expect that at least 80% of the vehicle mileage will be for transporting employees between their homes and work place with employees occupying at least one-half of the vehicle's seats (not including the driver's).

Transit pass. A transit pass is any pass, token, farecard, voucher, or similar item entitling a person to ride, free of charge or at a reduced rate, one of the following:

- On mass transit.
- In a vehicle that seats at least 6 adults (not including the driver) if a person in the business of transporting persons for pay or hire operates it.
- Mass transit may be publicly or privately operated and includes bus, rail, or ferry.

Qualified parking. Qualified parking is parking that you provide to your employees on or near your business premises. It includes parking on or near the location from which your employees commute to work using mass transit, commuter highway vehicles, or carpools. It does not include parking at or near your employee's home.

Employer Paid Fringe Benefits (cont.)

Bicycle commuters. The Emergency Economic Stabilization Act of 2008 changed transportation fringe benefits. Effective with respect to taxable years beginning after December 31, 2008, a “qualified bicycle commuting reimbursement” is added as a qualified transportation fringe benefit under IRC §132. This benefit is defined as any employer reimbursement of an employee for reasonable expenses incurred by the employee for the purchase and repair of a bicycle, bicycle improvements, and bicycle storage, provided that the bicycle is regularly used for travel between the employee’s residence and place of employment.

Employee. For this exclusion, treat the following individuals as employees.

- A current employee.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year if the services are performed under your primary direction or control.

Exception for S corporation shareholders. Do **not** treat a 2% shareholder of an S corporation as an employee of the corporation. A 2% shareholder is someone who directly or indirectly owns (at any time during the year) **more than** 2% of the corporation's stock or stock with **more than** 2% of the voting power.

Relation to other fringe benefits. You **cannot** exclude a qualified transportation benefit that you provide to an employee under the de minimis or working condition benefit rules. However, if you provide a local transportation benefit other than by transit pass or commuter highway vehicle, or to a person other than an employee, you may be able to exclude all or part of the benefit under other fringe benefit rules (de minimis, working condition, etc.).

Exclusion from wages. You **can** generally exclude the value of transportation benefits that you provide to an employee during 2011 from the employee's wages up to the following limits.

- combined commuter highway vehicle transportation and transit passes - \$230 per month (\$125 per month in 2012)
- qualified parking - \$230 per month (\$240 per month in 2012)
- bicycle commuters - \$20 per month (\$20 per month in 2012)

Benefits more than the limit. If the value of a benefit for any month is more than its limit, include in the employee's wages the amount over the limit minus any amount the employee paid for the benefit. You **cannot** exclude the excess from the employee's wages as a de minimis transportation benefit.

Employer Paid Fringe Benefits (cont.)

Educational Assistance

This exclusion applies to educational assistance that you provide to employees under an educational assistance program. The exclusion also applies to graduate level courses.

Educational assistance means amounts that you pay or incur for your employees' education expenses. These expenses generally include the cost of books, equipment, fees, supplies, and tuition. However, these expenses do not include the cost of a course or other education involving sports, games, or hobbies, unless the education:

- Has a reasonable relationship to your business, or
- Is required as part of a degree program.

Education expenses do not include the cost of tools or supplies (other than textbooks) that your employee is allowed to keep at the end of the course. Nor do they include the cost of lodging, meals, or transportation.

Educational assistance program. An educational assistance program is a separate written plan that provides educational assistance only to your employees. The program qualifies only if **all** of the following tests are met.

- The program benefits employees who qualify under rules set up by you that do not favor highly compensated employees. To determine whether your program meets this test, do not consider employees excluded from your program who are covered by a collective bargaining agreement if there is evidence that educational assistance was a subject of good-faith bargaining.
- The program does not provide more than 5% of its benefits during the year for shareholders or owners. A shareholder or owner is someone who owns (on any day of the year) more than 5% of the stock or of the capital or profits interest of your business.
- The program does not allow employees to choose to receive cash or other benefits that must be included in gross income instead of educational assistance.
- You give reasonable notice of the program to eligible employees.

Your program can cover former employees if their employment is the reason for the coverage.

Employer Paid Fringe Benefits (cont.)

For this exclusion, a highly compensated employee for 2011 is an employee who meets either of the following tests.

- 1) The employee was a 5% owner at any time during the year or the preceding year.
- 2) The employee received more than \$110,000 in pay for the preceding year.

You can choose to ignore test (2) if the employee was not also in the top 20% of employees when ranked by pay for the preceding year.

Employee. For this exclusion, treat the following individuals as employees.

- A current employee.
- A former employee who retired, left on disability, or was laid off.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year if the services are performed under your primary direction or control.
- Yourself (if you are a sole proprietor).
- A partner who performs services for a partnership.

Exclusion from wages. You can exclude up to \$5,250 of educational assistance you provide to an employee under an educational assistance program from the employee's wages each year.

Assistance over \$5,250. If you do not have an educational assistance plan, or you provide an employee with assistance exceeding \$5,250, you can exclude the value of these benefits from wages if they are working condition benefits. Property or a service provided is a working condition benefit to the extent that if the employee paid for it, the amount paid would have been deductible as a business or depreciation expense.

Employer Paid Fringe Benefits (cont.)

Employee Stock Options

There are three classes of stock options--incentive stock options, employee stock purchase plan options, and nonstatutory (nonqualified) stock options.

Generally, for income tax purposes, incentive stock options and employee stock purchase plan options are excluded from wages both when the options are granted and when they are exercised (unless the stock is disposed of in a disqualifying disposition).

However, the spread (between the exercise price and fair market value of the stock at the time of exercise) is included in wages subject to social security, Medicare, and Federal unemployment (FUTA) taxes when the options are exercised. Income tax withholding is not required at the time of exercise.

The spread on nonstatutory options normally is included in wages for income tax purposes when the options are exercised. The spread on nonstatutory options is also subject to social security, Medicare, and FUTA taxes, and income tax withholding at the time of exercise.

The IRS will not enforce the application of social security, Medicare, and FUTA taxes at the time of exercise on the spread on incentive stock options and employee stock purchase plan options until further guidance is issued.

In addition, if stock acquired pursuant to the exercise of an incentive stock option or employee stock purchase plan option is subsequently sold in a disqualifying disposition, the income is not subject to income tax withholding. (However, the income should be reported to the employee or former employee, generally in box 1 of Form W-2.)

An employee who transfers his or her interest in nonstatutory stock options to the employee's former spouse incident to a divorce is not required to include an amount in gross income upon the transfer. The former spouse, rather than the employee, is required to include an amount in gross income when the former spouse exercises the stock options.

Employer Paid Fringe Benefits (cont.)

Cafeteria Plans

Federal Income Tax Withholding Treatment: No withholding if qualified benefit is chosen. Subject to withholding if cash is chosen.

Federal Insurance Contributions Act Treatment: Not subject to FICA if qualified benefit is chosen. Subject to FICA if cash is chosen. FICA applies to 401(k) deferrals and to group-term life insurance coverage in excess of \$50,000.

Federal Unemployment Tax Act Treatment: Not subject to FUTA if qualified benefit is chosen. Subject to FUTA if cash is chosen. FUTA applies to 401(k) deferrals.

What is a cafeteria plan?

Cafeteria plans or flexible benefit plans are employee benefit plans, authorized by Code Sec. 125, under which employees may choose from among two or more benefits consisting of cash and qualified benefits offered by an employer. The cafeteria plan must be in writing. All participants must be employees or full-time life insurance salespersons (to the extent that they are otherwise permitted to exclude the elected benefit from income). No special permission is required from the IRS to implement a cafeteria plan.

Why offer cafeteria plans?

Cafeteria plans give employees greater responsibility for planning their choice of benefits while saving benefit costs for the employer. There are also some immediate tax benefits. All of the before-tax deductions of the employees are exempt from federal income tax, FICA, and, in some states, are exempt from state withholding. Most states exclude any contributions to before-tax plans from income taxes. Before-tax plans provide many employees with their only opportunity to take a tax deduction for medical expenses, since few employees meet the percentage of income test required to deduct medical expenses on individual tax returns.

Employers can save on FICA by instituting a cafeteria plan. Annual FICA savings may actually exceed the administration costs involved in implementing and maintaining a plan.

Employer Paid Fringe Benefits (cont.)

What benefits may be offered in a cafeteria plan?

Qualified benefits that can be offered include accident and health insurance, dependent care assistance, group legal services, group-term life insurance, short-term or long-term disability coverage, elective contributions to a qualified CODA (401(k)), additional vacation days that can be purchased by employees, flexible spending accounts, adoption assistance benefits, and health savings accounts.

The exclusion of the premium value of any insurance-type protection against legal expenses for any individual in a taxable year is limited to \$70 annually. This limit applies to the premium value of a plan (whether insured or self-insured), but not to the reimbursement or services provided under the plan.

Employees of educational organizations are allowed to elect post-retirement life insurance coverage.

Cafeteria plans may use an automatic enrollment process under which an employee's salary is reduced each year to pay for a portion of the group health coverage under the plan. A cafeteria plan's use of an automatic enrollment process that reduces an employee's salary each year to pay for a portion of the coverage does not require inclusion of an employer's contributions in gross income unless the employee affirmatively elects cash.

A cafeteria plan can allow employees the option of buying additional vacation days with before-tax contributions. Employees must take company-provided vacation time before taking purchased elective vacation days. If an employee cannot use the purchased vacation days, they can be sold back to the plan. The money received becomes taxable income. Purchased vacation days cannot be rolled over into another plan year because that would be considered to be deferral of compensation.

What benefits cannot be included in a cafeteria plan?

A cafeteria plan cannot offer employees an option to defer compensation, except through a qualified cash or deferred arrangement under a 401(k) plan. Generally, a plan that permits employees to carry over unused benefits or contributions from one plan year to a subsequent plan year enables an employee to defer the receipt of compensation.

Several other benefits cannot be included in a cafeteria plan because they are already tax-exempt under other parts of the Code. These benefits include: educational assistance plans, scholarships, fellowships, rides in commuter vans, *de minimis* fringe benefits, no-additional-cost services, employee discounts, working condition fringe benefits, medical savings accounts, and long-term care insurance.

Employer Paid Fringe Benefits (cont.)

The plan cannot discriminate in favor of highly compensated employees.

Exclusion of tax-free benefits under a cafeteria plan is not available to **highly compensated employees, highly compensated participants or key employees** if the plan discriminates in their favor. However, the exclusion from income remains available to participants who are not highly compensated, without regard to whether or not the plan is discriminatory. Thus, even if the plan is discriminatory, participants who are not highly compensated are required to include in income employer contributions only to the extent that they elect taxable benefits.

Highly compensated employees include

- officers,
- more-than-5 percent shareholders,
- employees within the highest-paid group of employees.

The spouses and dependents of any of the foregoing, are included in the highly compensated participant or employee category. If the plan is discriminatory, the highly compensated employee is subject to tax on the combination of the taxable benefits with the greatest aggregate value that could have been selected for the plan year.

A **key employee** is any participant in an employer plan who, at any time during the plan year or any of the four preceding plan years, is:

1. An officer of the employer having an annual compensation greater than \$160,000 for 2011. This definition is limited to up to the greater of three officers or 10 percent of all employees, but, if there are more than 500 employees, a maximum of 50 officers will come under this category;
2. A 5% owner of the employer; or
3. A 1% owner of the employer having an annual compensation of more than \$150,000.

Key employees who fall within the categories described above and who receive more than 25% of total nontaxable benefits will be taxed as though they received all available taxable benefits under the plan in the tax year in which the plan year ends.

Employer Paid Fringe Benefits (cont.)

Flexible Spending Accounts

Federal Income Tax Withholding: No withholding.

Federal Insurance Contributions Act: Not subject to FICA

Federal Unemployment Tax Act: Not subject to FUTA.

Flexible spending accounts fund health care coverage and dependent care assistance with employee contributions

Flexible spending accounts (FSAs) may be established to allow employees to fund health care benefits and dependent care assistance on a pretax basis. Employee contributions to flexible spending accounts are a form of cafeteria plan that are not subject to employment taxes. Employees contribute money to accounts on a pretax basis to fund reimbursed expenses under a health plan or dependent care plan. Employees must enroll in the plan at the beginning of the year and tell the employer how much money will be contributed to each account. Each pay period, deductions are made from employee wages to fund the account.

Employees must establish contribution amounts each year. Employees must determine how much will be contributed to a health account or dependent care account at the start of each year. This requires the employee to essentially estimate how much he will spend in the coming year for each benefit.

Employees can contribute up to \$5,000 per year to dependent care accounts.

There is no cap on the amount that may be contributed to a health care spending account. Limits do exist on the amount that can be contributed to a dependent care account. Employees can set aside up to \$5,000 per tax return to fund a dependent care account. If an employee is married and files separate returns, the employee is limited to \$2,500. If the employee is married and files a joint return or single the maximum contribution to a dependent care account is \$5,000.

Use-it-or-lose-it applies to employee contributions. Unused flexible spending account balances left over at the end of a plan year must be forfeited under the so-called “use it or lose it” rule. The employer *cannot* return the unused money to the employee. This risk requires employees to be careful in allocating dollars to a flexible spending account at enrollment time. However, a plan may provide for a “grace period” of up to 2 ½ months after the close of the plan year for employees to make claims. This means employees on a calendar year plan (if election to plan made) can use their 2011 FSA contributions for expenses incurred as late as March 15, 2012.

Employer Paid Fringe Benefits (cont.)

You must decide what to do with forfeited contributions.

You have a couple of options for handling the excess contributions forfeited by employees:

1. reallocate all forfeited funds equally among all active plan participants;
2. use the money as reimbursement for the cost of administering the plan; or
3. use the money to reimburse the employer for claims paid that are not reimbursed through employee contributions.

You can elect to treat forfeited funds differently each year.

You must reimburse health FSA claims even if there are insufficient contributions in the account to pay for a claim. You must pay health FSA claims when submitted (up to the amount of reimbursement selected by the employee), even if an employee does not have sufficient funds in a flexible spending account to cover the cost of the claim. If an employee terminates before sufficient funds are contributed to cover the cost of a health claim, you cannot recover that money.

Example

Camille elects to contribute \$2,600 each year in equal biweekly installments to fund the cost of a health plan deductible and copayment. In February, Camille becomes ill and incurs \$1,500 in medical costs. Even though she has contributed only \$400 to the flexible spending account, Camille can submit a claim for the entire \$1,500. The employer is required to reimburse the full amount (the employer must reimburse up to the full \$2,600 at any time). If Camille becomes too ill to return to work, the employer is responsible for the unfunded \$1,100 of medical expenses. However, the employer can use funds forfeited by other employees to reimburse itself.

Employee plan elections are usually binding for the entire year. An employee's flexible plan contribution election is usually binding for the entire plan year. An employee can make changes in plan elections in two situations:

1. if there is a third-party health provider such as an HMO, employees can make election changes if there is an increase or decrease in premiums or if the HMO goes out of business; or
2. if there is a change in family status.

Employer Paid Fringe Benefits (cont.)

Health Savings Accounts

Federal income tax withholding: Subject to withholding (unless provided under Sec 125 Cafeteria Plan)

Federal Insurance Contributions Act: Subject to FICA (unless provided under Sec 125 Cafeteria Plan)

Federal Unemployment Tax Act: Subject to FUTA (unless provided under Sec 125 Cafeteria Plan)

Health Savings Accounts (HSAs) provide tax-favored treatment for current medical expenses as well as the ability to save on a tax-favored basis for future medical expenses. These accounts are designed to supplement high-deductible health insurance plans and are created exclusively to pay for the qualified medical expenses of the account holder and his or her spouse and dependants. The accounts are subject to rules similar to those applicable to individual retirement arrangements (IRAs).

An employer may set up health savings accounts for its employees and may make contributions to the accounts in addition to any employee contributions. Combined employer and employee contributions may not exceed the limits for account contributions (generally \$3,050 for an individual with self-only coverage and \$6,150 for an individual with family coverage – 2011 amounts; adjusted annually for inflation).

The Act provides the following rules governing employer contributions to health savings accounts:

- income exclusions applicable to employer contributions to health savings accounts,
- employment tax exclusions applicable to employer contributions to health savings accounts,
- nondiscrimination rules applicable to employer contributions to health savings accounts,
- a penalty tax on excess contributions to health savings accounts,
- a penalty tax on prohibited transactions involving health savings accounts,
- a penalty for failure to provide reports on health savings accounts,
- an exception from capitalization of policy acquisition costs, and
- the ability to offer health savings accounts under cafeteria plans.

Employer Paid Fringe Benefits (cont.)

Employer contributions to health savings accounts excluded from employee's taxable income. Health savings account contributions are generally excluded from wages for purposes of determining income and employment taxes. Also, the amount contributed to the health savings account of an employee or the employee's spouse must be shown on the employee's W-2 form in Box 12 code W.

Generally, employer contributions are often made through salary reduction contributions deducted from the employee's paycheck.

Employer contributions to any health savings account of an eligible employee are treated as excludable employer-provided coverage for medical expenses under an accident or health plan. However, the exclusion applies only to the extent such amounts do not exceed the employee's health savings account dollar "limitations" for the tax year. The contribution limits are determined without regard to these income exclusion and penalty rules.

Rules similar to the MSA contribution rules apply. Thus, no amount is included in the gross income of any employee solely because the employee can choose between the contributions made to a health savings account and employer contributions to another health plan of the employer. Also, any employer contributions to a health savings account, if otherwise allowable as a deduction, are allowed only for the tax year in which paid. Moreover, every individual required to file an income tax return for the tax year must include on such return the aggregate amount contributed by employers to the health savings accounts of such individual or such individual's spouse for such tax year. Finally, HSA contributions are not part of COBRA.

Employer contributions excluded from employment taxes. In addition to being excludable from income, HSA contributions are also excludable from wages for purposes of computing employment taxes. When determining railroad retirement taxes, the term compensation does not include any payment made to or for the benefit of an employee if at the time of such payment it is reasonable to believe that the employee will be able to exclude that payment from income under the exclusion. Similarly, for purposes of determining unemployment taxes, any payment made to or for the benefit of an employee is excluded from wages if at the time of such payment it is reasonable to believe that the employee will be able to exclude such payment from income under the exclusion for health savings account contributions. Finally, for purposes of determining wages for withholding taxes, any payment made to or for the benefit of an employee is excludable if at the time of such payment it is reasonable to believe that the employee will be able to exclude such payment from income under the exclusion.

Employer Paid Fringe Benefits (cont.)

Nondiscrimination rules governing employer contributions to HSAs. An employer is penalized if it fails to make comparable HSA contributions on behalf of all employees with comparable coverage during the same period.

Preventive care. Preventive care HSAs can be established only by eligible individuals covered by an HDHP. In general, the HDHP is barred from providing benefits prior to satisfaction of the deductible; however, an exception applies to benefits for preventive care. Thus, an HDHP may provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible. A safe harbor list of benefits that may be provided by an HDHP makes it clear that such traditional preventive care benefits as annual physicals, immunizations, and screening services qualify as preventive care for HSA purposes. Preventive care, which also covers routine prenatal and well-child care, tobacco cessation programs, and obesity weight-loss programs, does not include the treatment of existing conditions. The determination of whether health care that is mandated under state law to be provided by an HDHP without regard to a deductible is preventive is to be based on IRS guidelines, rather than how that care is characterized by state law.

Double coverage. The IRS has ruled that an individual who is covered by both an HDHP that does not apply to prescription drugs and by a separate prescription drug plan or rider that provides benefits before the minimum annual HDHP deductible has been satisfied does not qualify as a Code Sec. 223(c)(1)(A) "eligible individual" and cannot make HSA contributions. The same result occurs if the prescription drug benefit is provided as a benefit under a health plan or as a benefit for the individual under a spouse's plan. However, if no benefits are provided under the separate prescription drug plan or rider until the minimum annual HDHP deductible has been satisfied, or the prescription drug plan is part of an HDHP and is subject to the minimum annual deductible, the party will qualify as an eligible individual.

Employer Paid Fringe Benefits (cont.)

Dependent Care Assistance Programs



Federal Income Tax Withholding: No withholding.

Federal Insurance Contributions Act: Not subject to FICA.

Federal Unemployment Tax Act: Not subject to FUTA.

Up to \$5,000 of dependent care assistance paid under a qualified plan is excludable from an employee's gross income.

Amounts paid or incurred by an employer for dependent care assistance provided to an employee are excluded from the employee's gross income if the assistance is furnished under a qualified plan. The maximum amount that may be excluded from an employee's gross income for dependent care assistance payments made by an employer is \$5,000 (\$2,500 in the case of a married person filing separately). In cases where a child care facility is provided on the employer's premises, the amount excluded will be based on the utilization of the facility and the value of the services provided.

An employee is entitled to exclude the full amount of the expense in the year it is incurred, even if full reimbursement is not received in that year. In addition, the amount reimbursed in the following year is not counted toward the employee's new limit for that year. If, at the time the payments are made or benefits furnished under the plan, you reasonably believe that an employee will be allowed to exclude the payments or benefits from gross income, the payments or benefits will be excluded from wages for FICA, FUTA and federal income tax withholding purposes.

Which dependent care assistance can be excluded from income?

Dependent care assistance means the payment incurred for those services which, if paid for by the employee, would be considered employment-related expenses for the household and dependent care tax credit.

You must report the amount of dependent care assistance.

You must provide a written statement to each employee receiving dependent care showing the amount of assistance provided each year. This statement must be provided by January 31 of the following year. The requirement is satisfied by reporting the amount of assistance on Form W-2, Wage and Tax Statement (Box 10).

Employer Paid Fringe Benefits (cont.)

Adoption Assistance

Federal Income Tax Withholding Treatment: Excluded from employee gross income.

Federal Insurance Contributions Act Treatment: Subject to FICA.

Federal Unemployment Tax Act Treatment: Subject to FUTA.

Employer-provided adoption assistance is not included in an employee's gross income. Amounts paid or expenses incurred by an employer on behalf of an employee for qualified adoption expenses are not included in an employee's gross income if paid pursuant to an adoption assistance program. Such expenses are not subject to federal income tax withholding, but are subject to FICA and FUTA withholding.

Employee. For this exclusion, do **not** treat a 2% shareholder of an S corporation as an employee of the corporation. A 2% shareholder is someone who directly or indirectly owns (at any time during the year) more than 2% of the corporation's stock or stock with more than 2% of the voting power.

Expenses must be paid as part of an adoption assistance program. An adoption assistance program must be a separate written plan and must meet the same plan requirements as educational assistance plans.

Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, travel expenses, and any other expenses directly related to and for the principal purpose of a legal adoption. An employee receiving payments under a program must provide the employer reasonable substantiation that payments under the program constitute qualified adoption expenses.

The exclusion is available only in connection with the adoption of individuals who are under 18 years of age or those who are physically or mentally unable to care for themselves.

The exclusion for 2011 is limited to \$13,360 (\$12,650 for 2012), per child. The limit for children with special needs is also \$13,360 for 2011. The limitation is with respect to the adoption of each child and is cumulative over all taxable years (rather than an annual limitation). The exclusion is phased out for those with adjusted gross income over \$225,210 (for 2011). The limits are adjusted for inflation and rounded to the nearest multiple of \$10.

Adoption assistance may be offered through a cafeteria plan. Adoption expenses are a qualified benefit for cafeteria plan purposes.

Employer Paid Fringe Benefits (cont.)

Business Expense Reimbursements

Federal Income Tax Withholding Treatment: No withholding if under an accountable plan.

Federal Insurance Contributions Act Treatment: Not subject to FICA if under an accountable plan.

Federal Unemployment Tax Act Treatment: Not subject to FUTA if under an accountable plan.

Reimbursements under accountable plans are not taxable. Reimbursements of employee business expenses made under accountable plans can be excluded from an employee's gross income and are not subject to federal employment taxes. Reimbursements of employee business expenses made under nonaccountable plans are taxable wages, even if the business expenses are otherwise deductible. Also, reimbursements provided under accountable plans that are in excess of substantiated expenses are taxable wages if the excess is not returned within a reasonable time. Employers may make payments to an employee under both an accountable plan and a nonaccountable plan.

Reimbursements under an accountable plan must be identified either by making the payments separately from regular wage payments, or by specifically identifying the amount that is a reimbursement payment if reimbursements are combined with regular wages in a single payment.

Types of reimbursements include:

1. For use of employees auto (Mileage, Tolls, Parking)
2. Travel (Airfare, Cabs)
3. Meals, Lodging
4. Computers
5. Uniforms
6. CPE

Employer Paid Fringe Benefits (cont.)

What are the elements of an accountable plan?

An accountable plan must have the following elements:

- The plan must have a business connection by providing advances, allowances or reimbursements for deductible business expenses that are incurred by an employee in connection with the performance of services for the employer;
- The plan must require the employee to substantiate reimbursed expenses within a reasonable time; and
- The plan must require employees to return reimbursements in excess of substantiated expenses within a reasonable period of time.

Business connection defined

The business connection requirement is met if the plan provides payments for business expenses to be incurred by an employee in connection with the performance of services as an employee. If a reimbursement plan provides payments to an employee for deductible employee business expenses as well as for other expenses that are not deductible business expenses, the employer will be treated as maintaining an accountable plan and a nonaccountable plan. Payments provided to an employee for nondeductible expenses do not meet the business connection requirement, and all amounts paid under the nonaccountable plan are subject to all three employment taxes.

Example

An employer reimburses employees for lodging and meal expenses incurred while traveling away from home under a program that meets all accountable plan requirements. For its own convenience, the employer also separately pays employees a \$25 monthly allowance to cover the cost of office supply expenses. Employees are not required to substantiate the office supply expenses and the employer does not require employees to return excess amounts by which the payment exceeds office expenses. The monthly allowance is a nonaccountable plan that is treated as separate from the accountable travel plan. The employer must report the monthly office supply allowances as wages or other compensation on the employees' Forms W-2 and must withhold and pay employment taxes on the monthly allowances when paid.

Employer Paid Fringe Benefits (cont.)

Substantiation within a reasonable period of time

An employee must substantiate reimbursed expenses within a reasonable period of time. This requirement is met by submitting sufficient information to enable the employer to identify the specific business nature of each expense and to conclude that the expense is attributable to business activities. Each element of an expenditure or use must be substantiated. It is not sufficient for the employee to merely aggregate expenses into broad categories such as "travel" or to report individual expenses through the use of vague nondescriptive terms such as "miscellaneous business expenses."

An employee may substantiate business expenses by furnishing the employer with documentary evidence such as receipts. Under the "adequate accounting" rules, employers must maintain the documentary evidence and produce it if requested by the IRS. Employers may take a deduction on business expenditures of \$75 or more only if it is substantiated by receipts or other documentary evidence

Excess amounts must be returned within a reasonable time.

An accountable plan must require an employee to return within a reasonable time any amount paid in excess of the expenses substantiated by the employee. If an employee does not return amounts paid in excess of substantiated expenses, employers must withhold and pay employment taxes on the excess amount on the first payroll period after which the expenses are substantiated.

Electronic receipts are acceptable. The IRS has ruled that an employer's expense reimbursement arrangement for deductible travel and entertainment expenses, which included new procedures for the use of electronic receipts and expense reports, qualified as an accountable plan. To facilitate the reimbursement of business-related travel and entertainment expenses incurred by its employees, the employer arranged to have a credit card company issue business credit cards to applicable employees. Users of those cards received monthly billing statements from the credit card company and were personally liable for all charges billed to the card, including late fees. Also, on a daily basis, the employer was provided by the credit card company with electronic receipts for all expenses billed to employees' business credit cards.

Employer Paid Fringe Benefits (cont.)

Advances for reimbursement must match anticipated expenses.

When money is advanced under an accountable plan, the requirement that excess amounts be returned will be satisfied if the advance:

- is reasonably calculated not to exceed the amount of anticipated expenditures;
- is made within a reasonable period of time before the expenses are incurred; and
- requires the return of any excess over substantiated expenses within a reasonable time period after the advance is received.

Withholding on excess reimbursement amounts may be at supplemental rates.

Employers may add any excess reimbursement payments that are subject to federal income tax withholding to an employee's regular wages for a payroll period and compute the tax to withhold based on that total. Alternatively, employers may withhold income tax from the reimbursement at the flat 25% rate applicable to supplemental wages if the reimbursement or allowance is paid separately or separately noted if wages and reimbursements are combined.

Non Accountable vs. Accountable

	<u>Non-Acct.</u>	<u>Acct.</u>
Expense Allowance	\$ 3,600	\$ 3,600
Amount Substantiated	<u>0</u>	<u>2,400</u>
W-2 Amount	\$ 3,600	\$ 1,200

NOTE: W-2 amount subject to FICA, Medicare, and Income Taxes

Employer Paid Fringe Benefits (cont.)

Military Pay

Federal Income Tax Withholding: Subject to withholding for temporary assignments.

Federal Insurance Contributions Act: Subject to FICA for temporary assignments.

Federal Unemployment Tax Act: Subject to FUTA for temporary assignments.

Payments to employees on temporary military assignments are wages. Payments made by an employer to an employee who is on leave to serve in a state National Guard or receive Reserve training are wages for FICA and FUTA purposes, as well as for federal income tax withholding. The payments can either be full salary continuation or the difference between regular salary and the amount of military pay. The employment relationship continues even though the employee is temporarily called up for duty. If regular payments are made and the service member has no effective withholding exemption certificate in force with the employer, no exemptions may be granted.

Payments to employees on full time active duty are not wages.

The employment relationship is considered to be terminated when an employee enters full-time active military duty. If the employer makes up the difference between the ex-employee's former salary and the amount he receives from the U. S. Government or the state, the amount paid is not wages and the payments are not subject to federal income tax withholding, FICA or FUTA taxes. However, if the employer pays a flat amount, for example, \$100 or a month's pay, the payment is subject to withholding.

Holiday payments to any ex-employees in the armed forces are subject to withholding, but the employer may take the responsibility for granting a withholding exemption based on the employee's family status.

Payments to dependents of ex-employees in the armed forces (the payments constituting the difference between a portion of the employee's former salary and amounts received from the government) are deemed to be constructively received by the ex-employees and are taxable for federal income tax purposes. You must report the amounts paid on information returns (Forms 1096 and 1099) if they total \$600 or more during the calendar year. Since these amounts are not to be reported on Form W-2, they are presumably not subject to withholding.

Year End Reporting Issues

Third-Party Sick Pay Reporting

Report third-party sick-pay wages if a third-party payer transfers the social security and medicare tax liability to you.

The sick-pay wages should be included on Line 2 and in the amounts on Line 5a and Line 5c. Once the taxes have been calculated and included in Line 5d, the employee portion of the social security and medicare taxes withheld and deposited by the third party is subtracted on Line 7b.

The third party must file Form 941 with the IRS to show the employee's portion of the social security and medicare taxes that it withheld.

Although the third party is required to file Form 941 showing the employer's portion of FICA taxes withheld, the third party should not include any wages paid as a third party on Line 2. Line 5a should show the total amount of wages the third party paid subject to social security. This amount should include both wages paid to its own employees and wages paid as a third party. Line 5c should be completed in a similar manner. Line 7b should be used to deduct the share of the social security and medicare taxes required to be paid by the employer.

The Form 941 prepared by the third party will show the amount of sick pay paid to the insured employee(s) on Line 2. This amount should also be included on Lines 5a and 5c as wages for social security and medicare tax computation purposes.

If a third-party payer does not transfer the FICA tax liability to you, report only the wages you paid the employees on Form 941.

Line 2 should not include the sick-pay amount paid to the employees by the third party. Likewise, Lines 5a and 5c should show only the amount of employer-paid wages for social security and medicare tax computation purposes. The lines should not include sick-pay payments from the third-party payer.

Year End Reporting Issues (cont.)

Corrections, Adjustments, and Refunds

If you withhold too much or too little from an employee's wages, it is important to know what steps to take to make repayment of the amount due or to claim a refund of moneys overpaid.

Procedures have been developed for incorrect withholding or payment of taxes.

Procedures have been established for those who withhold more or less than the correct amount of federal income tax from employees' wages and who pay over too much or too little to the government. Which procedure to follow depends on whether

(1) an undercollection or an overcollection is involved and

(2) the error is discovered before or after Form 941 has been filed for the period in which the error occurred.

Using a method that results in withholding more tax than another method is *not* considered overcollection.

Withholding more tax by using one withholding method than you would have if you had chosen another method does *not* mean that you have overcollected. You may choose whatever method of withholding you prefer and, if your computation is correct according to the method selected, there is no overcollection. Similarly, if an employee does not file an exemption certificate so that more tax is withheld than would have been withheld if the employee had claimed the exemptions to which he was entitled, there is also no overcollection and no repayments to the employee would be authorized.

Overwithheld amounts can be repaid to the employee before Form 941 is filed.

If you withhold more than the proper amount of tax during a quarter and before Form 941 is filed, you need not report the excess on Form 941 if you:

- repay the amount of the overcollection to the employee before filing Form 941 for the quarter and before the end of the calendar year, and
- secure a written receipt from the employee showing the date and amount of the repayment. The receipt must be retained as part of your records.

If you meet these requirements, simply exclude the amount of the overcollection from the amounts you report on Form 941. If the overcollection is not repaid and receipted, it must be reported and paid over to the IRS.

Year End Reporting Issues (cont.)

Repayment of an overcollection may be shown on Form 941X if Form 941 has already been filed.

If the overwithheld amount is repaid to the employee, you must obtain a *written* receipt from the employee showing the date and amount of repayment. Retain the receipt as part of your records. You may then make an adjustment by filing form 941X.

If you do not repay an overcollection, the employee's only remedy lies in claiming credit for the amount of the overcollection against his income tax liability for the year at the time he files his personal income tax return or, if the credit exceeds his liability, in claiming a refund.

If an employee gives you a new withholding exemption certificate, you may not repay or reimburse the employee for income taxes collected during the year before the effective date of the new certificate. You may, however, repay or reimburse the employee for income taxes overcollected on or after the effective date if you failed to take the new certificate into effect.

How to handle overcollection or overpayment of income or FICA taxes

If you withhold and pay over too much income or FICA tax, you are *not* entitled to claim a refund of the excess. Your remedy is to repay the amount to your employees and claim the amount of repayment, if any, as an adjustment on your quarterly tax return. If you collect and pay over more than the correct amount of employee tax but do not reimburse the employee for the overwithholding, the employee may:

- claim reimbursement through a credit or refund on his income tax return;
- authorize you to file a claim and receive a refund or credit; or
- file a claim for refund of the overpayment on Claim Form 843.

If, however, for some reason you collect the proper amount of income or FICA tax but pay over more than you have collected, you will be entitled to a refund or credit of the excess. Claims for refund should be filed on Form 843. *If a return was filed*, a claim for credit or refund must be filed within three years after the return was filed or within two years after the tax was paid, whichever period expires later. *If no return was filed*, the claim for credit or refund must be filed within two years from the time the tax was paid. Claims not filed within the prescribed period will not be honored.

Year End Reporting Issues (cont.)

Several examples illustrate the FICA refund procedure

Example (1) --

Employer responsibilities --A department store that mistakenly treated sick-leave payments as wages and then claimed a refund of overpaid FICA taxes could not collect its refund without having sought refunds or repayments for employees who were simultaneously overtaxed. A court ruled that the department store had to adjust the corresponding overpayment made on behalf of its employees before filing its own claim. The court found that existing statutes and regulations clearly imply an obligation on the part of the employer to claim a refund or credit on behalf of those employees for whom the employer can reasonably adjust its overpayment. The court pointed out that, since it is the employer's responsibility to collect FICA taxes from its employees, the employer is usually at fault when an overpayment is made and is in a better position to discover and remedy any such mistake. Any costs involved in adjusting the overpayment should be borne by the guilty party

Example (2) --

Independent contractors --Similarly, an employer who erroneously treated independent contractors as employees and withheld and paid FICA taxes on commissions was required to comply with the employment tax regulations before it could receive a refund of the erroneously paid FICA taxes. In that case, the employer had to secure the written consent of each person erroneously treated as an employee for whom it filed a claim for refund, along with a statement from each that no refund or credit of the amount of the overcollection had been claimed or, if such a claim had been made, that it was rejected, and that no such claim would be made in the future. In addition, the employer had to request that each affected individual submit to it, for each year in question, a partially completed Form 1040X, Amended Individual Income Tax Return, and a completed Schedule SE in the case of an independent contractor. Form 1040X should contain taxpayer identification information and signature, including a spouse's social security number if a joint return was filed, and information about other taxes required on the form. Upon receipt of such information, the employer was to subtract the amount of any outstanding self-employment tax liability from the corresponding amount of overpaid employee FICA taxes and file a claim for refund of the difference on behalf of the individual. The Forms 1040X and Schedules SE should all be submitted, even if some of the individuals are not entitled to refunds, so that the Social Security Administration may credit their self-employment accounts where necessary.

Year End Reporting Issues (cont.)

Underwithholding does not excuse you from paying the employment tax due on Form 941.

You must pay over the correct amount of tax to the IRS even if you fail to withhold any tax, or if you withhold too little. If the employee thereafter pays the tax, you will not be liable for it. However, payment by the employee will **not** relieve you from liability for penalties or additions to the tax stemming from your failure to withhold. You may apply for relief from withholding on Form 4670, which must be accompanied by signed Forms 4669 on which the employees involved have asserted that the taxes due on wages reflected on the 4669s have been paid in full.

If underwithholding is discovered before you file Form 941 for the quarterly period involved, you must nevertheless reflect the correct amount of tax due on the return.

If you do not discover the error that resulted in the undercollection until after Form 941 has been filed for the period, you can escape any penalty or interest by reporting and paying any additional amount of tax due:

- (1) with the return for the return period in which the error was discovered, or
- (2) with the return for the next return period.

Any underwithholding error must be reported in the same calendar year in which the wages were paid.

The additional amount of tax due should be reported as an adjustment on Form 941, which must be accompanied by a statement explaining the adjustment. If the undercollection is reported and paid at a date later than provided in (1) or (2) above, it will not be considered an adjustment and, therefore, will be subject to interest.

If you discover that you have underwithheld the income tax due from an employee, you must deduct any amount undercollected from any remuneration (including non-wage remuneration) payable to the employee that comes under your control during the remainder of the calendar year in which the undercollection occurred. If the undercollection cannot be remedied by such a deduction --for example, because no further remuneration is payable to the employee during the year --the matter of collecting the remaining amount that should have been withheld should be settled between you and your employee.

Section IV – Legislative Developments

- Hiring Incentives to Restore Employment (HIRE) Act
 - Business Tax Credit
- Medicare Tax Increase on High Earners
- Reduced Health FSA Deferral Limits
- W-2 Reporting of Cost of Employer-Provided Health Coverage
- When Do Cell Phones Qualify as an Excludible Fringe Benefit?
- Expanded 1099-MISC Reporting Repealed
- Update on FUTA Tax Rates for 2011
- 24 States Increase Unemployment Insurance Taxable Wage Base in 2012

Legislative Developments

Hiring Incentives to Restore Employment (HIRE) Act – Business Tax Credit

On March 18, 2010, President Obama signed the Hiring Incentives to Restore Employment (HIRE) Act. The HIRE Act provides qualified employers with a business tax credit of up to \$1,000 for retaining qualified employees for a period of not less than 52 consecutive weeks. The employees' wages for such employment during the last 26 weeks of the period must equal at least 80% of their wages for the first 26 weeks of the period.

Qualified employer defined. A qualified employer is broadly defined as any employer other than the United States, a state or local government, or any government instrumentality. However, public colleges and universities can be qualified employers.

Qualified employee defined. A qualified employee is any employee who:

- begins employment with a qualified employer after February 3, 2010, and before January 1, 2011,
- certifies in a signed affidavit (e.g., new IRS Form W-11), under penalties of perjury, that the employee has not been employed for more than 40 hours during the 60-day period ending on the day the individual begins work for the qualified employer,
- is not employed by the qualified employer to replace another employee unless the other employee left employment voluntarily or was terminated for cause, and
- is not related to the qualified employer or to anyone owning 50% or more of the stock or other capital of the employer.

The amount of the credit is the lesser of \$1,000 or 6.2% of the wages paid by the employer to the qualified employee during the 52-week period. Therefore, if the employer pays the employee \$16,129 or more in wages subject to federal income tax withholding during the 52-week period, the business tax credit is \$1,000. If the wages paid are less than \$16,129, the business tax credit is 6.2% of the wages paid.

Claiming the Business Tax Credit. The new hire retention credit is claimed on the employer's income tax return (not Form 941). The credit may be claimed for the employer's first tax year ending after March 18, 2010, for which the retained worker satisfies the 52-consecutive-week requirement. Therefore, since retained workers must be qualified employees who were hired after February 3, 2010, and before January 1, 2011, the retention credit cannot be claimed until the employer's first tax year ending after the employee's 52-consecutive-week period has ended (sometime in 2011). For employers filing calendar year income tax returns, the retention credit will be claimed on the employer's 2011 income tax return.

Legislative Developments (cont.)

Hiring Incentives to Restore Employment (HIRE) Act – Business Tax Credit (cont.)

Form 5884-B requires employers to enter each “retained worker’s” social security number, the date the worker began employment, the worker’s wages for the first 26 consecutive weeks of employment, and the worker’s wages during the second 26 consecutive weeks of employment. This information, which will come from the employer’s payroll information, is used to determine whether the “80% requirement” has been met, and if so, to calculate the amount of the credit. The credit amount will then be transferred to the employer’s business income tax return.

Medicare Tax Increase on High Earners

Effective for taxable years after December 31, 2012, the Medicare tax rate increases from 1.45% to 2.35% on wages earned over \$200,000 for single filers and \$250,000 for joint filers (\$125,000 for a married individual filing separately). Because employers will not know the wages of an employee’s spouse, they are directed to withhold the increased amount from all workers with wages exceeding \$200,000, regardless of the marital status claimed on their Form W-4. Overwithholding and underwithholding for employees will be reconciled when they file their tax returns.

Employers do not have to match the increased Medicare tax amounts withheld from employees’ wages. Self-employed individuals will also be subject to the Medicare tax increase if they meet the income thresholds, and will not be allowed to deduct the additional tax as a business expense. If an employer fails to withhold and deposit the extra Medicare tax and the employee pays it with their tax return, the tax will not be collected from the employer, but the employer faces penalties for its failure to withhold the tax.

Reduced Health FSA Deferral Limits

Salary reductions by an employee into a health FSA are limited to \$2,500, effective for tax years beginning after December 31, 2012, (indexed for inflation after 2013 to the next lowest multiple of \$50). This does not limit the exclusion for health care coverage offered through an HRA.

Legislative Developments (cont.)

W-2 Reporting of Cost of Employer-Provided Health Coverage

The Patient Protection and Affordable Care Act (PPACA) requires employers to report the total cost of employer-provided health coverage on employees' Forms W-2. The Act originally called for this reporting to take effect for tax years beginning after 2010 (Forms W-2 for 2011 filed in 2012). Later in 2010, however, the IRS announced that it was postponing the reporting requirement and making reporting optional for at least one year because employers had not had time to program their benefits and payroll systems to accommodate the requirement (Notice 2010-69, 2010-44 IRB 576). There were also many questions left unanswered by the new law, including what types of insurance to report and how to determine the cost of the insurance.

In March 2011, The IRS issued interim guidance on Form W-2 reporting of the cost of employer-provided group health plan coverage [Notice 2011-28, 3-29-11]. Notice 2011-28 emphasizes that the new reporting requirement is for information purposes only, to inform employees of the cost of their health care coverage. It does not cause excludable employer-provided health care coverage to become taxable.

Notice 2011-28 provides interim guidance that applies beginning with 2012 Forms W-2 - that is, the forms that employers are required to furnish to employees in January 2013. Employers are not required to report the cost of health coverage on any forms required to be furnished to employees prior to January 2013. However, any employers that choose to report earlier (on the 2011 Forms W-2 furnished to employees in January 2012) may look to this notice for guidance regarding that voluntary earlier reporting.

Notice 2011-28 also extends transition relief for smaller employers that are required to file fewer than 250 2011 Forms W-2 at least through 2012. Those employers will not be required to report the cost of health coverage prior to January 2014. This transition relief will continue until further guidance is issued.

Employers Subject to the Reporting Requirement. All employers that provide applicable employer-sponsored coverage during a calendar year are subject to the reporting requirement. This includes federal, state, and local government entities, churches and other religious organizations, and employers that are not subject to the COBRA continuation coverage requirements, to the extent such employers provide applicable employer-sponsored coverage under a group health plan, but does not include federally recognized Indian tribal governments.

The reportable cost for an employee receiving coverage under a plan is the sum of the reportable costs for each period (such as a month) during the year as determined under the method used by the employer. An employer is not required to use the same method for every plan, but must use the same method with respect to a plan for every employee receiving coverage under that plan.

Legislative Developments (cont.)

W-2 Reporting of Cost of Employer-Provided Health Coverage (cont.)

Below are methods of Calculating the Cost of Coverage:

- **COBRA applicable premium method.** Under the COBRA applicable premium method, the reportable cost for a period equals the COBRA applicable premium for that coverage for that period. If the employer applies this method, the employer must calculate the COBRA applicable premium in a manner that satisfies the requirements under IRC §4980B(1)(4). The COBRA applicable premium does not include the 2% administrative fee that an employer can charge an employee in addition to the premium.
- **Premium charged method.** The premium charged method may be used to determine the reportable cost only for an employee covered by an employer's insured group health plan. In such a case, if the employer applies this method, the employer must use the premium charged by the insurer for that employee's coverage (for example, for single-only coverage or for family coverage, as applicable to the employee) for each period as the reportable cost for that period.
- **Modified COBRA premium method.** An employer may use the modified COBRA premium method with respect to a plan only where it subsidizes the cost of COBRA (so that the premium charged to COBRA qualified beneficiaries is less than the COBRA applicable premium) or where the actual premium charged by the employer to COBRA qualified beneficiaries for each period in the current year is equal to the COBRA applicable premium for each period in a prior year. If the employer subsidizes the cost of COBRA, the employer may determine the reportable cost for a period based on a reasonable good faith estimate of the COBRA applicable premium for that period, if such reasonable good faith estimate is used as the basis for determining the subsidized COBRA premium. If the actual premium charged by the employer to COBRA qualified beneficiaries for each period in the current year is equal to the COBRA applicable premium for each period in a prior year, the employer may use the COBRA applicable premium for each period in the prior year as the reportable cost for each period in the current year.

Composite Rate. An employer is considered to charge employees a composite rate:

- if there is a single coverage class under the plan (that is, if an employee elects coverage, all individuals eligible for coverage under the plan because of their relationship to the employee are included in the election and no greater amount is charged to the employee regardless of whether the coverage will include only the employee or the employee plus other such individuals), or
- if there are different types of coverage under a plan (for example, self-only coverage and family coverage, or self-plus-one coverage and family coverage) employees are charged the same premium for each type of coverage.

Legislative Developments (cont.)

W-2 Reporting of Cost of Employer-Provided Health Coverage (cont.)

In such a case, the employer using a composite rate may calculate and use the same reportable cost for a period for:

- the single class of coverage under the plan, or
- all the different types of coverage under the plan for which the same premium is charged to employees, provided this method is applied to all types of coverage provided under the plan.

For example, if a plan charges one premium for either self-only coverage, or self-and-spouse coverage (the first coverage group), and also charges one premium for family coverage regardless of the number of family members covered (the second coverage group), an employer may calculate and report the same reportable cost for all of the coverage provided in the first coverage group, and the same reportable cost for all of the coverage provided in the second coverage group. In such a case, the reportable costs under the plan must be determined under one of the methods described previously for which the employer is eligible.

Cost Changes During the Year. If the cost for a period changes during the year (for example, under the COBRA applicable premium method because the 12-month period for determining the COBRA applicable premium is not the calendar year), the reportable cost under the plan for an employee for the year must reflect the increase or decrease for the periods to which the increase or decrease applies.

Employee begins, changes, or terminates coverage during the year. If an employee changes coverage during the year, the reportable cost under the plan for the employee for the year must take into account the change in coverage by reflecting the different reportable costs for the coverage elected by the employee for the periods for which such coverage is elected.

If the change in coverage occurs during a period (for example, in the middle of a month where costs are determined on a monthly basis), an employer may use any reasonable method to determine the reportable cost for such period, such as using the reportable cost at the beginning of the period or at the end of the period, or averaging or prorating the reportable costs, provided that the same method is used for all employees with coverage under that plan. Similarly, if an employee begins or terminates coverage during a period, an employer may use any reasonable method to calculate the reportable cost for that period, provided that the same method is used for all employees with coverage under the plan.

Method of Reporting on Form W-2. The aggregate reportable cost is reported on Form W-2 in Box 12, using code DD.

Impact on Form W-3 Reporting. The total of the aggregate reportable costs attributable to an employer's employees is not required to be reported on Form W-3, Transmittal of Wage and Tax Statements.

Legislative Developments (cont.)

When Do Cell Phones Qualify as an Excludible Fringe Benefit?

The IRS has issued new guidance designed to clarify the tax treatment of employer-provided cell phones and similar telecommunications devices. The guidance relates to a provision in the *Small Business Jobs Act of 2010*, enacted last year, that removed cell phones from the definition of "listed property," a category under tax law that normally requires additional recordkeeping by taxpayers.

Prior to the legislation, cell phone use triggered the same strict substantiation rules that apply to business use of vehicles. In other words, you had to track your business and personal use in order to claim deductions. The 2010 law removed these requirements for cell phones and similar communication devices and treats employer-provided devices as tax-free fringe benefits, as long as certain requirements are met.

The IRS states that when an employer provides an employee with a cell phone primarily for non-compensatory business reasons, the business and personal use of the cell phone is generally not taxable to the employee. The IRS will not require recordkeeping of business use in order to receive this tax-free treatment. (*IRS Notice 2011-72*)

What does the IRS consider business reasons? The tax agency listed some possible scenarios:

- An employer needs to contact the employee at all times for work related emergencies.
- An employer requires that an employee be available to speak with clients at times when the employee is away from the office.
- An employee needs to speak with clients located in other time zones at times outside of his or her normal work day.

"A cell phone provided to promote the morale or good will of employees, to attract a prospective employee or as a means of furnishing additional compensation to an employee is not provided primarily for non-compensatory business reasons," the IRS added.

The IRS also announced in a memo to its examiners a similar administrative approach that applies when businesses give cash allowances and reimbursements for work-related use of personally owned cell phones. Under this approach, employers that require employees to use personal cell phones for business may treat reimbursements of the employees' expenses for reasonable cell phone coverage as non-taxable. This treatment does not apply to unusual or excessive expenses or to reimbursements made as a substitute for a portion of the employee's regular wages.

Legislative Developments (cont.)

When Do Cell Phones Qualify as an Excludible Fringe Benefit? (cont.)

Bottom line: When employers provide cell phones to employees or when employers reimburse employees for business use of personal cell phones, tax-free treatment is available without burdensome recordkeeping requirements. The guidance does not apply to the provision of cell phones or reimbursement for cell-phone use that is not primarily business related, as such arrangements are generally taxable.

Expanded 1099-MISC Reporting Repealed

On April 5, 2011, President Obama signed the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (Pub. L. 112-9). The new law repeals provisions in the PPACA that expand the information reporting requirements under IRC §6041(a). Those provisions, which had been scheduled to take effect for payments made by a trade or business after December 31, 2011, eliminate the general exception to the reporting requirement for services provided by corporations and expand the class payments for which information reporting is required to include gross proceeds payments and payments for property that total at least \$600 in a calendar year.

Update on FUTA Tax rates for 2011

Beginning with wages paid on July 1, 2011, the 0.2% federal unemployment tax (FUTA) surtax is no longer in effect. The surtax was part of the 6.2% gross unemployment tax rate that employers paid on the first \$7,000 of wages paid annually to each employee (6% permanent tax rate, 0.2% temporary surtax). Therefore, the FUTA tax rate, before consideration of state unemployment tax credits is 6.0%. Most employers are allowed to claim 5.4% in state unemployment tax credits against the FUTA tax rate if they timely pay their state unemployment taxes, making the net FUTA rate 0.6% beginning with wages paid on July 1.

States with financial difficulties can borrow funds from the federal government to pay unemployment benefits. If a state defaults on repayment of the loan, the state credit against the full FUTA tax rate is reduced. The employer's FUTA tax rate is effectively increased by 0.3% beginning with the second consecutive January 1 in which the loan isn't repaid. Each additional year that the loans remain unpaid, the net FUTA tax rate continues to rise 0.3%.

Many states have had outstanding loans with the federal government for two or more consecutive years. If these loans are not repaid by the November 10, 2011 due date, employers in these states will not be eligible to claim the full 5.4% in state unemployment tax credits against the FUTA tax rate.

Legislative Developments (cont.)

Update on FUTA Tax rates for 2011 (cont.)

Therefore, employers in states with outstanding federal loans will be subject to a higher FUTA rate than those employers in states with no outstanding federal loans. Below is a summary of the various states and the 2011 FUTA tax rates:

States with **no outstanding loans** - entitled to full 5.4% credit

Net FUTA rate of 0.8% first half of 2011 and net FUTA rate of 0.6% second half of 2011:

Alabama	Louisiana	Oregon
Alaska	Maine	Puerto Rico
Arizona	Maryland	South Carolina
Colorado	Massachusetts	South Dakota
Delaware	Mississippi	Tennessee
District of Columbia	Montana	Texas
Hawaii	Nebraska	Utah
Idaho	New Hampshire	Vermont
Iowa	New Mexico	Washington
Kansas	North Dakota	West Virginia
	Oklahoma	Wyoming

States with **outstanding loans for two years** - reduced 5.1% credit

Net FUTA rate of 1.1% first half of 2011 and net FUTA rate of 0.9% second half of 2011:

Arkansas	Kentucky	North Carolina
California	Minnesota	Ohio
Connecticut	Missouri	Pennsylvania
Florida	Nevada	Rhode Island
Georgia	New Jersey	Virgin Islands
Illinois	New York	Virginia
		Wisconsin

Indiana has had outstanding federal loans for three consecutive years and therefore, employers in Indiana will be subject to a reduced 4.8% credit. The net FUTA rate will be 1.4% in the first half of 2011 and 1.2% in the second half of 2011.

Michigan has had outstanding federal loans for four consecutive years and therefore, employers in Michigan will be subject to a reduced 4.5% credit. The net FUTA rate will be 1.7% in the first half of 2011 and 1.5% in the second half of 2011.

Legislative Developments (cont.)

24 States Increase Unemployment Insurance Taxable Wage Base in 2012

For the 2012 tax year, 24 states are increasing the amount of taxable wages that are subject to unemployment tax (taxable wage base). Nevada is the only state that is decreasing their taxable wage base from \$26,600 to \$26,400 in 2012. Both Indiana and Ohio did not change in 2012.

Taxable Wage Base Increases. The following states are increasing their taxable wage base in 2012 as summarized below:

- Alaska (\$35,800, previously \$34,600)
- Colorado (\$11,000, previously \$10,000)
- Florida (\$8,500, previously \$7,000)
- Hawaii (\$38,800, previously \$34,200)
- Idaho (\$34,100, previously \$33,300)
- Illinois (\$13,560, previously \$12,740)
- Iowa (\$25,300, previously \$24,700)
- Kentucky (\$9,000, previously \$8,000)
- Minnesota (\$28,000, previously \$27,000)
- Montana (\$27,000, previously \$26,300)
- New Hampshire (\$14,000, previously \$12,000)
- New Jersey (\$30,300, previously \$29,600)
- New Mexico (\$22,400, previously \$21,900)
- North Carolina (\$20,400, previously \$19,700)
- North Dakota (\$27,900, previously \$25,500)
- Oklahoma (\$19,100, previously \$18,600)
- Oregon (\$33,000, previously \$32,300)
- Rhode Island (\$19,600,* previously \$19,000)
- South Carolina (\$12,000, previously \$10,000)

Legislative Developments (cont.)

24 States Increase Unemployment Insurance Taxable Wage Base in 2012 (cont.)

- South Dakota (\$12,000, previously \$11,000)
- Utah (\$29,500, previously \$28,600)
- Vermont (\$16,000, previously \$13,000)
- Washington (\$38,200, previously \$37,300)
- Wyoming (\$23,000, previously \$22,300)

*The taxable wage base for Rhode Island employers that pay at the highest unemployment insurance tax rate (9.79%) will be \$21,100 in 2012.

No change. The following taxable wage bases did not change in 2012: Alabama (\$8,000), Arizona (\$7,000), Arkansas (\$12,000), California (\$7,000), Connecticut (\$15,000), Delaware (\$10,500), District of Columbia (\$9,000), Georgia (\$8,500), Indiana (\$9,500), Kansas (\$8,000), Louisiana (\$7,700), Maine (\$12,000), Maryland (\$8,500), Massachusetts (\$14,000), Michigan (\$9,000), Mississippi (\$14,000), Missouri (\$13,000), Nebraska (\$9,000), New York (\$8,500), Ohio (\$9,000), Pennsylvania (\$8,000), Puerto Rico (\$7,000), Tennessee (\$9,000), Texas (\$9,000), Virginia (\$8,000), West Virginia (\$12,000), and Wisconsin (\$13,000).

To be announced. The following states have yet to announce their taxable wage bases for the 2012 tax year: Virgin Islands (\$22,600 in 2011).

Section V - Forms Review and Revisions

- Form W-2 and W-3.
 - Retirement Plan Checkbox on Form W-2

- Form W-2c and W-3c
 - How to File Correction Forms

- Form 941

- Form 941X


- Form 944

- Form 945

- Form 940

- Form 1099-MISC

- Filing Corrected Information Returns

a Employee's social security number		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile		
b Employer identification number (EIN)				1 Wages, tips, other compensation		2 Federal income tax withheld				
c Employer's name, address, and ZIP code				3 Social security wages		4 Social security tax withheld				
				5 Medicare wages and tips		6 Medicare tax withheld				
				7 Social security tips		8 Allocated tips				
d Control number				9		10 Dependent care benefits				
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12		
						13 Statutory employee Retirement plan Third-party sick pay		12b		
						14 Other		12c		
f Employee's address and ZIP code						12d				
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name

Form **W-2** Wage and Tax Statement

2011

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Form W-2 Reference Guide for Box 12 Codes (See the box 12 instructions.)

- A** Uncollected social security or RRTA tax on tips
- B** Uncollected Medicare tax on tips
- C** Taxable cost of group-term life insurance over \$50,000
- D** Elective deferrals under a section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement)
- E** Elective deferrals under a section 403(b) salary reduction agreement
- F** Elective deferrals under a section 408(k)(6) salary reduction SEP
- G** Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan
- H** Elective deferrals under a section 501(c)(18)(D) tax-exempt organization plan
- J** Nontaxable sick pay
- K** 20% excise tax on excess golden parachute payments
- L** Substantiated employee business expense reimbursements
- M** Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (for former employees)
- N** Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (for former employees)
- P** Excludable moving expense reimbursements paid directly to employee
- Q** Nontaxable combat pay
- R** Employer contributions to an Archer MSA
- S** Employee salary reduction contributions under a section 408(p) SIMPLE
- T** Adoption benefits
- V** Income from exercise of nonstatutory stock option(s)
- W** Employer contributions (including employee contributions through a cafeteria plan) to an employee's health savings account (HSA)
- Y** Deferrals under a section 409A nonqualified deferred compensation plan
- Z** Income under section 409A on a nonqualified deferred compensation plan
- AA** Designated Roth contributions under a section 401(k) plan
- BB** Designated Roth contributions under a section 403(b) plan
- DD** Cost of employer-sponsored health coverage
- EE** Designated Roth contributions under a governmental 457(b) plan

Retirement Plan Checkbox on Form W-2

Mark the Retirement Plan checkbox in Box 13 of Form W-2 if the employee was an active participant (for any part of the year) in any of the following:

1. A qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan).
2. An annuity plan described in section 403(a).
3. An annuity contract or custodial account described in section 403(b).
4. A simplified employee pension (SEP) plan described in section 408(k).
5. A SIMPLE retirement account described in section 408(p).
6. A trust described in section 501(c)(18).
7. A plan for federal, state, or local government employees or by an agency instrumentality thereof (other than a section 457 plan).

Do not mark this checkbox for contributions made to a nonqualified deferred compensation/pension or section 457 plan.

In determining when an individual is an active participant in a qualified retirement plan for a taxable year, different rules are applied, depending upon whether the retirement plan is a defined benefit or a defined contribution plan.

Retirement Plan Checkbox Decision Chart

Type of Plan	Conditions	Check Retirement Box?
Defined benefit plan (i.e., traditional pension plan)	Employee qualifies for employer funding into the plan, due to age/years of service – even though the employee may not be vested or ever collect benefits	Check the box
Defined contribution plan (i.e., 401(k), 403(b), etc. – but not 457 plans)	Employee is eligible to contribute but does not elect to contribute any money in this tax year	Do not check the box
Defined contribution plan (i.e., 401(k), 403(b), etc. – but not 457 plans) & Roth 401(k) or 403(b) accounts	Employee is eligible to contribute and elects to contribute money in this tax year*	Check the box

Retirement Plan Checkbox on Form W-2 (cont.)

Type of Plan	Conditions	Check Retirement Box?
Defined contribution plan (i.e., 401(k), 403(b), etc. – but not 457 plans) & Roth 401(k) or 403(b) accounts	Employee is eligible to contribute but does not elect to contribute any money in this tax year, but the employer does contribute funds	Check the box
Defined contribution plan (i.e., 401(k), 403(b), etc. – but not 457 plans) & Roth 401(k) or 403(b) accounts	Employee contributed in past years but not during the current tax year under report	Do not check the box (even if the account value grows due to gains in the investments)
Profit sharing plan	Plan includes a grace period after the close of the plan year when profit sharing can be added to the participant's account	Check the box

*Employer match to a Roth is not included in Box 1 of Form W-2 but it is taxed, along with its share of earnings, upon distribution from the plan.

DO NOT STAPLE

33333		a Control number		For Official Use Only ▶ OMB No. 1545-0008			
b Kind of Payer (Check one)		941 Military <input type="checkbox"/>		943 Hshld. emp. <input type="checkbox"/>		944 Medicare govt. emp. <input type="checkbox"/>	
		CT-1 <input type="checkbox"/>		None apply <input type="checkbox"/>		501c non-govt. <input type="checkbox"/>	
Kind of Employer (Check one)		State/local non-501c <input type="checkbox"/>		State/local 501c <input type="checkbox"/>		Federal govt. <input type="checkbox"/>	
		Third-party sick pay (Check if applicable) <input type="checkbox"/>					
c Total number of Forms W-2		d Establishment number		1 Wages, tips, other compensation		2 Federal income tax withheld	
e Employer identification number (EIN)				3 Social security wages		4 Social security tax withheld	
f Employer's name				5 Medicare wages and tips		6 Medicare tax withheld	
g Employer's address and ZIP code				7 Social security tips		8 Allocated tips	
				9		10 Dependent care benefits	
				11 Nonqualified plans		12a Deferred compensation	
h Other EIN used this year				13 For third-party sick pay use only		12b	
15 State		Employer's state ID number		14 Income tax withheld by payer of third-party sick pay			
16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax	
Contact person				Telephone number		For Official Use Only	
Email address				Fax number			

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶ Title ▶ Date ▶

Form **W-3 Transmittal of Wage and Tax Statements** **2011**

Department of the Treasury
Internal Revenue Service

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration.

Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

Reminder

Separate instructions. See the 2011 Instructions for Forms W-2 and W-3 for information on completing this form.

Purpose of Form

A Form W-3 Transmittal is completed only when paper Copy A of Form(s) W-2, Wage and Tax Statement, is being filed. Do not file Form W-3 alone. Do not file Form W-3 for Form(s) W-2 that were submitted electronically to the Social Security Administration (see below). All paper forms **must** comply with IRS standards and be machine readable. Photocopies are **not** acceptable. Use a Form W-3 even if only one paper Form W-2 is being filed. Make sure both the Form W-3 and Form(s) W-2 show the correct tax year and Employer Identification Number (EIN). Make a copy of this form and keep it with Copy D (For Employer) of Form(s) W-2 for your records.

Electronic Filing

The Social Security Administration (SSA) strongly suggests employers report Form W-3 and W-2 Copy A electronically instead of on paper. SSA provides two free options on its Business Services Online (BSO) website:

- **W-2 Online.** Use fill-in forms to create, save, print, and submit up to 20 Forms W-2 at a time to SSA.

- **File Upload.** Upload wage files to SSA that you have created using payroll or tax software that formats the files according to SSA's *Specifications for Filing Forms W-2 Electronically (EFW2)*.

For more information, go to www.socialsecurity.gov/employer and select "First Time Filers" or "Returning Filers" under "BEFORE YOU FILE."

When To File

Mail any paper Forms W-2 under cover of this Form W-3 Transmittal by February 29, 2012. Electronic fill-in forms or uploads are filed through SSA's Business Services Online (BSO) Internet site and will be on time if submitted by April 2, 2012.

Where To File Paper Forms

Send this entire page with the entire Copy A page of Form(s) W-2 to:

**Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001**

Note. If you use "Certified Mail" to file, change the ZIP code to "18769-0002." If you use an IRS-approved private delivery service, add "ATTN: W-2 Process, 1150 E. Mountain Dr." to the address and change the ZIP code to "18702-7997." See Publication 15 (Circular E), Employer's Tax Guide, for a list of IRS-approved private delivery services.

For Privacy Act and Paperwork Reduction Act Notice, see the back of Copy D of Form W-2.

DO NOT CUT, FOLD, OR STAPLE THIS FORM

44444	For Official Use Only ▶ OMB No. 1545-0008		
a Employer's name, address, and ZIP code	c Tax year/Form corrected / W-2	d Employee's correct SSN	
	e Corrected SSN and/or name (Check this box and complete boxes f and/or g if incorrect on form previously filed.) <input type="checkbox"/>		
	Complete boxes f and/or g only if incorrect on form previously filed ▶		
	f Employee's previously reported SSN		
b Employer's Federal EIN	g Employee's previously reported name		
	h Employee's first name and initial	Last name	Suff.

Note: Only complete money fields that are being corrected (exception: for corrections involving MQGE, see the Instructions for Forms W-2c and W-3c, boxes 5 and 6).			
Previously reported		Correct information	
1 Wages, tips, other compensation	1 Wages, tips, other compensation	2 Federal income tax withheld	2 Federal income tax withheld
3 Social security wages	3 Social security wages	4 Social security tax withheld	4 Social security tax withheld
5 Medicare wages and tips	5 Medicare wages and tips	6 Medicare tax withheld	6 Medicare tax withheld
7 Social security tips	7 Social security tips	8 Allocated tips	8 Allocated tips
9 Advance EIC payment	9 Advance EIC payment	10 Dependent care benefits	10 Dependent care benefits
11 Nonqualified plans	11 Nonqualified plans	12a See instructions for box 12	12a See instructions for box 12
13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b	12b
14 Other (see instructions)	14 Other (see instructions)	12c	12c
		12d	12d
State Correction Information			
Previously reported		Correct information	
15 State	15 State	15 State	15 State
Employer's state ID number	Employer's state ID number	Employer's state ID number	Employer's state ID number
16 State wages, tips, etc.	16 State wages, tips, etc.	16 State wages, tips, etc.	16 State wages, tips, etc.
17 State income tax	17 State income tax	17 State income tax	17 State income tax
Locality Correction Information			
Previously reported		Correct information	
18 Local wages, tips, etc.	18 Local wages, tips, etc.	18 Local wages, tips, etc.	18 Local wages, tips, etc.
19 Local income tax	19 Local income tax	19 Local income tax	19 Local income tax
20 Locality name	20 Locality name	20 Locality name	20 Locality name

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Copy A—For Social Security Administration

DO NOT CUT, FOLD, OR STAPLE

55555	a Tax year/Form corrected / W-	For Official Use Only ▶ OMB No. 1545-0008	
b Employer's name, address, and ZIP code		c Kind of Payer (Check one) 941/941-SS Military 943 944/944-SS <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> CT-1 Hshld. Medicare <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> emp. gov. emp.	
		Kind of Employer (Check one) None apply 501c non-govt. <input type="checkbox"/> <input type="checkbox"/> State/local State/local Federal non-501c 501c govt. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> (Check if applicable)	
d Number of Forms W-2c	e Employer's Federal EIN	f Establishment number	g Employer's state ID number
Complete boxes h, i, or j only if incorrect on last form filed.	h Employer's incorrect Federal EIN	i Incorrect establishment number	j Employer's incorrect state ID number
Total of amounts previously reported as shown on enclosed Forms W-2c.	Total of corrected amounts as shown on enclosed Forms W-2c.	Total of amounts previously reported as shown on enclosed Forms W-2c.	Total of corrected amounts as shown on enclosed Forms W-2c.
1 Wages, tips, other compensation	1 Wages, tips, other compensation	2 Federal income tax withheld	2 Federal income tax withheld
3 Social security wages	3 Social security wages	4 Social security tax withheld	4 Social security tax withheld
5 Medicare wages and tips	5 Medicare wages and tips	6 Medicare tax withheld	6 Medicare tax withheld
7 Social security tips	7 Social security tips	8 Allocated tips	8 Allocated tips
9 Advance EIC payments	9 Advance EIC payments	10 Dependent care benefits	10 Dependent care benefits
11 Nonqualified plans	11 Nonqualified plans	12a Deferred compensation	12a Deferred compensation
14 Inc. tax w/h by third-party sick pay payer	14 Inc. tax w/h by third-party sick pay payer	12b HIRE exempt wages and tips	12b HIRE exempt wages and tips
16 State wages, tips, etc.	16 State wages, tips, etc.	17 State income tax	17 State income tax
18 Local wages, tips, etc.	18 Local wages, tips, etc.	19 Local income tax	19 Local income tax
Explain decreases here:			
Has an adjustment been made on an employment tax return filed with the Internal Revenue Service? <input type="checkbox"/> Yes <input type="checkbox"/> No			
If "Yes," give date the return was filed ▶			
Under penalties of perjury, I declare that I have examined this return, including accompanying documents, and, to the best of my knowledge and belief, it is true, correct, and complete.			
Signature ▶		Title ▶	Date ▶
Contact person	Telephone number		For Official Use Only
Email address	Fax number		

Form **W-3c** (Rev. 12-2011)

Transmittal of Corrected Wage and Tax Statements

Department of the Treasury
Internal Revenue Service

Purpose of Form

Use this form to transmit Copy A of **Form(s) W-2c**, Corrected Wage and Tax Statement (Rev. 2-2009). Make a copy of Form W-3c and keep it with Copy D (For Employer) of Forms W-2c for your records. File Form W-3c even if only one Form W-2c is being filed or if those Forms W-2c are being filed only to correct an employee's name and social security number (SSN) or the employer identification number (EIN). See the 2012 General Instructions for Forms W-2 and W-3 for information on completing this form.

When To File

File this form and Copy A of Form(s) W-2c with the Social Security Administration as soon as possible after you discover an error on Forms W-2, W-2AS, W-2GU, W-2CM, W-2VI, or W-2c. Provide Copies B, C, and 2 of Form W-2c to your employees as soon as possible.

For Paperwork Reduction Act Notice, see separate instructions.

Where To File

If you use the U.S. Postal Service, send Forms W-2c and W-3c to the following address:

**Social Security Administration
Data Operations Center
P.O. Box 3333
Wilkes-Barre, PA 18767-3333**

If you use a carrier other than the U.S. Postal Service, send Forms W-2c and W-3c to the following address:

**Social Security Administration
Data Operations Center
Attn: W-2c Process
1150 E. Mountain Drive
Wilkes-Barre, PA 18702-7997**

Cat. No. 10164R

How to File Correction Forms

To correct a previous Form W-2 submission, file a Form W-2c with a separate form for each year needing correction. File a Form W-3c whenever you file a Form W-2c with SSA, even if you are only filing Form W-2c to correct an employee's name or Social Security number (SSN).

Forms W-2c/W-3c can be obtained free of charge by calling the IRS at 1-800-TAX--FORM (1-800-829-3676). The following online forms are available for informational use only.

Here are a few hints to remember when preparing correction forms:

- File Forms W-2c and W-3c as soon as possible after you discover an error. Also provide Form W-2c to employees as soon as possible.
- If any item shows a dollar change and one of the amounts is zero, enter "-0-" Do not leave the box blank.
- Make sure your Employer's Identification Number (EIN) reported on Forms W-2c and W-3c is the same number issued by the IRS and used on all three types of forms. If your EIN was incorrectly reported, please file a W-3c to correct it.

(EIN) -

Employer identification number

Name (not your trade name)

Trade name (if any)

Address

Number Street Suite or room number

City State ZIP code

Report for this Quarter of 2011
 (Check one.)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Prior-year forms are available at www.irs.gov/form941.

Read the separate instructions before you complete Form 941. Type or print within the boxes.

Part 1: Answer these questions for this quarter.

1	Number of employees who received wages, tips, or other compensation for the pay period including: <i>Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), or Dec. 12 (Quarter 4)</i>	1	<input type="text"/>
2	Wages, tips, and other compensation	2	<input type="text"/>
3	Income tax withheld from wages, tips, and other compensation	3	<input type="text"/>
4	If no wages, tips, and other compensation are subject to social security or Medicare tax	<input type="checkbox"/> Check and go to line 6e.	
	<i>Column 1</i>	<i>Column 2</i>	
5a	Taxable social security wages <input type="text"/> × .104 = <input type="text"/>	For 2011, the employee social security tax rate is 4.2% and the Medicare tax rate is 1.45%. The employer social security tax rate is 6.2% and the Medicare tax rate is 1.45%.	
5b	Taxable social security tips <input type="text"/> × .104 = <input type="text"/>		
5c	Taxable Medicare wages & tips. <input type="text"/> × .029 = <input type="text"/>		
5d	Add <i>Column 2</i> line 5a, <i>Column 2</i> line 5b, and <i>Column 2</i> line 5c	5d	<input type="text"/>
5e	Section 3121(q) Notice and Demand—Tax due on unreported tips (see instructions)	5e	<input type="text"/>
6a	Reserved for future use.	Do Not Complete Lines 6a-6d	
6b	Reserved for future use.		
6c	Reserved for future use.		
6d		6d	<input type="text"/>
6e	Total taxes before adjustments (add lines 3, 5d, and 5e)	6e	<input type="text"/>
7	Current quarter's adjustment for fractions of cents	7	<input type="text"/>
8	Current quarter's adjustment for sick pay	8	<input type="text"/>
9	Current quarter's adjustments for tips and group-term life insurance	9	<input type="text"/>
10	Total taxes after adjustments. Combine lines 6e through 9	10	<input type="text"/>
11	Total deposits, including prior quarter overpayments	11	<input type="text"/>
12a	COBRA premium assistance payments (see instructions)	12a	<input type="text"/>
12b	Number of individuals provided COBRA premium assistance		<input type="text"/>
13	Add lines 11 and 12a	13	<input type="text"/>
14	Balance due. If line 10 is more than line 13, enter the difference and see instructions	14	<input type="text"/>
15	Overpayment. If line 13 is more than line 10, enter the difference <input type="text"/>	Check one: <input type="checkbox"/> Apply to next return. <input type="checkbox"/> Send a refund.	

► You MUST complete both pages of Form 941 and SIGN it. **Next** ►

Name (not your trade name)

Employer identification number (EIN)

Part 2: Tell us about your deposit schedule and tax liability for this quarter.

If you are unsure about whether you are a monthly schedule depositor or a semiweekly schedule depositor, see Pub. 15 (Circular E), section 11.

16 Write the state abbreviation for the state where you made your deposits OR write "MU" if you made your deposits in multiple states.

17 Check one: Line 10 on this return is less than \$2,500 or line 10 on the return for the preceding quarter was less than \$2,500, and you did not incur a \$100,000 next-day deposit obligation during the current quarter. If you meet the de minimis exception based on the prior quarter and line 10 for the current quarter is \$100,000 or more, you must provide a record of your federal tax liability. If you are a monthly schedule depositor, complete the deposit schedule below; if you are a semiweekly schedule depositor, attach Schedule B (Form 941). Go to Part 3.

Tax liability: Month 1, Month 2, Month 3, Total liability for quarter. Total must equal line 10.

You were a semiweekly schedule depositor for any part of this quarter. Complete Schedule B (Form 941): Report of Tax Liability for Semiweekly Schedule Depositors, and attach it to Form 941.

Part 3: Tell us about your business. If a question does NOT apply to your business, leave it blank.

18 If your business has closed or you stopped paying wages Check here, and enter the final date you paid wages / / .

19 If you are a seasonal employer and you do not have to file a return for every quarter of the year Check here.

Part 4: May we speak with your third-party designee?

Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details.

Yes. Designee's name and phone number

Select a 5-digit Personal Identification Number (PIN) to use when talking to the IRS.

No.

Part 5: Sign here. You MUST complete both pages of Form 941 and SIGN it.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.



Sign your name here

Signature box

Print your name here

Print your title here

Date / /

Best daytime phone

Paid Preparer Use Only

Check if you are self-employed

Preparer's name

PTIN

Preparer's signature

Date / /

Firm's name (or yours if self-employed)

EIN

Address

Phone

City

State

ZIP code

(EIN)
 Employer identification number -

Name (not your trade name)

Trade name (if any)

Address
Number Street Suite or room number

City State ZIP code

Read the instructions before completing this form. Use this form to correct errors you made on Form 941 or 941-SS. Use a separate Form 941-X for each quarter that needs correction. Type or print within the boxes. You MUST complete all three pages. Do not attach this form to Form 941 or 941-SS.

Return You Are Correcting ...
 Check the type of return you are correcting:

941
 941-SS

Check the ONE quarter you are correcting:

1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December

Enter the calendar year of the quarter you are correcting:
 (YYYY)

Enter the date you discovered errors:
 / /
 (MM / DD / YYYY)

Part 1: Select ONLY one process.

1. Adjusted employment tax return. Check this box if you underreported amounts. Also check this box if you overreported amounts and you would like to use the adjustment process to correct the errors. You must check this box if you are correcting both underreported and overreported amounts on this form. The amount shown on line 21, if less than zero, may only be applied as a credit to your Form 941, Form 941-SS, Form 944, or Form 944-SS for the tax period in which you are filing this form.

2. Claim. Check this box if you overreported amounts only and you would like to use the claim process to ask for a refund or abatement of the amount shown on line 21. Do not check this box if you are correcting ANY underreported amounts on this form.

Part 2: Complete the certifications.

3. I certify that I have filed or will file Forms W-2, Wage and Tax Statement, or Forms W-2c, Corrected Wage and Tax Statement, as required.

Note. If you are correcting underreported amounts only, go to Part 3 on page 2 and skip lines 4 and 5.

4. If you checked line 1 because you are adjusting overreported amounts, check all that apply. You must check at least one box. I certify that:

a. I repaid or reimbursed each affected employee for the overcollected federal income tax for the current year and the overcollected social security and Medicare taxes for current and prior years. For adjustments of employee social security and Medicare taxes overcollected in prior years, I have a written statement from each employee stating that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection.

b. The adjustments of social security tax and Medicare tax are for the employer's share only. I could not find the affected employees or each employee did not give me a written statement that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection.

c. The adjustment is for federal income tax, social security tax, and Medicare tax that I did not withhold from employee wages.

5. If you checked line 2 because you are claiming a refund or abatement of overreported employment taxes, check all that apply. You must check at least one box. I certify that:

a. I repaid or reimbursed each affected employee for the overcollected social security and Medicare tax. For claims of employee social security and Medicare tax overcollected in prior years, I have a written statement from each employee stating that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection.

b. I have a written consent from each affected employee stating that I may file this claim for the employee's share of social security and Medicare tax. For refunds of employee social security and Medicare tax overcollected in prior years, I also have a written statement from each employee stating that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection.

c. The claim for social security tax and Medicare taxes is for the employer's share only. I could not find the affected employees; or each employee did not give me a written consent to file a claim for the employee's share of social security and Medicare taxes; or each employee did not give me a written statement that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection.

d. The claim is for federal income tax, social security tax, and Medicare tax that I did not withhold from employee wages.

Part 3: Enter the corrections for this quarter. If any line does not apply, leave it blank.

	Column 1 <i>Total corrected amount (for ALL employees)</i>	Column 2 <i>Amount originally reported or as previously corrected (for ALL employees)</i>	Column 3 <i>Difference (If this amount is a negative number, use a minus sign.)</i>	Column 4 <i>Tax correction</i>
6. Wages, tips and other compensation (from line 2 of Form 941)	<input type="text"/>	<input type="text"/>	<input type="text"/>	Use the amount in Column 1 when you prepare your Forms W-2 or Forms W-2c.
7. Income tax withheld from wages, tips, and other compensation (from line 3 of Form 941)	<input type="text"/>	<input type="text"/>	<input type="text"/>	Copy Column 3 here ▶ <input type="text"/>
8. Taxable social security wages (from line 5a, Column 1 of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/> × .124* = <input type="text"/>
9. Taxable social security tips (from line 5b, Column 1 of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/> × .124* = <input type="text"/>
10. Taxable Medicare wages and tips (from line 5c, Column 1 of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/> × .029* = <input type="text"/>
11. Section 3121(q) Notice and Demand – Tax due on unreported tips (from line 5e of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	Copy Column 3 here ▶ <input type="text"/>
12a. Number of qualified employees first paid exempt wages/tips this quarter (from line 6a of Form 941 or Form 941-SS)*	<input type="text"/>	<input type="text"/>	<input type="text"/>	*Complete lines 12a, 12b, and 12c only for corrections to quarters ending after March 31, 2010, and before January 1, 2011.
12b. Number of qualified employees paid exempt wages/tips this quarter (from line 6b of Form 941 or Form 941-SS)*	<input type="text"/>	<input type="text"/>	<input type="text"/>	
12c. Exempt wages/tips paid to qualified employees this quarter (from line 6c of Form 941 or Form 941-SS)*	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/> × .062 = <input type="text"/>
13. Tax adjustments (from lines 7–9 (lines 7a–7c for quarters ending before January 1, 2011) of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	Copy Column 3 here ▶ <input type="text"/>
14. Special addition to wages for federal income tax	<input type="text"/>	<input type="text"/>	<input type="text"/>	See instructions <input type="text"/>
15. Special addition to wages for social security taxes	<input type="text"/>	<input type="text"/>	<input type="text"/>	See instructions <input type="text"/>
16. Special addition to wages for Medicare taxes	<input type="text"/>	<input type="text"/>	<input type="text"/>	See instructions <input type="text"/>
17. Combine the amounts on lines 7–16 of Column 4			<input type="text"/>
18. Advance earned income credit (EIC) payments made to employees (from line 9 of Form 941; only for quarters ending before January 1, 2011)	<input type="text"/>	<input type="text"/>	<input type="text"/>	See instructions <input type="text"/>
19a. COBRA premium assistance payments (from line 12a of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	See instructions <input type="text"/>
19b. Number of individuals provided COBRA premium assistance (from line 12b of Form 941 or Form 941-SS)	<input type="text"/>	<input type="text"/>	<input type="text"/>	*Complete lines 19c and 19d only for corrections to the second quarter of 2010.
19c. Number of qualified employees paid exempt wages/tips March 19–31, 2010 (from line 12c of Form 941 or Form 941-SS)*	<input type="text"/>	<input type="text"/>	<input type="text"/>	
19d. Exempt wages/tips paid to qualified employees March 19–31, 2010 (from line 12d of Form 941 or Form 941-SS)*	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/> × .062 = <input type="text"/>
20. Total. Combine the amounts on lines 17–19d of Column 4. Continue on next page			<input type="text"/>

Type of errors
you are
correcting

Form 941-X: Which process should you use?

**Underreported
amounts
ONLY**

Use the adjustment process to correct underreported amounts.

- Check the box on line 1.
- Pay the amount you owe from line 21 by the time you file Form 941-X.

**Overreported
amounts
ONLY**

The process you
use depends on
when you file
Form 941-X.

**If you are filing Form 941-X
MORE THAN 90 days before
the period of limitations on
credit or refund for Form 941
or Form 941-SS expires ...**

Choose either process to correct the overreported amounts.

Choose the adjustment process if you want the amount shown on line 21 credited to your Form 941, Form 941-SS, Form 944, or Form 944-SS for the period in which you file Form 941-X. Check the box on line 1.

OR

Choose the claim process if you want the amount shown on line 21 refunded to you or abated. Check the box on line 2.

**If you are filing Form 941-X
WITHIN 90 days of the
expiration of the period of
limitations on credit or refund
for Form 941 or Form 941-SS ...**

You must use the **claim process** to correct the overreported amounts. Check the box on line 2.

**BOTH
underreported
and
overreported
amounts**

The process you
use depends on
when you file
Form 941-X.

**If you are filing Form 941-X
MORE THAN 90 days before
the period of limitations on
credit or refund for Form 941
or Form 941-SS expires ...**

Choose either the adjustment process or both the adjustment process and the claim process when you correct both underreported and overreported amounts.

Choose the adjustment process if combining your underreported amounts and overreported amounts results in a balance due or creates a credit that you want applied to Form 941, Form 941-SS, Form 944, or Form 944-SS.

- File one Form 941-X, and
- Check the box on line 1 and follow the instructions on line 21.

OR

Choose both the adjustment process and the claim process if you want the overreported amount refunded to you or abated.

File two separate forms.

1. For the adjustment process, file one Form 941-X to correct the underreported amounts. Check the box on line 1. Pay the amount you owe from line 21 by the time you file Form 941-X.

2. For the claim process, file a second Form 941-X to correct the overreported amounts. Check the box on line 2.

**If you are filing Form 941-X
WITHIN 90 days of the
expiration of the period of
limitations on credit or
refund for Form 941 or Form
941-SS ...**

You must use both the adjustment process and claim process.

File two separate forms.

1. For the adjustment process, file one Form 941-X to correct the underreported amounts. Check the box on line 1. Pay the amount you owe from line 21 by the time you file Form 941-X.

2. For the claim process, file a second Form 941-X to correct the overreported amounts. Check the box on line 2.

Form **944 for 2011: Employer's ANNUAL Federal Tax Return**

Department of the Treasury — Internal Revenue Service

OMB No. 1545-2007

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address

Number Street Suite or room number

City State ZIP code

Who Must File Form 944

You must file annual Form 944 instead of filing quarterly Forms 941 **only if the IRS notified you in writing.** Prior-year forms are available at www.irs.gov/form944.

Read the separate instructions before you complete Form 944. Type or print within the boxes.

Part 1: Answer these questions for this year.

1 Wages, tips, and other compensation. 1

2 Income tax withheld from wages, tips, and other compensation 2

3 If no wages, tips, and other compensation are subject to social security or Medicare tax 3 Check and go to line 5.

4 Taxable social security and Medicare wages and tips:

	<i>Column 1</i>		<i>Column 2</i>	
4a Taxable social security wages	<input type="text"/>	x .104 =	<input type="text"/>	For 2011, the employee social security tax rate is 4.2% and the Medicare tax rate is 1.45%. The employer social security tax rate is 6.2% and the Medicare tax rate is 1.45%.
4b Taxable social security tips	<input type="text"/>	x .104 =	<input type="text"/>	
4c Taxable Medicare wages & tips	<input type="text"/>	x .029 =	<input type="text"/>	

4d Add Column 2 line 4a, Column 2 line 4b, and Column 2 line 4c 4d

5 Total taxes before adjustments (add lines 2 and 4d) 5

6 Current year's adjustments (see instructions) 6

7 Total taxes after adjustments. Combine lines 5 and 6 7

8 Total deposits for this year, including overpayment applied from a prior year and overpayment applied from Form 944-X or Form 941-X 8

9a COBRA premium assistance payments (see instructions) 9a

9b Number of individuals provided COBRA premium assistance

10 Add lines 8 and 9a 10

11 Balance due. If line 7 is more than line 10, enter the difference and see instructions 11

12 Overpayment. If line 10 is more than line 7, enter the difference Check one: Apply to next return. Send a refund.

▶ You MUST complete both pages of Form 944 and SIGN it.

Next

For Privacy Act and Paperwork Reduction Act Notice, see the back of the Payment Voucher.

Cat. No. 39316N

Form **944** (2011)

Part 2: Tell us about your deposit schedule and tax liability for this year.

13 Check one: Line 7 is less than \$2,500. Go to Part 3.

Line 7 is \$2,500 or more. Enter your tax liability for each month. If you are a semiweekly depositor or you accumulate \$100,000 or more of liability on any day during a deposit period, you must complete Form 945-A instead of the boxes below.

Grid of 12 boxes for monthly tax liability (13a-13l) with month labels (Jan., Feb., Mar., Apr., May, Jun., Jul., Aug., Sep., Oct., Nov., Dec.)

13m Total liability for year. Add lines 13a through 13l. Total must equal line 7.

14 If you made deposits of taxes reported on this form, write the state abbreviation for the state where you made your deposits OR write MU if you made your deposits in multiple states.

Part 3: Tell us about your business. If question 15 does NOT apply to your business, leave it blank.

15 If your business has closed or you stopped paying wages...

Check here and enter the final date you paid wages. []

Part 4: May we speak with your third-party designee?

Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details.

Yes. Designee's name and phone number [] []

Select a 5-digit Personal Identification Number (PIN) to use when talking to IRS. [] [] [] [] []

No.

Part 5: Sign Here. You MUST complete both pages of Form 944 and SIGN it.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.



Sign your name here

Signature line

Date []

Print your name here []

Print your title here []

Best daytime phone []

Paid Preparer Use Only

Check if you are self-employed

Preparer's name []

PTIN []

Preparer's signature []

Date []

Firm's name (or yours if self-employed) []

EIN []

Address []

Phone []

City []

State []

ZIP code []

Department of the Treasury
Internal Revenue Service

▶ **For withholding reported on Forms 1099 and W-2G.**
▶ **See separate instructions. For more information on income tax withholding, see Pub. 15 (Circ. E) and Pub. 15-A.**
Please type or print.

2011

Enter state code for state in which deposits were made **only** if different from state in address to the right ▶ (see the instructions).

<input type="text"/>	Name (as distinguished from trade name)	<input type="text"/>	Calendar year	If address is different from prior return, check here. ▶ <input type="checkbox"/>
<input type="text"/>	Trade name, if any	<input type="text"/>	Employer identification number (EIN)	
<input type="text"/>	Address (number and street)	<input type="text"/>	City, state, and ZIP code	

A If you **do not have to file** returns in the future, check here ▶ and enter date final payments made. ▶

1	Federal income tax withheld from pensions, annuities, IRAs, gambling winnings, etc.	1		
2	Backup withholding	2		
3	Total taxes. If \$2,500 or more, this must equal line 7M below or line M of Form 945-A	3		
4	Total deposits for 2011, including overpayment applied from a prior year and overpayment applied from Form 945-X	4		
5	Balance due. If line 3 is more than line 4, enter the difference and see the separate instructions	5		
6	Overpayment. If line 4 is more than line 3, enter the difference ▶ \$ _____			

Check one: Apply to next return. Send a refund.

- **All filers:** If line 3 is less than \$2,500, **do not** complete line 7 or Form 945-A.
- **Semiweekly schedule depositors:** Complete **Form 945-A** and check here ▶
- **Monthly schedule depositors:** Complete **line 7, entries A through M**, and check here ▶

7 Monthly Summary of Federal Tax Liability. (Do not complete if you were a semiweekly schedule depositor.)								
	Tax liability for month			Tax liability for month			Tax liability for month	
A January			F June			K November		
B February			G July			L December		
C March			H August			M Total liability for year (add lines A through L)		
D April			I September					
E May			J October					

Third-Party Designee Do you want to allow another person to discuss this return with the IRS (see the instructions)? Yes. Complete the following. No.

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature ▶ Print Your Name and Title ▶ Date ▶

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

Form **940 for 2011: Employer's Annual Federal Unemployment (FUTA) Tax Return**

Department of the Treasury — Internal Revenue Service

850111

OMB No. 1545-0028

(EIN) -

Employer identification number

Name (not your trade name)

Trade name (if any)

Address

Number Street Suite or room number

City State ZIP code

Type of Return
(Check all that apply.)

a. Amended

b. Successor employer

c. No payments to employees in 2011

d. Final: Business closed or stopped paying wages

Prior-year forms are available at www.irs.gov/form940.

Read the separate instructions before you complete this form. Please type or print within the boxes.

Part 1: Tell us about your return. If any line does NOT apply, leave it blank.

1a If you had to pay state unemployment tax in one state only, enter the state abbreviation 1a

1b If you had to pay state unemployment tax in more than one state, you are a multi-state employer 1b Check here. Complete Schedule A (Form 940).

2 If you paid wages in a state that is subject to CREDIT REDUCTION 2 Check here. Complete Schedule A (Form 940).

Part 2: Determine your FUTA tax before adjustments for 2011. If any line does NOT apply, leave it blank.

3 Total payments to all employees 3

4 Payments exempt from FUTA tax 4

Check all that apply: 4a Fringe benefits 4c Retirement/Pension 4e Other

4b Group-term life insurance 4d Dependent care

5 Total of payments made to each employee in excess of \$7,000 5

6 Subtotal (line 4 + line 5 = line 6) 6

7a Total taxable FUTA wages (line 3 - line 6 = line 7a) (see instructions) 7a

7b Line 7a FUTA wages paid before 7/1/2011 7b x .008 = 7c

7d Line 7a FUTA wages paid after 6/30/2011 7d x .006 = 7e

8 FUTA tax before adjustments (line 7c + line 7e = line 8) 8

Part 3: Determine your adjustments. If any line does NOT apply, leave it blank.

9 If ALL of the taxable FUTA wages you paid were excluded from state unemployment tax, multiply line 7a by .054 (line 7a x .054 = line 9). Go to line 12 9

10 If SOME of the taxable FUTA wages you paid were excluded from state unemployment tax, OR you paid ANY state unemployment tax late (after the due date for filing Form 940), complete the worksheet in the instructions. Enter the amount from line 7 of the worksheet 10

11 If credit reduction applies, enter the amount total from Schedule A (Form 940) 11

Part 4: Determine your FUTA tax and balance due or overpayment for 2011. If any line does NOT apply, leave it blank.

12 Total FUTA tax after adjustments (lines 8 + 9 + 10 + 11 = line 12) 12

13 FUTA tax deposited for the year, including any overpayment applied from a prior year 13

14 Balance due (If line 12 is more than line 13, enter the excess on line 14.)
• If line 14 is more than \$500, you must deposit your tax.
• If line 14 is \$500 or less, you may pay with this return. (see instructions) 14

15 Overpayment (If line 13 is more than line 12, enter the excess on line 15 and check a box below.) 15

▶ You **MUST** complete both pages of this form and **SIGN** it. Check one: Apply to next return. Send a refund.

Next

Name (not your trade name)

Employer identification number (EIN)

Part 5: Report your FUTA tax liability by quarter only if line 12 is more than \$500. If not, go to Part 6.

16 Report the amount of your FUTA tax liability for each quarter; do NOT enter the amount you deposited. If you had no liability for a quarter, leave the line blank.

16a	1st quarter (January 1 – March 31)	16a	<input type="text"/>	▪
16b	2nd quarter (April 1 – June 30)	16b	<input type="text"/>	▪
16c	3rd quarter (July 1 – September 30)	16c	<input type="text"/>	▪
16d	4th quarter (October 1 – December 31)	16d	<input type="text"/>	▪
17	Total tax liability for the year (lines 16a + 16b + 16c + 16d = line 17)	17	<input type="text"/>	▪ Total must equal line 12.

Part 6: May we speak with your third-party designee?

Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details.

Yes. Designee's name and phone number

Select a 5-digit Personal Identification Number (PIN) to use when talking to IRS

No.

Part 7: Sign here. You MUST complete both pages of this form and SIGN it.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments made to employees. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

X Sign your name here

Date / /

Print your name here

Print your title here

Best daytime phone

Paid preparer use only

Check if you are self-employed

Preparer's name	<input type="text"/>	PTIN	<input type="text"/>
Preparer's signature	<input type="text"/>	Date	<input type="text"/> / <input type="text"/> / <input type="text"/>
Firm's name (or yours if self-employed)	<input type="text"/>	EIN	<input type="text"/>
Address	<input type="text"/>	Phone	<input type="text"/>
City	<input type="text"/>	State	<input type="text"/>
		ZIP code	<input type="text"/>

Schedule A (Form 940) for 2011:

860311

Multi-State Employer and Credit Reduction Information

OMB No. 1545-0028

Department of the Treasury — Internal Revenue Service

Employer identification number (EIN) -

Name (not your trade name)

See Instructions on back. File this schedule with Form 940.

Place an "X" in the box of every state in which you were required to pay state unemployment tax this year even if that state's credit reduction rate was zero. For states with a credit reduction rate greater than zero, enter the FUTA taxable wages, multiply by the reduction rate, and then enter the credit reduction amount for that state. If any states do not apply to you, leave them blank.

Postal Abbreviation	FUTA Taxable Wages	Reduction Rate	Credit Reduction	Postal Abbreviation	FUTA Taxable Wages	Reduction Rate	Credit Reduction
<input type="checkbox"/> AK	.		.	<input type="checkbox"/> NC	.		.
<input type="checkbox"/> AL	.		.	<input type="checkbox"/> ND	.		.
<input type="checkbox"/> AR	.		.	<input type="checkbox"/> NE	.		.
<input type="checkbox"/> AZ	.		.	<input type="checkbox"/> NH	.		.
<input type="checkbox"/> CA	.		.	<input type="checkbox"/> NJ	.		.
<input type="checkbox"/> CO	.		.	<input type="checkbox"/> NM	.		.
<input type="checkbox"/> CT	.		.	<input type="checkbox"/> NV	.		.
<input type="checkbox"/> DC	.		.	<input type="checkbox"/> NY	.		.
<input type="checkbox"/> DE	.		.	<input type="checkbox"/> OH	.		.
<input type="checkbox"/> FL	.		.	<input type="checkbox"/> OK	.		.
<input type="checkbox"/> GA	.		.	<input type="checkbox"/> OR	.		.
<input type="checkbox"/> HI	.		.	<input type="checkbox"/> PA	.		.
<input type="checkbox"/> IA	.		.	<input type="checkbox"/> RI	.		.
<input type="checkbox"/> ID	.		.	<input type="checkbox"/> SC	.		.
<input type="checkbox"/> IL	.		.	<input type="checkbox"/> SD	.		.
<input type="checkbox"/> IN	.		.	<input type="checkbox"/> TN	.		.
<input type="checkbox"/> KS	.		.	<input type="checkbox"/> TX	.		.
<input type="checkbox"/> KY	.		.	<input type="checkbox"/> UT	.		.
<input type="checkbox"/> LA	.		.	<input type="checkbox"/> VA	.		.
<input type="checkbox"/> MA	.		.	<input type="checkbox"/> VT	.		.
<input type="checkbox"/> MD	.		.	<input type="checkbox"/> WA	.		.
<input type="checkbox"/> ME	.		.	<input type="checkbox"/> WI	.		.
<input type="checkbox"/> MI	.		.	<input type="checkbox"/> WV	.		.
<input type="checkbox"/> MN	.		.	<input type="checkbox"/> WY	.		.
<input type="checkbox"/> MO	.		.	<input type="checkbox"/> PR	.		.
<input type="checkbox"/> MS	.		.	<input type="checkbox"/> VI	.		.
<input type="checkbox"/> MT	.		.				

Total credit reduction. Enter this amount on line 11 of Form 940

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents	OMB No. 1545-0115 2011 Form 1099-MISC		Miscellaneous Income
		\$			
		2 Royalties			
		\$			Copy B For Recipient
		3 Other income	4 Federal income tax withheld		
		\$	\$		
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds	6 Medical and health care payments		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		\$	\$		
RECIPIENT'S name		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest		
Street address (including apt. no.)		\$	\$		
City, state, and ZIP code		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds		
		\$	\$		
Account number (see instructions)		11	12		
		13 Excess golden parachute payments	14 Gross proceeds paid to an attorney		
		\$	\$		
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld	17 State/Payer's state no.	18 State income	
\$	\$	\$		\$	
		\$		\$	

Form **1099-MISC**

(keep for your records)

Department of the Treasury - Internal Revenue Service

Filing Corrected Return on Paper Forms

Identify the correction needed based on **Error Type 1 or 2**; then follow the steps to make the corrections and file the form(s).

Á

Error Type 1	Correction
<p>Incorrect money amount(s), code, or checkbox, or Incorrect address, or Incorrect payee name, or A return was filed when one should not have been filed.</p> <p>These errors require only one return to make the correction.</p> <p><i>Caution: If you must correct a TIN and/or a name and address, follow the instructions under Error 2.</i></p>	<p>A. Form 1098, 1099, 3921, 3922, 5498, or W-2G</p> <ol style="list-style-type: none"> 1. Prepare a new information return. 2. Enter an “X” in the “CORRECTED” box (and date (optional)) at the top of the form. 3. Correct any recipient information such as money amounts and address. Report other information as per original return. <p>B. Form 1096</p> <ol style="list-style-type: none"> 1. Prepare a new transmittal Form 1096. 2. Provide all requested information on the form as it applies to Part A, 1 and 2. 3. File Form 1096 and Copy A of the return with the appropriate service center. 4. Do not include a copy of the original return that was filed incorrectly.

Error Type 2	Correction
<p>No payee TIN (SSN, EIN, QI-EIN, or ITIN), or Incorrect payee TIN, or Incorrect name and address, or</p> <p>Original return filed using wrong type of return (for example, a Form 1099-DIV was filed when a Form 1099-INT should have been filed).</p> <p>Two separate returns are required to make the correction properly. Follow all instructions for both Steps 1 and 2.</p>	<p>Step 1. Identify incorrect return submitted.</p> <ol style="list-style-type: none"> 1. Prepare a new information return. 2. Enter an “X” in the “CORRECTED” box (and date (optional)) at the top of the form. 3. Enter the payer, recipient, and account number information exactly as it appeared on the original incorrect return; however, enter 0 (zero) for all money amounts. <hr/> <p>Step 2. Report correct information.</p> <p>A. Form 1098, 1099, 3921, 3922, 5498, or W-2G</p> <ol style="list-style-type: none"> 1. Prepare a new information return. 2. Do not enter an “X” in the “CORRECTED” box at the top of the form. Prepare the new return as though it is an original. 3. Include all the correct information on the form including the correct TIN, name, and address. <p>B. Form 1096</p> <ol style="list-style-type: none"> 1. Prepare a new transmittal Form 1096. 2. Enter the words “Filed To Correct TIN,” “Filed to Correct Name and Address,” or “Filed to Correct Return” in the bottom margin of the form. 3. Provide all requested information on the form as it applies to the returns prepared in Steps 1 and 2. 4. File Form 1096 and Copy A of the return with the appropriate service center. 5. Do not include a copy of the original return that was filed incorrectly.

Appendix

- Employee vs. Independent Contractor Rules
- Forms and Due Dates
- Payroll Tax Deposit Rules
- Penalties
- Federal Wage/Hour Record Keeping
- W-2 Taxable Wages Chart
- Special Rules for Various Types of Services and Payments
- Health Savings Accounts Deductibles/Tax Withholdings
- HSA/HRA/FSA Comparison Chart
- Guide to Information Returns
- Useful Web Sites

Employee vs. Independent Contractor

An employer must generally withhold income taxes, withhold and pay social security and Medicare taxes, and pay unemployment taxes on wages paid to an employee. An employer does not generally have to withhold or pay any taxes on payments to independent contractors.

To help determine whether an individual is an employee under the common-law rules, the IRS has identified 20 factors that are to be used as guidelines, but this is not the legal test.

1. **Instructions.** An employee must comply with instructions about when, where, and how to work. Even if no instructions are given, the control factor is present if the employer has the right to control how the work results are achieved.
2. **Training.** An employee may be trained to perform services in a particular manner. Independent contractors ordinarily use their own methods and receive no training from the purchasers of their services.
3. **Integration.** An employee's services are usually integrated into the business operations because the services are important to the success or continuation of the business. This shows that the employee is subject to direction and control.
4. **Services rendered personally.** An employee renders services personally. This shows that the employer is interested in the methods as well as the results.
5. **Hiring, supervising, and paying assistants.** An employee works for an employer who hires, supervises, and pays workers. An independent contractor can hire, supervise, and pay assistants under a contract that requires him or her to provide materials and labor and to be responsible only for the result.
6. **Regular and continuous relationship.** An employee generally has a continuing relationship with an employer. A continuing relationship may exist even if work is performed at recurring although irregular intervals.
7. **Set hours of work.** An employee usually has set hours of work established by an employer. An independent contractor generally can set his or her own work hours.
8. **Full-time required.** An employee may be required to work or be available full-time. This indicates control by the employer. An independent contractor can work when and for whom he or she chooses.

Employee vs. Independent Contractor (cont.)

9. Doing work on employer's premises. An employee usually works on the premises of an employer, or works on a route or at a location designated by an employer.
10. Order or sequence set. An employee may be required to perform services in the order or sequence set by an employer. This shows that the employee is subject to direction and control.
11. Oral or written reports. An employee may be required to submit reports to an employer. This shows that the employer maintains a degree of control.
12. Payments. An employee is generally paid by the hour, week, or month. An independent contractor is usually paid by the job or on a straight commission.
13. Expenses. An employee's business and travel expenses are generally paid by an employer. This shows that the employee is subject to regulation and control.
14. Furnish tools or equipment. An employee is normally furnished significant tools, materials, and other equipment by an employer.
15. Investment. An independent contractor has a significant investment in the facilities he or she uses in performing services for someone else.
16. Realization of profit or loss. An independent contractor can make a profit or suffer a loss.
17. Works for more than one person or firm. An independent contractor is generally free to provide his or her services to two or more unrelated persons or firms at the same time.
18. Offers services to general public. An independent contractor makes his or her services available to the general public.
19. Right to discharge. An employee can be fired by an employer. An independent contractor cannot be fired so long as he or she produces a result that meets the specifications of the contract.
20. Right to terminate. An employee can quit his or her job at any time without incurring liability. An independent contractor usually agrees to complete a specific job and is responsible for its satisfactory completion, or is legally obligated to make good for failure to complete it.

Employee vs. Independent Contractor (cont.)

Of these 20 factors, the courts tend to focus principally on seven as being the most important.

- The degree of control exercised by the principal over the details of the work
- Which party invests in the facilities used in the work
- The opportunity of the worker for profit or loss
- Whether the principal has the right to discharge the worker
- Whether the work is part of the principal's regular business
- The permanency of the relationship
- The type of relationship that the principal and worker believe they are creating

A person can have "dual status" and be both an employee and an independent contractor with respect to a single principal.

If you are unable to determine from the preceding guidelines whether a worker is your employee, you can file Form SS-8 (Determination of Employee Work Status for Purposes of Federal Employment taxes and Income Tax Withholding) with the District Director and the IRS will make that determination.

If payments to an independent contractor in aggregate are \$600 or more, an information return, Form 1099-MISC, must be filed with the IRS before February 28 of the following year. The payer must also provide the recipient with a copy by January 31 of the following year.

When completing the 1099 it is extremely important to correctly match the name reported with the identification number reported.

Forms and Due Dates

(Federal and Indiana)

- Form 941
 - 1st Quarter April 30
 - 2nd Quarter July 31
 - 3rd Quarter October 31
 - 4th Quarter January 31

- W-2 Forms
 - To employees January 31
 - Form W-3 with Form W-2 Copy A February 28

- Form 940 January 31

- Form 1099
 - To recipient January 31
 - Form 1096 with 1099 Copy A February 28

- Form UC-1
 - 1st Quarter April 30
 - 2nd Quarter July 31
 - 3rd Quarter October 31
 - 4th Quarter January 31

- Form WH-1
 - Filing frequency depends on average monthly withholding for the immediately preceding year
 - Average monthly withholding of:

Over \$1,000	Monthly – early – 20 days after end of month
\$75 - \$1000	Monthly – 30 days after end of month
\$25 - \$74	Quarterly – 30 days after end of quarter
\$10 - \$24	Semiannual – 7/31
Less than \$10	Annual – 1/31

- Form WH-3 with Form W-2 Copy 1 February 28

Copies of year-end forms must be kept for at least 4 years

Payroll Tax Deposit Rules

There are two deposit schedules – **monthly** or **semiweekly** - for determining when you deposit social security, Medicare and withheld income taxes. The deposit schedule you must use is based on the total tax liability you reported on Form 941 during a four-quarter lookback period.

The lookback period begins July 1 and ends June 30. For determining your 2012 deposit schedule, the lookback period is July 1, 2010 to June 30, 2011.

Monthly Depositor

- \$50,000 or less in 941 taxes during lookback period
- Deposit taxes on wages paid during a month by the 15th day of the following month

Semiweekly Depositor

- More than \$50,000 in 941 taxes during lookback period
- Paydays of Wed, Thurs, and/or Fri - deposit due the following Wednesday
- Paydays of Sat, Sun, Mon, and/or Tues- deposit due the following Friday

The IRS will notify the taxpayer each November as to the FICA and Federal withholding tax deposit liability schedule for the following year.

\$2,500 Rule - If an employer accumulates a payroll tax liability of less than \$2,500 in one quarter, no deposits are required and this liability may be paid with the Form 941 tax return for that period.

\$100,000 Rule - If an employer accumulates a payroll tax liability of \$100,000 or more on any day during a deposit period, you must deposit the tax by the next banking day.

New Employers are considered a monthly depositor for the first calendar year (unless the \$100,000 rule applies).

FUTA (Federal Unemployment) tax deposits are due quarterly, by the last day of the month after the quarter ends. The tax liability is .8% of the first \$7,000 paid per year, per employee.

Employers are required to make a quarterly deposit for unemployment taxes if the accumulated tax exceeds \$500.

NOTE: See Legislative Developments section for information on FUTA tax rate changes for 2011.

Payroll Tax Deposit Rules (cont.)

SUTA (State Unemployment) tax deposits are due quarterly, by the last day of the month after the quarter ends. For Indiana employers, **effective January 1, 2011, the liability is based on the first \$9,500 paid per year, per employee.** The tax rate is determined by the Indiana Department of Workforce Development with annual notification. New employers are given a tax rate of 2.7%.

Table 2. Due Dates for Electronic Funds Transfer of Taxes for 2012 Under the Semiweekly Rule

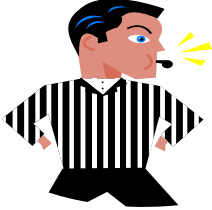
First Quarter:		Second Quarter:		Third Quarter:		Fourth Quarter:	
Payroll Date	Due Date	Payroll Date	Due Date	Payroll Date	Due Date	Payroll Date	Due Date
Jan 1-3	Jan 6	Apr 1-3	Apr 6	Jul 1-3	Jul 9	Oct 1-2	Oct 5
Jan 4-6	Jan 11	Apr 4-6	Apr 11	Jul 4-6	Jul 11	Oct 3-5	Oct 11
Jan 7-10	Jan 13	Apr 7-10	Apr 13	Jul 7-10	Jul 13	Oct 6-9	Oct 12
Jan 11-13	Jan 19	Apr 11-13	Apr 19	Jul 11-13	Jul 18	Oct 10-12	Oct 17
Jan 14-17	Jan 20	Apr 14-17	Apr 20	Jul 14-17	Jul 20	Oct 13-16	Oct 19
Jan 18-20	Jan 25	Apr 18-20	Apr 25	Jul 18-20	Jul 25	Oct 17-19	Oct 24
Jan 21-24	Jan 27	Apr 21-24	Apr 27	Jul 21-24	Jul 27	Oct 20-23	Oct 26
Jan 25-27	Feb 1	Apr 25-27	May 2	Jul 25-27	Aug 1	Oct 24-26	Oct 31
Jan 28-31	Feb 3	Apr 28-May 1	May 4	Jul 28-31	Aug 3	Oct 27-30	Nov 2
Feb 1-3	Feb 8	May 2-4	May 9	Aug 1-3	Aug 8	Oct 31-Nov 2	Nov 7
Feb 4-7	Feb 10	May 5-8	May 11	Aug 4-7	Aug 10	Nov 3-6	Nov 9
Feb 8-10	Feb 15	May 9-11	May 16	Aug 8-10	Aug 15	Nov 7-9	Nov 15
Feb 11-14	Feb 17	May 12-15	May 18	Aug 11-14	Aug 17	Nov 10-13	Nov 16
Feb 15-17	Feb 23	May 16-18	May 23	Aug 15-17	Aug 22	Nov 14-16	Nov 21
Feb 18-21	Feb 24	May 19-22	May 25	Aug 18-21	Aug 24	Nov 17-20	Nov 26
Feb 22-24	Feb 29	May 23-25	May 31	Aug 22-24	Aug 29	Nov 21-23	Nov 28
Feb 25-28	Mar 2	May 26-29	June 1	Aug 25-28	Aug 31	Nov 24-27	Nov 30
Feb 29-Mar 2	Mar 7	May 30-Jun 1	Jun 6	Aug 29-31	Sep 6	Nov 28-30	Dec 5
Mar 3-6	Mar 9	Jun 2-5	Jun 8	Sep 1-4	Sep 7	Dec 1-4	Dec 7
Mar 7-9	Mar 14	Jun 6-8	Jun 13	Sep 5-7	Sep 12	Dec 5-7	Dec 12
Mar 10-13	Mar 16	Jun 9-12	Jun 15	Sep 8-11	Sep 14	Dec 8-11	Dec 14
Mar 14-16	Mar 21	Jun 13-15	Jun 20	Sep 12-14	Sep 19	Dec 12-14	Dec 19
Mar 17-20	Mar 23	Jun 16-19	Jun 22	Sep 15-18	Sep 21	Dec 15-18	Dec 21
Mar 21-23	Mar 28	Jun 20-22	Jun 27	Sep 19-21	Sep 26	Dec 19-21	Dec 27
Mar 24-27	Mar 30	Jun 23-26	Jun 29	Sep 22-25	Sep 28	Dec 22-25	Dec 28
Mar 28-30	Apr 4	Jun 27-29	Jul 5	Sep 26-28	Oct 3	Dec 26-28	Jan 3
Mar 31	Apr 6	Jun 30	Jul 9	Sep 29-30	Oct 5	Dec 29-31	Jan 4

NOTE: This calendar reflects all federal holidays.

Penalties

Late payment penalties:

FICA and FUTA – a fixed percentage of the amount of the underpayment; percentage depends on the period the payment remains late



- 2% - if 5 or fewer days after the due date
- 5% - if more than 5 but fewer than 16 days after the due date
- 10% - if more than 15 days after the due date but fewer than 10 days after the date of first delinquency notice
- 15% - if more than 10 days after the date of the first delinquency notice

Generally, tax deposits are applied first to any past due undeposited amount within the same return period, with the oldest liability satisfied first. However, you may designate the period to which the deposit applies if you receive a penalty notice. You must respond within 90 days of the date of the notice.

Failure to file penalties:

FICA and FUTA – 5% of the net amount of tax required to have been reported for each month or fraction of a month, not to exceed 25% in the aggregate

W-2 and 1099 – each failure is subject to a \$50 penalty with a maximum penalty of \$250,000

Incorrectly made deposits:

10% Penalty for:

- Deposits made at an unauthorized financial institution
- Paid directly to IRS
- Paid with your tax return (some exceptions)
- Amounts subject to electronic deposit requirements but not deposited using EFTPS

Deposits of all depository taxes (payroll, excise, corporate income) using the Electronic Federal Tax Payment System (EFTPS) are required for 2012 if:

- The total deposits of such taxes in 2010 were more than \$200,000 or
- You were required to use EFTPS in 2011

If you are not required to use EFTPS, you may participate voluntarily

- IRS Form 9779 - Business Enrollment Form for EFTPS
- EFTPS info line - 1-800-555-4477
- On-line - www.eftps.gov

Federal Wage/Hour Record Keeping

Employers must record and preserve specified information and records to show compliance with Fair Labor Standards Act (FLSA) provisions, relating to minimum wage, overtime, equal pay and child labor. The following record keeping requirements are for non-agricultural employees.

Required Information and Records	Retention Period
For each employee COVERED by FLSA:	3 Years
<ul style="list-style-type: none"> • Name, address • Date of birth • Gender, occupation • Workweek days • If paid O/T... regular pay rate and exclusions • Wage basis • Hours worked • Straight-time earnings • Weekly overtime pay • Deductions from and additions to wages • Pay period covered • Pay dates • Wages paid by pay period • Retroactive payment <p>Also, payroll certificates, union agreements and benefit plan documents.</p>	
Supplemental records:	2 Years
<ul style="list-style-type: none"> • Time cards • Wage rate tables • Work time schedules • Job evaluations, etc. 	

W-2 Taxable Wages

Pay Elements Used to Determine Taxable Wages

Responding to employee W-2 inquiries is much easier once you know the pay elements used to determine the taxable wages on the W-2. The explanation which follows reflects only the most common pay elements that determine taxable wages on the W-2.

Box 1: Wages, Tips and Other Compensation

Gross Earnings (Includes taxable fringe benefits and tips)	
minus	Federal Tax Exempt Wages
minus	Deferred Compensation
minus	Meals
minus	Cafeteria 125 Benefits (May vary based on the benefit)
plus	Group-Term Life Insurance (cost of coverage over \$50,000)
plus	Third-Party Sick pay
plus	Other Compensation

W-2 Taxable Wages (cont.)

Box 3: Social Security Wages

Gross Earnings (Includes taxable fringe benefits and tips)	
minus	Social Security Exempt Wages
minus	Meals
minus	Tips (Social Security Tips must print separately in Box 7)
minus	Cafeteria 125 Benefits (May vary based on the benefit)
plus	Group-Term Life Insurance (cost of coverage over \$50,000)
plus	Third-Party Sick pay

Box 5: Medicare Wages and Tips

Gross Earnings (Includes taxable fringe benefits and tips)	
minus	Medicare Exempt Wages
minus	Meals
minus	Cafeteria 125 Benefits (May vary based on the benefit)
plus	Group-Term Life Insurance (cost of coverage over \$50,000)
plus	Third-Party Sick pay

W-2 Taxable Wages (cont.)

Box 17: State Wages, Tips, Etc.

Gross Earnings (Includes taxable fringe benefits and tips)	
minus	State Exempt Wages
minus	Deferred Compensation (May vary by state)
minus	Meals (May vary by state)
minus	Cafeteria 125 Benefits (May vary based on the benefit and the state)
plus	Group-Term Life Insurance (cost of coverage over \$50,000)(May vary by state)
plus	Third-Party Sick pay (May vary by state)
plus	Other Compensation (May vary by state)

15. Special Rules for Various Types of Services and Payments

Section references are to the Internal Revenue Code unless otherwise noted.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes		
	Income Tax Withholding	Social Security and Medicare	Federal Unemployment
Aliens, nonresident.	See Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities, and Publication 519, U.S. Tax Guide for Aliens.		
Aliens, resident: 1. Service performed in the U.S. 2. Service performed outside U.S.	Same as U.S. citizen. Withhold	Same as U.S. citizen. (Exempt if any part of service as crew member of foreign vessel or aircraft is performed outside U.S.) Taxable if (1) working for an American employer or (2) an American employer by agreement covers U.S. citizens and residents employed by its foreign affiliates.	Same as U.S. citizen. Exempt unless on or in connection with an American vessel or aircraft and either performed under contract made in U.S., or alien is employed on such vessel or aircraft when it touches U.S. port.
Cafeteria plan benefits under section 125.	If employee chooses cash, subject to all employment taxes. If employee chooses another benefit, the treatment is the same as if the benefit was provided outside the plan. See Publication 15-B for more information.		
Deceased worker: 1. Wages paid to beneficiary or estate in same calendar year as worker's death. See the Instructions for Forms W-2 and W-3 for details. 2. Wages paid to beneficiary or estate after calendar year of worker's death.	Exempt Exempt	Taxable Exempt	Taxable Exempt
Dependent care assistance programs.	Exempt to the extent it is reasonable to believe amounts are excludable from gross income under section 129.		
Disabled worker's wages paid after year in which worker became entitled to disability insurance benefits under the Social Security Act.	Withhold	Exempt, if worker did not perform any service for employer during period for which payment is made.	Taxable
Employee business expense reimbursement: 1. Accountable plan. a. Amounts not exceeding specified government rate for per diem or standard mileage. b. Amounts in excess of specified government rate for per diem or standard mileage. 2. Nonaccountable plan. See section 5 for details.	Exempt Withhold Withhold	Exempt Taxable Taxable	Exempt Taxable Taxable
Family employees: 1. Child employed by parent (or partnership in which each partner is a parent of the child). 2. Parent employed by child. 3. Spouse employed by spouse. See section 3 for more information.	Withhold Withhold Withhold	Exempt until age 18; age 21 for domestic service. Taxable if in course of the son's or daughter's business. For domestic services, see section 3 . Taxable if in course of spouse's business.	Exempt until age 21 Exempt Exempt
Fishing and related activities.	See Publication 334, Tax Guide for Small Business.		
Foreign governments and international organizations.	Exempt	Exempt	Exempt

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes		
	Income Tax Withholding	Social Security and Medicare	Federal Unemployment
Homeworkers (industrial, cottage industry): 1. Common law employees. 2. Statutory employees. See section 2 for details.	Withhold Exempt	Taxable Taxable if paid \$100 or more in cash in a year.	Taxable Exempt
Hospital employees: 1. Interns 2. Patients	Withhold Withhold	Taxable Taxable (Exempt for state or local government hospitals.)	Exempt Exempt
Household employees: 1. Domestic service in private homes. Farmers, see Publication 51 (Circular A). 2. Domestic service in college clubs, fraternities, and sororities.	Exempt (withhold if both employer and employee agree). Exempt (withhold if both employer and employee agree).	Taxable if paid \$1,700 or more in cash in 2011. Exempt if performed by an individual under age 18 during any portion of the calendar year and is not the principal occupation of the employee. Exempt if paid to regular student; also exempt if employee is paid less than \$100 in a year by an income-tax-exempt employer.	Taxable if employer paid total cash wages of \$1,000 or more in any quarter in the current or preceding calendar year. Taxable if employer paid total cash wages of \$1,000 or more in any quarter in the current or preceding calendar year.
Insurance for employees: 1. Accident and health insurance premiums under a plan or system for employees and their dependents generally or for a class or classes of employees and their dependents. 2. Group-term life insurance costs. See Publication 15-B for details	Exempt (except 2% shareholder-employees of S corporations). Exempt	Exempt Exempt, except for the cost of group-term life insurance includible in the employee's gross income. Special rules apply for former employees.	Exempt Exempt
Insurance agents or solicitors: 1. Full-time life insurance salesperson. 2. Other salesperson of life, casualty, etc., insurance.	Withhold only if employee under common law. See section 2 . Withhold only if employee under common law.	Taxable Taxable only if employee under common law.	Taxable if (1) employee under common law and (2) not paid solely by commissions. Taxable if (1) employee under common law and (2) not paid solely by commissions.
Interest on loans with below-market interest rates (foregone interest and deemed original issue discount).	See Publication 15-A.		
Leave-sharing plans: Amounts paid to an employee under a leave-sharing plan.	Withhold	Taxable	Taxable
Newspaper carriers and vendors: Newspaper carriers under age 18; newspaper and magazine vendors buying at fixed prices and retaining receipts from sales to customers. See Publication 15-A for information on statutory nonemployee status.	Exempt (withhold if both employer and employee voluntarily agree).	Exempt	Exempt

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes		
	Income Tax Withholding	Social Security and Medicare	Federal Unemployment
Noncash payments: 1. For household work, agricultural labor, and service not in the course of the employer's trade or business. 2. To certain retail commission salespersons ordinarily paid solely on a cash commission basis.	Exempt (withhold if both employer and employee voluntarily agree). Optional with employer, except to the extent employee's supplemental wages during the year exceed \$1,000,000.	Exempt Taxable	Exempt Taxable
Nonprofit organizations.	See Publication 15-A.		
Officers or shareholders of an S Corporation. Distributions and other payments by an S corporation to a corporate officer or shareholder must be treated as wages to the extent the amounts are reasonable compensation for services to the corporation by an employee. See the Instructions for Form 1120S.	Withhold	Taxable	Taxable
Partners: Payments to general or limited partners of a partnership. See Publication 541, Partnerships, for partner reporting rules.	Exempt	Exempt	Exempt
Railroads: Payments subject to the Railroad Retirement Act. See Publication 915, Social Security and Equivalent Railroad Retirement Benefits, for more details.	Withhold	Exempt	Exempt
Religious exemptions.	See Publication 15-A and Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers.		
Retirement and pension plans: 1. Employer contributions to a qualified plan. 2. Elective employee contributions and deferrals to a plan containing a qualified cash or deferred compensation arrangement (for example, 401(k)). 3. Employer contributions to individual retirement accounts under simplified employee pension plan (SEP). 4. Employer contributions to section 403(b) annuities. 5. Employee salary reduction contributions to a SIMPLE retirement account. 6. Distributions from qualified retirement and pension plans and section 403(b) annuities. See Publication 15-A for information on pensions, annuities, and employer contributions to nonqualified deferred compensation arrangements.	Exempt Generally exempt, but see section 402(g) for limitation. Generally exempt, but see section 402(g) for salary reduction SEP limitation. Generally exempt, but see section 402(g) for limitation. Exempt Withhold, but recipient may elect exemption on Form W-4P in certain cases; mandatory 20% withholding applies to an eligible rollover distribution that is not a direct rollover; exempt for direct rollover. See Publication 15-A.	Exempt Taxable Exempt, except for amounts contributed under a salary reduction SEP agreement. Taxable if paid through a salary reduction agreement (written or otherwise). Taxable Exempt	Exempt Taxable Taxable Exempt
Salespersons: 1. Common law employees. 2. Statutory employees. 3. Statutory nonemployees (qualified real estate agents, direct sellers, and certain companion sitters). See Publication 15-A for details.	Withhold Exempt Exempt	Taxable Taxable Exempt	Taxable Taxable, except for full-time life insurance sales agents. Exempt
Scholarships and fellowship grants (including in income under section 117(c)):	Withhold	Taxability depends on the nature of the employment and the status of the organization. See <i>Students, scholars, trainees, teachers, etc.</i> on next page.	
Severance or dismissal pay.	Withhold	Taxable	Taxable

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes		
	Income Tax Withholding	Social Security and Medicare	Federal Unemployment
Service not in the course of the employer's trade or business (other than on a farm operated for profit or for household employment in private homes).	Withhold only if employee earns \$50 or more in cash in a quarter and works on 24 or more different days in that quarter or in the preceding quarter.	Taxable if employee receives \$100 or more in cash in a calendar year.	Taxable only if employee earns \$50 or more in cash in a quarter and works on 24 or more different days in that quarter or in the preceding quarter.
Sick pay. See Publication 15-A for more information.	Withhold	Exempt after end of 6 calendar months after the calendar month employee last worked for employer.	
Students, scholars, trainees, teachers, etc.:			
1. Student enrolled and regularly attending classes, performing services for:			
a. Private school, college, or university.	Withhold	Exempt	Exempt
b. Auxiliary nonprofit organization operated for and controlled by school, college, or university.	Withhold	Exempt unless services are covered by a section 218 (Social Security Act) agreement.	Exempt
c. Public school, college, or university.	Withhold	Exempt unless services are covered by a section 218 (Social Security Act) agreement.	Exempt
2. Full-time student performing service for academic credit, combining instruction with work experience as an integral part of the program.	Withhold	Taxable	Exempt unless program was established for or on behalf of an employer or group of employers.
3. Student nurse performing part-time services for nominal earnings at hospital as incidental part of training.	Withhold	Exempt	Exempt
4. Student employed by organized camps.	Withhold	Taxable	Exempt
5. Student, scholar, trainee, teacher, etc., as nonimmigrant alien under section 101(a)(15)(F), (J), (M), or (Q) of Immigration and Nationality Act (that is, aliens holding F-1, J-1, M-1, or Q-1 visas).	Withhold unless excepted by regulations.	Exempt if service is performed for purpose specified in section 101(a)(15)(F), (J), (M), or (Q) of Immigration and Nationality Act. However, these taxes may apply if the employee becomes a resident alien. See the special residency tests for exempt individuals in chapter 1 of Publication 519.	
Supplemental unemployment compensation plan benefits.	Withhold	Exempt under certain conditions. See Publication 15-A.	
Tips:			
1. If \$20 or more in a month.	Withhold	Taxable	Taxable for all tips reported in writing to employer.
2. If less than \$20 in a month. See section 6 for more information.	Exempt	Exempt	Exempt
Worker's compensation.	Exempt	Exempt	Exempt

Health Savings Accounts

Health Savings Accounts	2011	2012
Annual Deductible - Individual	1,200	1,200
Annual Deductible - Family	2,400	2,400
Out of Pocket Expenses Limit - Individual	5,950	6,050
Out of Pocket Expenses Limit - Family	11,900	12,100
Maximum Annual Contribution - Individual	3,050	3,100
Maximum Annual Contribution - Family	6,150	6,250
Maximum Catch-Up Contribution	1,000	1,000

	Subject to Tax Withholdings					Deduction on	Deduction on	Reported in
	Federal	Soc Sec	Medicare	State	Local	Individual	Business	Box 12
						Return	Return	Code W
Employer Does NOT Have Sec 125 Cafeteria Plan in Place								
Employee deferrals from gross pay	YES	YES	YES	YES	YES	YES	NO	NO
Employer contributions to plan	NO	NO	NO	NO	NO	NO	YES	YES
Employer DOES Have Sec 125 Cafeteria Plan in Place								
Employee deferrals from gross pay	NO	NO	NO	NO	NO	NO	NO	YES
Employer contributions to plan	NO	NO	NO	NO	NO	NO	YES	YES
Special Rules for 2% S Corporation Shareholders								
Shareholder/Employee deferrals from gross pay	YES	YES	YES	YES	YES	YES	NO	NO
Employer contributions to plan	YES	NO	NO	YES	YES	NO	YES	NO
Special Rules for Partners/LLC Members								
Partnership contributions to plan								
Choice of treatment -								
(A) treat as distribution to partner	N/A	N/A	N/A	N/A	N/A	YES	NO	N/A
* not included in partner's s/e income								
(B) treat as guaranteed payment	N/A	N/A	N/A	N/A	N/A	YES	YES	N/A
* included in partner's s/e income								
* treated as partner's share of income on K-1								

Account Comparison

	Health Savings Account	Health Reimbursement Account	Flexible Spending Account
Account type	Trust or Custodial account	- General assets of employer - Trust	- General assets of employer - Trust
Description	A tax-exempt trust or custodial account established for the purpose of paying qualified medical expenses of the account beneficiary who is covered under a qualified high-deductible health plan (HDHP).	An arrangement in which employer funds are used to reimburse employees for eligible medical expenses.	An arrangement in which employer and/or employee funds are used to reimburse employees for eligible medical expenses.
Must be paired with a health plan	Yes. A qualified HDHP must be in force before an HSA can be established.	No	No
Who is eligible?	Individuals who meet all of the following requirements: (1) Covered under an HDHP on the first day of the month (2) Not covered by any other health plan that is not an HDHP (3) Not entitled to benefits under Medicare (4) Not claimed as a dependent on another person's tax return (5) There is no restriction on group size.	(1) Current and former employees, their spouses and tax dependents (2) Owners and officers of a C Corporation (3) A surviving spouse and dependents of a deceased employee may also be eligible (4) There is no restriction on group size.	(1) Current and former employees, their spouses and tax dependents (2) Owners and officers of a C Corporation (3) A surviving spouse and dependents of a deceased employee may also be eligible (4) There is no restriction on group size.
Ownership	Employee / Consumer	Employer	Employer
Portable	Yes	No. It is the employer's choice to continue reimbursing former employees.	No
Funding/contribution	Employee / Consumer and/or Employer	Employer	Employer and/or employee
Do funds roll over?	Yes	It is the employer's choice upon establishing an HRA to allow rollover and/or to cap the amount that may rollover from year to year.	No
Annual contribution limits*	Individual: \$3,050 Family: \$6,150	Determined by employer and are subject to non-discrimination rules	Determined by employer and are subject to non-discrimination rules
Annual out-of-pocket limits*	Individual: \$5,950 Family: \$11,900	N/A	N/A
Eligible medical expenses	Qualified medical expenses are defined in Section 213(d) of the Internal Revenue Code.	Qualified medical expenses are defined in Section 213(d) of the Internal Revenue Code. Employer can determine which expenses are qualified under their specific plan.	Qualified medical expenses are defined in Section 213(d) of the Internal Revenue Code. Employer can determine which expenses are qualified under their specific plan.
Non-eligible medical expenses	10% tax penalty and income tax prior to Medicare entitlement, funds can be withdrawn for non-medical expenses without tax penalty.	Funds cannot be used for non-medical expenses.	Funds cannot be used for non-medical expenses.
Tax advantages	Employee/Consumer: (1) Pre-tax or tax-deductible contributions (2) Tax-deferred growth (3) Tax-free distributions on qualified medical expenses. Employer: Contributions are tax-deductible	Employee: All reimbursements are tax-free. Employer: Reimbursements are tax-deductible.	Employee: All reimbursements are tax-free. Employer: Reimbursements/ expenditures are tax-deductible.
Effective date	1/1/2004	6/26/2002	3/7/1989
Subject to COBRA	No	Yes	Yes

* 2011 Figures

Guide to Information Returns (If any date shown falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.)

Form	Title	What to Report	Amounts to Report	Due Date		
				To IRS	To Recipient (unless indicated otherwise)	
1042-S	Foreign Person's U.S. Source Income Subject to Withholding	Income such as interest, dividends, royalties, pensions and annuities, etc., and amounts withheld under Chapter 3. Also, distributions of effectively connected income by publicly traded partnerships or nominees.	See form instructions	March 15	March 15	
1098	Mortgage Interest Statement	Mortgage interest (including points) and certain mortgage insurance premiums you received in the course of your trade or business from individuals and reimbursements of overpaid interest.	\$600 or more	February 28*	(To Payer/Borrower) January 31	
1098-C	Contributions of Motor Vehicles, Boats, and Airplanes	Information regarding a donated motor vehicle, boat, or airplane.	Gross proceeds of more than \$500	February 28*	(To Donor) 30 days from date of sale or contribution	
1098-E	Student Loan Interest Statement	Student loan interest received in the course of your trade or business.	\$600 or more	February 28*	January 31	
1098-T	Tuition Statement	Qualified tuition and related expenses, reimbursements or refunds, and scholarships or grants (optional).	See instructions	February 28*	January 31	
1099-A	Acquisition or Abandonment of Secured Property	Information about the acquisition or abandonment of property that is security for a debt for which you are the lender.	All amounts	February 28*	(To Borrower) January 31	
1099-B	Proceeds From Broker and Barter Exchange Transactions	Sales or redemptions of securities, futures transactions, commodities, and barter exchange transactions.	All amounts	February 28*	February 15**	
1099-C	Cancellation of Debt	Cancellation of a debt owed to a financial institution, the Federal Government, a credit union, RTC, FDIC, NCUA, a military department, the U.S. Postal Service, the Postal Rate Commission, or any organization having a significant trade or business of lending money.	\$600 or more	February 28*	January 31	
1099-CAP	Changes in Corporate Control and Capital Structure	Information about cash, stock, or other property from an acquisition of control or the substantial change in capital structure of a corporation.	Amounts of stock or property valued at \$100 million or more	February 28*	(To Shareholders) January 31	
1099-DIV	Dividends and Distributions	Distributions, such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock and liquidation distributions.	\$10 or more, except \$600 or more for liquidations	February 28*	January 31**	
1099-G	Certain Government Payments	Unemployment compensation, state and local income tax refunds, agricultural payments, and taxable grants.	\$10 or more for refunds and unemployment	February 28*	January 31	
1099-H	Health Coverage Tax Credit (HCTC) Advance Payments	Health insurance premiums paid on behalf of certain individuals.	All amounts	February 28*	January 31	
1099-INT	Interest Income	Interest income.	\$10 or more (\$600 or more in some cases)	February 28*	January 31**	
1099-LTC	Long-Term Care and Accelerated Death Benefits	Payments under a long-term care insurance contract and accelerated death benefits paid under a life insurance contract or by a viatical settlement provider.	All amounts	February 28*	January 31	
1099-MISC	Miscellaneous Income (Also, use to report direct sales of \$5,000 or more of consumer goods for resale.)	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows.	\$600 or more, except \$10 or more for royalties	February 28*	January 31**	
		Payments to crew members by owners or operators of fishing boats including payments of proceeds from sale of catch.	All amounts			
		Section 409A income from nonqualified deferred compensation plans (NQDCs).	All amounts			
		Payments to a physician, physicians' corporation, or other supplier of health and medical services. Issued mainly by medical assistance programs or health and accident insurance plans.	\$600 or more			
		Payments for services performed for a trade or business by people not treated as its employees. Examples: fees to subcontractors or directors and golden parachute payments.	\$600 or more			
		Fish purchases paid in cash for resale.	\$600 or more			
		Crop insurance proceeds.	\$600 or more			
		Substitute dividends and tax-exempt interest payments reportable by brokers.	\$10 or more			February 15**
		Gross proceeds paid to attorneys.	\$600 or more			February 15**
1099-OID	Original Issue Discount	Original issue discount.	\$10 or more	February 28*	January 31**	
1099-PATR	Taxable Distributions Received From Cooperatives	Distributions from cooperatives passed through to their patrons including any domestic production activities deduction and certain pass-through credits.	\$10 or more	February 28*	January 31	

*The due date is March 31 if filed electronically.

**The due date is March 15 for reporting by trustees and middlemen of WHFITs.

Guide to Information Returns (Continued)

Form	Title	What to Report	Amounts to Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1099-Q	Payments From Qualified Education Programs (Under Sections 529 and 530)	Earnings from qualified tuition programs and Coverdell ESAs.	All amounts	February 28*	January 31
1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	Distributions from retirement or profit-sharing plans, any IRA, insurance contracts, and IRA recharacterizations.	\$10 or more	February 28*	January 31
1099-S	Proceeds From Real Estate Transactions	Gross proceeds from the sale or exchange of real estate and certain royalty payments.	Generally, \$600 or more	February 28*	February 15
1099-SA	Distributions From an HSA, Archer MSA, or Medicare Advantage MSA	Distributions from an HSA, Archer MSA, or Medicare Advantage MSA.	All amounts	February 28*	January 31
3921	Exercise of an Incentive Stock Option Under Section 422(b)	Transfer of an employer's stock to an employee pursuant to the exercise of an incentive stock option under section 422(b).	All amounts	February 28*	January 31
3922	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)	Transfer(s) of stock acquired through an employee stock purchase plan under section 423(c)	All amounts	February 28*	January 31
5498	IRA Contribution Information	Contributions (including rollover contributions) to any individual retirement arrangement (IRA) including a SEP, SIMPLE, and Roth IRA; Roth conversions; IRA recharacterizations; and the fair market value (FMV) of the account.	All amounts	May 31	(To Participant) For FMV/RMD Jan 31; For contributions, May 31
5498-ESA	Coverdell ESA Contribution Information	Contributions (including rollover contributions) to a Coverdell ESA.	All amounts	May 31	April 30
5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information	Contributions to an HSA (including transfers and rollovers) or Archer MSA and the FMV of an HSA, Archer MSA, or Medicare Advantage MSA.	All amounts	May 31	(To Participant) May 31
W-2G	Certain Gambling Winnings	Gambling winnings from horse racing, dog racing, jai alai, lotteries, keno, bingo, slot machines, sweepstakes, wagering pools, poker tournaments, etc.	Generally, \$600 or more; \$1,200 or more from bingo or slot machines; \$1,500 or more from keno	February 28*	January 31
W-2	Wage and Tax Statement	Wages, tips, other compensation; social security, Medicare, withheld income taxes; and advance earned income credit (EIC) payments. Include bonuses, vacation allowances, severance pay, certain moving expense payments, some kinds of travel allowances, and third-party payments of sick pay.	See separate instructions	To SSA Last day of February*	To Recipient January 31

*The due date is March 31 if filed electronically.

Types of Payments

Below is an alphabetic list of some payments and the forms to file and report them. However, it is not a complete list of all payments, and the absence of a payment from the list does not indicate that the payment is not reportable. For instructions on a specific type of payment, see the separate instructions in the form(s) listed.

Type of Payment	Report on Form	Type of Payment	Report on Form
Abandonment	1099-A	Income tax refunds, state and local	1099-G
Accelerated death benefits	1099-LTC	Indian gaming profits paid to tribal members	1099-MISC
Acquisition of control	1099-CAP	Interest income	1099-INT
Advance earned income credit	W-2	Tax-exempt	1099-INT
Advance health insurance payments	1099-H	Interest, mortgage	1098
Agriculture payments	1099-G	IRA contributions	5498
Allocated tips	W-2	IRA distributions	1099-R
Alternate TAA payments	1099-G	Life insurance contract distributions	1099-R, 1099-LTC
Annuities	1099-R	Liquidation, distributions in	1099-DIV
Archer MSAs:		Loans, distribution from pension plan	1099-R
Contributions	5498-SA	Long-term care benefits	1099-LTC
Distributions	1099-SA	Medicare Advantage MSAs:	
Attorney, fees and gross proceeds	1099-MISC	Contributions	5498-SA
Auto reimbursements, employee	W-2	Distributions	1099-SA
Auto reimbursements, nonemployee	1099-MISC	Medical services	1099-MISC
Awards, employee	W-2	Mileage, employee	W-2
Awards, nonemployee	1099-MISC	Mileage, nonemployee	1099-MISC
Barter exchange income	1099-B	Military retirement	1099-R
Bonuses, employee	W-2	Mortgage insurance premiums	1098
Bonuses, nonemployee	1099-MISC	Mortgage interest	1098
Broker transactions	1099-B	Moving expense	W-2
Cancellation of debt	1099-C	Nonemployee compensation	1099-MISC
Capital gain distributions	1099-DIV	Nonqualified deferred compensation:	
Car expense, employee	W-2	Beneficiary	1099-R
Car expense, nonemployee	1099-MISC	Employee	W-2
Changes in capital structure	1099-CAP	Nonemployee	1099-MISC
Charitable gift annuities	1099-R	Original issue discount (OID)	1099-OID
Commissions, employee	W-2	Patronage dividends	1099-PATR
Commissions, nonemployee	1099-MISC	Pensions	1099-R
Commodities transactions	1099-B	Points	1098
Compensation, employee	W-2	Prizes, employee	W-2
Compensation, nonemployee	1099-MISC	Prizes, nonemployee	1099-MISC
Contributions of motor vehicles, boats, and airplanes	1098-C	Profit-sharing plan	1099-R
Cost of current life insurance protection	1099-R	Punitive damages	1099-MISC
Coverdell ESA contributions	5498-ESA	Qualified plan distributions	1099-R
Coverdell ESA distributions	1099-Q	Qualified tuition program payments	1099-Q
Crop insurance proceeds	1099-MISC	Real estate transactions	1099-S
Damages	1099-MISC	Recharacterized IRA contributions	1099-R, 5498
Death benefits	1099-R	Refund, state and local tax	1099-G
Accelerated	1099-LTC	Rents	1099-MISC
Debt cancellation	1099-C	Retirement	1099-R
Dependent care payments	W-2	Roth conversion IRA contributions	5498
Direct rollovers	1099-Q, 1099-R, 5498	Roth conversion IRA distributions	1099-R
Direct sales of consumer products for resale	1099-MISC	Roth IRA contributions	5498
Directors' fees	1099-MISC	Roth IRA distributions	1099-R
Discharge of indebtedness	1099-C	Royalties	1099-MISC
Dividends	1099-DIV	Timber, pay-as-cut contract	1099-S
Donation of motor vehicle	1098-C	Sales:	
Education loan interest	1098-E	Real estate	1099-S
Employee business expense reimbursement	W-2	Securities	1099-B
Employee compensation	W-2	Section 1035 exchange	1099-R
Excess deferrals, excess contributions, distributions of	1099-R	SEP contributions	W-2, 5498
Exercise of incentive stock option under section 422(b)	3921	SEP distributions	1099-R
Fees, employee	W-2	Severance pay	W-2
Fees, nonemployee	1099-MISC	Sick pay	W-2
Fishing boat crew members proceeds	1099-MISC	SIMPLE contributions	W-2, 5498
Fish purchases for cash	1099-MISC	SIMPLE distributions	1099-R
Foreclosures	1099-A	Student loan interest	1098-E
Foreign persons' income	1042-S	Substitute payments in lieu of dividends or tax-exempt interest	1099-MISC
401(k) contributions	W-2	Supplemental unemployment	W-2
404(k) dividend	1099-DIV	Tax refunds, state and local	1099-G
Gambling winnings	W-2G	Tips	W-2
Golden parachute, employee	W-2	Transfer of stock acquired through an employee stock purchase plan under section 423(c)	3922
Golden parachute, nonemployee	1099-MISC	Tuition	1098-T
Grants, taxable	1099-G	Unemployment benefits	1099-G
Health care services	1099-MISC	Vacation allowance, employee	W-2
Health insurance advance payments	1099-H	Vacation allowance, nonemployee	1099-MISC
Health savings accounts:		Wages	W-2
Contributions	5498-SA		
Distributions	1099-SA		
Income attributable to domestic production activities, deduction for	1099-PATR		

Useful Websites for Year End Payroll Processing

The Internal Revenue Service (IRS)	www.irs.gov
The Social Security Administration	www.ssa.gov
The U.S. Department of Labor	www.dol.gov
The U.S. Immigration and Naturalization Service (INS)	www.ins.usdoj.gov
The Society for Human Resource Management	www.shrm.org
The National Association of State Workforce Agencies (NASWA)	www.icesa.org
United States Department of the Treasury – Health Savings Accounts	www.treas.gov/offices/public-affairs/hsa
U.S. Small Business Administration	www.sba.gov/hsa

