

LOS ANGELES HEAD OFFICE  
1515 West 190<sup>th</sup> Street, Suite 400  
Gardena, CA 90248-4328  
TEL (310) 715-9100  
FAX (310) 715-9830

**KAKIMOTO AND CO.**  
CERTIFIED PUBLIC ACCOUNTANTS  
CONSULTANTS  
<http://www.kakimoto.com>  
e mail: [kaco@kakimoto.com](mailto:kaco@kakimoto.com)

ORANGE COUNTY OFFICE  
4199 Campus Drive, Suite 550  
Irvine, CA 92612-4684  
TEL (949) 725-2970  
FAX (949) 509-6599

January 3, 2003

TO OUR CLIENTS:

**Payroll Taxes for 2003**

Effective January 1, 2003, the payroll tax rates are as follows:

	Tax Rate	Wage Limit	Maximum Tax
FICA Social Security portion – Employer & employee	6.20%	\$87,000	\$5,394.00
FICA Medicare portion – Employer & employee	1.45%	No Limit	--
FUTA (Federal unemployment tax) – Employer	0.80% <sup>1</sup>	\$7,000	\$56.00
SDI (California Disability Insurance) – Employee	0.90%	\$56,916	\$512.24
SUI (California unemployment tax) – Employer	<sup>2</sup>	\$7,000	<sup>3</sup>
ETT (California Employment Training Tax) – Employer	0.10%	\$7,000	\$7.00

You should soon be receiving the new 2003 tax tables from the IRS (*Federal Circular E, Employer's Tax Guide*) and EDD (*California Payroll Tax Guide*). Please be sure to use these current tables when calculating 2003 income tax withholding.

You are required to issue the 2002 Form W-2, *Wage and Tax Statement*, to each of your employees by January 31, 2003. You may also be required to issue Form 1099 by January 31, 2003 to non-employees to whom you made certain payments during 2002 (please refer to the detailed explanation regarding Form 1099 on page 2). Copies of Forms W-2 and 1099, along with related transmittal forms (Forms W-3 and 1096), must be filed with the Federal government by February 28, 2003.

For California, you are required to file Form DE 7, *Annual Reconciliation Return*, with the Employment Development Department (EDD) by January 31, 2003. You do not need to submit Forms 1099 to the State of California.

If you are required to file a federal Form 1099-MISC, you are also required to file Form DE 542, *Report of Independent Contractor(s)*, with the EDD. Form DE 542 must be filed for each independent contractor you make payments to within 20 days of the *earlier of* (1) the date that payments you have made to the independent contractor aggregate \$600 or more for the year, OR (2) the date you enter into a contract or contracts with the independent contractor that provides for payments to be made to the independent contractor that, in the aggregate, will equal or exceed \$600 in a given year.

<sup>1</sup> The Federal Unemployment Tax Act (FUTA) tax rate is 6.2% on the first \$7,000 of wages. California employers are allowed a maximum 5.4% credit against their FUTA liability for wages and unemployment insurance (UI) contributions that were reported on time and paid to the state plan regardless of the actual state UI rate. Therefore, if you are entitled to the maximum 5.4% credit, the FUTA tax rate after the credit is 0.8%. If wages and UI contributions that are subject to FUTA are not properly reported to the state, the FUTA state credit cannot be used. In this case, the taxpayer will be subject to the full 6.2% FUTA tax. Therefore, please be sure to file correct quarterly payroll returns and payments on time.

<sup>2</sup> The EDD will notify you of your SUI tax rate for 2003.

<sup>3</sup> The maximum SUI tax will depend on your SUI rate.

### **Federal Payroll Deposit Rules**

Employers are generally required to be on either a monthly or semiweekly (twice a week) deposit schedule for 2003 (based on the tax liability you reported on Form 941 during a four-quarter lookback period). If you are on a monthly deposit schedule, employment and other taxes withheld in a calendar month must be deposited by the 15th day of the following month. If you are on a semiweekly deposit schedule, employment and withholding taxes on payments made on Wednesday, Thursday, and Friday must be deposited by the following Wednesday. Payments made Saturday through Tuesday must be deposited by the following Friday.

Special exceptions: If the total liability for a quarter is less than \$2,500, then the liability may be paid with the quarterly return. If the employment tax liability for any day exceeds \$100,000, it must be deposited by the next banking day.

### **California Payroll Deposit Rules**

Employer contributions for Unemployment Insurance and Employment Training Tax are due quarterly. However, withholdings from employees' wages for State Disability Insurance and California Personal Income Tax (PIT) may need to be deposited more often. Your SDI and PIT deposit schedule is generally the same as for federal. A California deposit is not required, however, if the total accumulated PIT since the last deposit is \$400 or less. If you are only required to make federal quarterly deposits, but you accumulate \$350 or more in PIT during one or more months of a quarter, you are required to make monthly deposits of California SDI and PIT.

In addition, if you are required to make federal Next Banking Day deposits and you accumulate more than \$400 in PIT during one or more payroll periods, you are also required to make a California deposit the next banking day of your California SDI and PIT.

### **Federal Business Mileage Reimbursement for 2003**

The standard mileage rate for business use of an automobile in 2003 will be 36.0 cents per mile. This is a decrease from the 2002 rate of 36.5 cents per mile. You should be sure to reimburse employees at the new rate of 36.0 cents per mile.

### **Information Return Filing Requirements (Form 1099) for 2002**

Every entity engaged in a trade or business, including partnerships and nonprofit organizations, must file information returns for each calendar year for certain payments made during the year in the course of the payer's trade or business. If, during the calendar year, you paid \$600 or more to a single recipient for any of the following, you must, by January 31, 2003, issue a Form 1099 to each such recipient:

1. Rents;
2. Services rendered by a non-employee;
3. Prizes and/or awards;
4. Dividends;
5. Interest;
6. Royalties;
7. Distributions from retirement or profit-sharing plans, IRAs, or SEPs;
8. Sales or exchanges of real estate (and you were responsible for closing the transaction);
9. Sales of stocks, bonds or debt instruments (if you are a broker).

Form 1099 is generally *not* required for payments made for merchandise, made to a corporation, or made to a real estate agent for rent.

If you have any questions, please do not hesitate to contact us.

KAKIMOTO AND CO.