



January 5, 2011

TO OUR CLIENTS:

Payroll Taxes for 2011

Effective January 1, 2011, the payroll tax rates are as follows:

	Tax Rate	Wage Limit	Maximum Tax
FICA Social Security portion – Employee	4.20%	\$106,800	\$4,485.60
FICA Social Security portion – Employer	6.20%	\$106,800	\$6,621.60
FICA Medicare – Employee & Employer	1.45%	No limit	
FUTA (Federal unemployment tax) – Employer	0.80% ¹	\$7,000	\$56.00
SDI (California Disability Insurance) – Employee	1.20%	\$93,316	\$1,119.79
SUI (California unemployment tax) – Employer	²	\$7,000	³
ETT (California Employment Training Tax) – Employer	0.10%	\$7,000	\$7.00

You should soon be receiving the new 2011 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 2011 income tax withholding.

You are required to issue the 2010 Form W-2, *Wage and Tax Statement*, to each of your employees by January 31, 2011. You may also be required to issue Form 1099 by January 31, 2011 to non-employees to whom you made certain payments during 2010 (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, 2011.

For California, you are required to file Form DE 7, *Annual Reconciliation Return*, with the Employment Development Department (EDD) by January 31, 2011. 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.

¹ 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.

² The EDD will notify you of your SUI tax rate for 2011.

³ 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 2011 (based on the tax liability you reported on Form 941 during a four-quarter lookback period). Deposits are required to be made by EFTPS (Electronic Federal Tax Payment System) unless special exceptions apply (see below). 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:

1. 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.
2. If you are a monthly schedule depositor and any deposit shortfall does not exceed the greater of \$100 or 2% of the amount of taxes that were required to be deposited and the shortfall is paid or deposited by the due date of your return for the period in which it occurred, you may pay the shortfall with your return even if the amount is \$2,500 or more.
3. Employers that have been notified to file form 944 can pay their fourth quarter liability with Form 944 if the fourth quarter liability is less than \$2,500.

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. 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 \$500 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 2011

The standard mileage rate for business use of an automobile in 2011 will be 51.0 cents per mile (2010 rate: 50.0 cents).

Information Return Filing Requirements (Form 1099) for 2010

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 issue a Form 1099 to each such recipient by January 31, 2011 (February 15, 2011 if substitute payments are being reported in box 8 or gross proceeds to attorneys are being reported in box 14):

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 (although there are some exceptions).

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

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