



January 16, 2012

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 (effective through Feb. 29, 2012)	4.20% ¹	\$110,100	\$4,624.20
FICA Social Security portion – Employee (effective Mar. 1, 2012)	6.20%	\$110,100	\$6,826.20
FICA Social Security portion – Employer	6.20%	\$110,100	\$6,826.20
FICA Medicare – Employee & Employer	1.45%	No limit	No limit
FUTA (Federal unemployment tax) – Employer (CA)	0.90% ²	\$7,000	\$63.00
SDI (California Disability Insurance) – Employee	1.00%	\$95,585	\$955.85
SUI (California Unemployment Tax) – Employer	-- ³	\$7,000	-- ⁴
ETT (California Employment Training Tax) – Employer	0.10%	\$7,000	\$7.00

Information regarding the 2012 income taxes can be found in the IRS (*Federal Circular E, Employer's Tax Guide*) and EDD (*California Payroll Tax Guide*)'s tax tables. For other payroll taxes, please refer to the above information.

You are required to issue the 2011 Form W-2, *Wage and Tax Statement*, to each of your employees by January 31, 2012. You may also be required to issue Form 1099 by January 31, 2012 to non-employees to whom you made certain payments during 2011 (please refer to the detailed explanation regarding Form 1099 on page 2). Copies of Forms W-2, along with the related transmittal form W-3, must be filed with the federal government by February 29, 2012. 1099, along with 1096, must be filed with the federal government by February 28, 2012.

For California, you are required to file Form DE 9, *Quarterly Contribution Return and Report of Wages*, and Form DE 9C, *Quarterly Contribution Return and Report of Wages, Continuation* with the Employment Development Department (EDD) by January 31, 2012. You do not need to submit Forms 1099 to the State of California.

¹ The employee tax rate for social security is 4.2% on wages paid and tips received until February 29, 2012. The rate will increase to 6.2% on wages paid and tips received on and after March 1, 2012.

² The Federal Unemployment Tax Act (FUTA) tax rate is 6.0% on the first \$7,000 of wages. Generally, employers are allowed a 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 0.6%. However, due to California being a credit reduction state, the FUTA credit will decrease from 5.4% to 5.1% effective January 1, 2012 for California employers. Thus, the California FUTA tax rate after the credit is 0.9%. Please contact us for information on FUTA credit for other states.

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 6.0% FUTA tax. Therefore, please be sure to file correct quarterly payroll returns and payments on time.

³ The EDD will notify you of your SUI tax rate for 2012.

⁴ The maximum SUI tax will depend on your SUI rate.

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. The EDD may assess a penalty of \$24 for each failure to report the required independent contractor information.

Federal Payroll Deposit Rules

Employers are generally required to be on either a monthly or semiweekly (twice a week) deposit schedule for 2012 (based on the tax liability you reported on Form 941 during a four-quarter lookback period). The lookback period for 2012 is from July 1, 2010 to June 30, 2011. Deposits are required to be made by EFTPS (Electronic Federal Tax Payment System) unless special exceptions apply (see below).

Monthly Depositors (total taxes deposited during the lookback period is \$50,000 or less)

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.

Semiweekly Depositors (total taxes deposited during the lookback period is more than \$50,000)

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 2012

The standard mileage rate for business use of an automobile in 2012 will be 55.5 cents per mile.

Information Return Filing Requirements (Form 1096/1099) for 2011

Every entity engaged in a trade or business, including individuals, 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 31st, 2012, issue a Form 1099 to each such recipient:

1. Rents;
2. Services rendered by a non-employee;
3. Prizes and/or awards;
4. Dividends (of greater than \$10, except \$600 or more for liquidations);
5. Interest;
6. Royalties (of greater than \$10);
7. Distributions from pensions, annuities, retirement or profit-sharing plans;
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).

Note 1: If state and local taxes are imposed on the service provider and you (as the buyer) pay them to the service provider, you must report them on Form 1099-MISC as part of the reportable payment.

Note 2: Payments made with a credit card or payment card must now be reported on Form 1099-K by the payment settlement entity and are not subject to reporting on form 1099-MISC.

Form 1099 is generally ***not*** required for payments made for merchandise, made to a corporation (with the exception of payments made for legal services), or made to a real estate agent for rent.

In addition, the summary transmittal form 1096 must be filed with the federal government by February 28th, 2012.

10. Royalties;
11. Distributions from retirement or profit-sharing plans, IRAs, or SEPs;
12. Sales or exchanges of real estate (and you were responsible for closing the transaction);
13. 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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