

Insight

Payroll & Reporting Update

Pennsylvania Act 32 - Local Tax Changes

By Deborah Meckley

Employers who maintain worksites in Pennsylvania or employ individuals who may work from their homes within the state are required to withhold applicable earned income tax from those employees.

Employers must first register with the Tax Officer in their business jurisdiction. With the elimination of over 490 tax collectors in the state, there is a possibility that your current tax collector will no longer be the collector you remit the local withholdings to. Please check with your local tax collector if you are not sure.

ACT 32 requires that every employer must have each current and new employee fill out a Residency Certificate Form. If an employee changes his or her address at any time, a new certificate must be obtained from the employee. The PSD code on the form is a 6 digit Political Sub-Division Code that is used to identify the municipalities and school districts for each tax collection district. You can access the Residency Forms on most tax collector websites or at www.newpa.com. These forms are not to be sent to the tax collector but kept in the employee's personnel file.

Under Act 32, employers are now required to withhold the local income tax from ALL of their employees at the higher of the employee's resident tax rate (where they reside) OR the employee's non-resident tax rate (where they work). Employers will use the Residency Certificate Form to determine which rate to withhold. Newpa.com has an address search feature that you can use to determine which rate is applicable. The PSD codes are also available with the address search.

Please note that employers are required to withhold from ALL employees who work in PA, even if they reside in another state.

***Please note that employers located in York and Adams Counties should not withhold local tax from Maryland residents as there is an agreement with the state of Maryland not

to do so. Otherwise, as the law states, all employers in PA should withhold local tax from employees even if the employee resides outside of PA.

Remitting Taxes

You must send withheld taxes for all employees to the appropriate tax collector(s)/officer(s). This can be done in two ways:

Quarterly - Within 30 days after the end of each quarter, the employer must remit withheld taxes and employee information to the tax collector/officer of each worksite-location.

Monthly - If you have multiple locations across the state you can request from your PA Corporate Headquarter tax collector to do a combined filing of all worksite locations by filing a Notice of Intention to file combined returns and make

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FAQ from Newpa.com

Do you have employees who live and work in PA? - As an employer, you must compare the total resident vs. non-resident EIT rates for each employee, withhold the higher of the two and send it to the tax collector of the work address (standard Act 32 rules; the Residency Certification Form applies).

Do you have employees who live in PA but work outside of PA? - As an employer you are not obligated to withhold the employees' home EIT rates, but would be obligated to withhold any local taxes at the work location, if any. The Residency Certification Form does not apply.

Do you have employees who work in PA but live outside PA? - As an employer, you are obligated to withhold local taxes at the work address and send them to the local tax collector. The Residency Certification Form applies.
***Please note York and Adams Counties do not require you to withhold tax from employees residing in Maryland.



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TAX CALENDAR

December 31, 2011

- Remind employees to submit a new Form W-4 if they need to change their withholding or will be exempt in 2012

January 31, 2012

- Furnish copies of Form W-2 to employees and Form 1099 as required to other payees
- File most federal, state, and local payroll tax returns and final payments for 2011

February 15, 2012

- Begin withholding income tax from employees who claimed exempt status in 2011 but did not submit a Form W-4 for 2012

February 29, 2012

- File Forms 1096 and Form 1099
- File Form W-2, Copy A, along with Form W-3, to the Social Security Administration
- File Form 8027, Tip Income & Allocated Tips

By April 2, 2012 (Electronic Filing)

- File Forms 1096, 1099, W-2, W-3, and 8027

April 30, 2012

- File most federal, state, and local payroll tax returns for the 1st quarter of 2012

July 31, 2012

- File most federal, state, and local payroll tax returns for the 2nd quarter of 2012

October 31, 2012

- File most federal, state, and local payroll tax returns for the 3rd quarter of 2012

**** See our 2012 Payroll Tax Bulletin at www.sek.com for more details. ****

Information Reporting Changes

by Peter McDonald, CPA

On April 14, 2011 the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 was signed into law. This Act repeals the expanded 1099 information reporting requirements imposed by the health care legislation of 2010 and removes the 1099 reporting requirements for those who receive rental income as required by the Small Business Jobs Act of 2010.

The expanded 1099 reporting requirements from the health care legislation required all businesses who made payments (including payments for property) to a single payee (including corporations) totaling \$600 or greater in any single year to report these payments on Form 1099 starting in 2012. Thanks to the 1099 Act, these requirements have been repealed, returning the 1099 reporting requirements back to service oriented payments to non-incorporated businesses.

The Small Business Jobs Act imposed a requirement on individuals who receive rental income to report payments of \$600 or greater to service payees on Forms 1099. The requirement was imposed by defining "a person receiving rental income from real estate shall be considered to be engaged in a trade or business of renting property", and anyone engaged in a trade or business has a 1099 reporting requirement. The 1099 Act repeals the 1099 reporting requirement for individuals receiving rental income.

The 1099 Act did not make any changes to the increased penalties associated with Small Business Jobs Act. The penalties are as follows:

- Information returns filed within 30 days of the due date, the penalty is \$30 per return.
- Information returns filed more than 30 days past the due date, the penalty is \$60 per return.
- Information returns filed after August 1, or you do not file a required information return, the penalty is \$100 per return.
- If any failure to file a correct information return is due to intentional disregard of the filing or correct information requirements, the penalty is at least \$250 per return.

If you have any questions please contact us.

W-2 Reporting of Employee Health Care Costs

by Peter O. McDonald, CPA



The Affordable Care Act passed in 2010 includes a provision requiring employers to report the cost of employer-provided health care coverage on each employee's W-2 starting in 2011. This reporting requirement

includes all employer-sponsored health benefits, including medical insurance plans, dental plans, vision plans and self-insured plans. Reporting is informational only, it does not represent taxable income to the employee and it is not subject to payroll taxes. The cost of coverage is reported in Box 12 and designated with a Code DD.

The cost of coverage includes the portion of the premiums paid by both the employer and the employee and should include the cost of coverage associated with an individual other than the employee, such as the employee's spouse, dependent or child who has not attained age 27 by the end of the taxable year. Amounts contributed to any Archer MSA, Health Savings Account, or the amount of any salary reduction election to a flexible spending arrangement are to be excluded from the reportable cost, as well as cost of coverage under Health Reimbursement Arrangements (HRA).

The following items of cost are not subject to the reporting requirements:

- a) Coverage only for accident or disability income insurance
- b) Coverage issued as a supplement to liability insurance
- c) Liability insurance, including general liability and automobile liability insurance
- d) Workers' compensation or similar insurance
- e) Automobile medical payment insurance
- f) Credit-only insurance

In late January 2010, the Internal Revenue Service (IRS) granted transitional relief. The requirement to report the cost of employer-sponsored health care coverage has been delayed until 2012 for all employers, but employers may voluntarily report the cost of coverage for 2011. The IRS has also indicated until further guidance is provided, an employer is not subject to the reporting requirement for any calendar year if the employer filed fewer than 250 Forms W-2 for the preceding calendar year. The IRS has stated any new guidance issued will apply prospectively only and will not apply to any calendar year beginning within six months of the date new guidance is issued.

Please do not hesitate to contact us if you have any questions regarding the W-2 reporting of employer-sponsored health care coverage.

New Helpful QuickBooks® Feature

by Melissa Hahn, CPA

QuickBooks 2012 has a new feature available in the Accountants Edition, which will help businesses with their record keeping for tax records and/or possible audits.

It was been widely reported during the past year that the IRS had purchased QuickBooks, trained its revenue agents on using the software, and are now asking for backups of taxpayer QuickBooks files as part of their audits. This posed a problem because, as you probably know, QuickBooks does not have a formal closing procedure and therefore any backup includes all data entered in the file. Since the IRS is not entitled to records other than those for the year under audit, giving a backup to the revenue agent provided an opportunity for the IRS to examine years not formally under audit. It was not an option to make a "partial backup" for a specific time period in previous versions of QuickBooks.



With the release of QuickBooks 2012, Intuit has alleviated this problem by providing the option to create a "Period Copy." This allows the accountant to set a beginning and ending date as part of the "Condense Data" function. Besides adding this new "Period Copy," the entire Condense Data function has been improved allowing the user to reduce file size while providing several options for the procedure.

Remember, "Period Copy" is only available in the Accountants Edition of QuickBooks 2012, so please contact one of our QuickBooks experts if you are interested in creating a period copy.

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combined payments. Within 30 days after the end of each month, the employer must electronically remit withheld taxes and employee information. However if the corporate headquarters are located outside the state, the company may remit withheld taxes from all employees statewide to a tax collection district of their choice upon agreement with that tax collector/officer.

Annual Withholding Reconciliations along with W-2 Forms must be submitted to the appropriate tax collector within 30 days of the close of each calendar year.

Noncompliance with any part of ACT 32 will result in stiff penalties for the employer of up to \$25,000 and/or 2 years in jail. Please contact us with any questions regarding this act.

Big Benefits in Section 125 Plans

By Philip Ritchie, CPA

With annually-increasing health insurance costs, many employers are passing on some of the increases to employees and buying insurance with higher deductibles.

Don't overlook some tax advantages that can help blunt the higher costs to your employees.

A Section 125 Plan allows employees to pay for a variety of benefits in pre-tax dollars. The employee enters into an agreement with their employer to reduce their pay. Sometimes the employer also kicks in some funds. The employer then reimburses the employee for their selected benefits with the amount of their pay reduction. As a result, the employee saves federal, state, and local income tax as well as Social Security and Medicare tax. The employer also saves Social Security and Medicare taxes.



Here is the alphabet soup of Section 125 Plans. They can each stand on their own or can be combined in various ways:

A POP (Premium-Only Plan) allows health insurance premiums withheld from employees' paychecks to be deducted before taxes. It can include a provision to allow for employee HSA contributions to be withheld on a pre-tax basis. An HSA (Health Savings Account) is like a medical IRA that is maintained individually by the employee to pay out-of-pocket medical expenses.

A DCAP (Dependent Care Assistance Program) allows employees to reduce their pay in exchange for their employer's reimbursement of the employees' child care expenses.

An FSA (Flexible Spending Account) allows employees to reduce their pay in exchange for their employer's reimbursement of their uninsured medical bills. Beginning in 2013, the annual cap on FSA reimbursements is \$2,500. Any unspent money is forfeited.

An HRA (Health Reimbursement Account) is like an FSA, but it is only funded by employer payments, and the unused amounts at the end of the year can be used in subsequent years.

There are many nuances to these arrangements. Call us if you would like to discuss them further.

Sales Tax Filing Frequency Change for Pennsylvania

With the passage of Act 26 of 2011, businesses that reported or should have reported sales, use and hotel occupancy tax of \$25,000 or more for the third quarter of 2010 are now required to make prepayments of tax due and file a single monthly return by the 20th of the month.

Monthly prepayments must be at least 50 percent of the sales and use tax liability from the same month of the previous year. The return submitted on the 20th of the month must report the prior month's liability and include payment for remaining liability due for the prior month.

For example the following is due, on the 20th due date:

- The current month's prepayment, which is at least half the sales and use tax reported in the same month previous years liability;
- The prior month's return reporting the full liability; and
- The remaining payment for the prior month, which is the full month's liability minus the prepaid amount.

Note that separate payments must be remitted for the current month's prepayment and the prior month's tax due.

If reporting changes have been made to accommodate the semimonthly filing frequency under Act 48 of 2009, or prepayments based on the actual sales tax collected from the first day of the month through the 15th of the month rather than 50 percent of the liability from the same month of the previous year, must comply with Act 26 by no later than January 1, 2012, as outlined above.

All businesses making prepayments should register to file and remit online using e-TIDES. Using this free electronic filing method will reduce unnecessary filing errors and assessments. If you are not currently registered to file using e-TIDES, visit www.etides.state.pa.us for additional information.

For more information about this change, or for a schedule of return due dates (REV-819), please visit the department's Online Customer Service Center at www.revenue.state.pa.us.



Financial Tools on www.sek.com

By Steven Lubart, CPA

Have you visited the financial tools section of Smith Elliott Kearns and Company LLC website? If not, you are missing sixty analytical tools to assist you and your business. The tools are fairly easy to operate and fun to use.

The financial calculator section of the SEK website is split into the following six sections:

- Home Financing
- Personal Finance
- Retirement Finance
- Savings Finance
- Business Finance
- Tax Estimators

Some of the common questions clients ask are contained in the financial tools section of the website. For example, should I lease or purchase the automobile or new equipment; should I invest in a Roth or Traditional IRA; what is my net worth; how much do I really save with a 15-year mortgage compared to a 30-year; how do I calculate break-even for my business; how much do I need to save for my child's college education?

Here is the link to the financial tools on the Smith Elliott Kearns website:

<http://www.sek.com/toolsframe1.htm>

The tool is located in the Quick Links section on the left side of the home page. If you have any questions after using the tool please give us a call.



W-2 E-Filing Requirements for MD, PA, VA & WV

By Melissa Hahn, CPA

For several of our surrounding states, 2011 has brought changes to the threshold for electronic filing of W-2 forms. The Social Security Administration (SSA) has continued with their threshold of 250 or more forms.

Maryland has reduced their threshold for e-filing to 25 forms (down from 100). Forms may be filed through the "bFile" website or on diskette or CD.

Pennsylvania's threshold remains at 250 forms. If you reach this amount, you may file through the "e-TIDES" website, on CD or tape cartridge.

In Virginia, employers who furnish 50 or more W-2 statements must file electronically, and their web upload is the only accepted method for filing.

The State of West Virginia mandates that 50 or more forms must be filed on the "mytaxes" website or on CD. If you have questions on the filing requirement for other states, please contact your local SEK&Co office for assistance.



2012 STANDARD MILEAGE RATES

BEGINNING JANUARY 1, 2012, the standard mileage rate will remain at 55.5 cents per mile for business purposes (unchanged since the adjustment on July 1, 2011). The medical or moving rate will decrease to 23 cents per mile (down from 23.5 cents per mile), and service to a charitable organization remains unchanged at 14 cents per mile.

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