

Insight

Payroll & Reporting Update

Record Keeping & The Patient Protection and Affordable Care (PPAC) Act

by Joel Flinchbaugh, CPA - Carlisle



A lot has been written about the impact of healthcare reform on finances and healthcare management. There hasn't been nearly as much information about the provisions of the legislation that will impact the financial reporting obligations that are required under the new legislation. The purpose of this article is to give you an overview of the record keeping and filing requirements that your business

will be facing under the new law.

Small Business Health Insurance Tax Credit

The first area to address relates to the new Small Business Health Insurance Credit. Employers with no more than 25 full-time (or full-time equivalent) employees **and** with average annual wages of no more than \$50,000 per employee are considered "small employers" and are eligible for a tax credit of up to 35% on health insurance premiums paid by the employer from 2010 through 2013. In 2014 and 2015, eligible small businesses that purchase health insurance through a state-based program (SHOP) may qualify for a credit of up to 50% of their contribution of the total premium cost. To qualify for the full credit under these programs, employers must have 10 or fewer employees with average annual wages of less than \$25,000. The credit phases out for employers with more employees and/or higher average wages.

In order to qualify for the credit, employers are going to have to capture the information necessary to ensure they qualify as a "small employer". For the most part detailed payroll re-

ords should suffice for these purposes. For employers who do not keep adequate personnel files this could be a challenge. In order to readily determine how much of the credit that you may be eligible for, extra care should be given to documenting hire and termination dates, hours worked, and compensation information for all employees. Please note that more than 2% "S" corporation shareholders, more than 5% owners, and seasonal workers who work 120 days or less during the year, are NOT included in the definition of a full-time employee.

Reporting of Health Insurance on W-2s

Beginning in 2011, employers are required to report the cost of employer provided health insurance on each employee's Form W-2. This reporting is for informational purposes only and does not affect the tax-free treatment of these benefits. Employers will need to keep track of these costs by employee so the information is available to be reported on the W-2s when filed at the end of the year.

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INSIGHT HAS GONE GREEN!

In an effort to be earth-friendly we are now exclusively providing the **Insight** newsletter on-line.

In addition to saving a few trees, the on-line format will allow you to refer to **Insight** at your convenience by simply visiting our website www.sek.com/insight



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

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Enjoy A “Payroll Tax Holiday”

by Peter McDonald - Hagerstown

The *Hiring Incentives to Restore Employment (HIRE) Act* signed on March 18, 2010 includes several provisions to encourage employment and business spending.

Enjoy a “Payroll Tax Holiday”

Qualified employers do not have to pay their share of OASDI (Social Security) for newly hired workers who were formerly unemployed, and employers can claim a credit up to \$1,000 for retaining the new workers for at least a year.

Qualified Employer:

Any employer other than the United States, any state, any local government, or any branch or agency thereof.

Qualified Individual is any individual who:

1. Begins employment after February 3, 2010 and before January 1, 2011
2. Certifies they have not been employed for more than 40 hours during the 60-day period ending on the date of employment (Form W-11) (60-day period must be continuous)
3. Not hired to replace another employee, unless the other employee voluntarily quit or was fired with cause
4. Not related to the employer (certain rules apply when related)
5. Rehires qualify if they meet all the criteria above

Waiver of the employer's share of OASDI applies for the period March 19, 2010 to December 31, 2010 and is automatic unless the employer elects out of the waiver. A qualified employer who fails to elect out of the waiver cannot claim the work opportunity credit with respect to a qualified individual for one year after the individual's hire date.

New Hire Retention Credit

For each retained worker, a qualified employer's general business credit is increased by the lesser of \$1,000 or 6.2% of retained worker's wages during a 52 week consecutive period

A “retained worker” is a qualified individual (defined above) who:

1. Was employed by the employer on any date during a tax year ending after March 18, 2010
2. Continued in that employment for a period of at least 52 consecutive weeks
3. Earned wages during the last 26 weeks of that period equal to at least 80% of the wages for the first 26 weeks of the period.

The credit applies for the first tax year in which a retained worker satisfies the 52-week test. The New Hire Retention Credit will be claimed on the employer's 2011 income tax return.

Maryland Job Creation & Recovery Credit

by Peter McDonald - Hagerstown

With the Job Creation & Recovery Tax Credit, Maryland employers may be able to save up to \$5,000 by hiring certain employees into new positions.

Qualified Employee:

1. Employee must be a Maryland resident
2. Be hired between March 25, 2010 and December 31, 2010
3. At time of hire, individual must be receiving unemployment insurance benefits, or have exhausted their benefits in the previous 12 months
4. Not working full time immediately preceding the date of hire

New positions must be:

1. Full time
2. Positions that require an employee to be employed without interruptions for 12 months or more
3. Located in Maryland
4. Newly created or have been vacant for at least 6 months

Employers must certify each employee with the Department of Labor, Licensing and Regulation (DLLR) by submitting an online application. A copy of the certification must be filed with the employer's income tax return.

The credit is \$5,000 multiplied by the number of employees hired by the employer between March 25, 2010 and December 31, 2010. The amount of credit claimed in each year is prorated based on the number of employees and number of months employed during the employer's taxable year.

NEED FORMS?

For access to federal tax forms, instructions, and publications, click on “Information Center” on the left side menu from our home page.

www.SEK.com

PA Tax Amnesty Program

April 26 - June 18, 2010

The Pennsylvania Department of Revenue will waive **100 percent of penalties and half the accrued interest** on delinquent state taxes.

Individuals, businesses, and other entities with PA tax delinquencies as of June 30, 2009 are generally eligible to participate in the amnesty program. Non-filed tax returns or reports; unpaid, under-reported or un-established taxes constitute eligible delinquencies.

If you are eligible for the tax amnesty program, but chose not to participate, the PA Department of Revenue will add a 5% non-participation penalty to your balance due along with other enforcement activities.

Where Is Sales & Use Tax on Your "To-Do" List?

by Juanita Aubel, EA - Hanover

Sales and Use Tax is the one tax most businesses overlook, but this is the one tax that can cost your business thousands of dollars.

What does that mean?

If you fail to collect sales tax on a taxable item or service and you are audited, then it becomes your liability. If you would have charged it at the time of purchase or service it is your customer's liability.

Have you purchased items online or through the mail for your business and didn't pay sales tax?

Then you could owe Use Tax.

Are you doing business outside your home state?

You might have created Nexus in the foreign state, making you liable for taxes in that jurisdiction.

Confronted with large deficits, states are relying on tax enforcement as a potential revenue source. Therefore, Sales & Use Tax needs to be at the top of your "To-Do" list.

Smith Elliott Kearns & Company, LLC can help you become proactive and get your business in compliance before the Auditors call. Please give us a call to review your individual circumstances.

QuickBooks® & Peachtree® Sunset Rules

by Melissa Hahn, CPA - Hagerstown

FINAL Reminder!

QuickBooks® and Peachtree® generally provide support for the current version of the software and two prior years. If you are using a version of either software older than 2007, you need to upgrade.

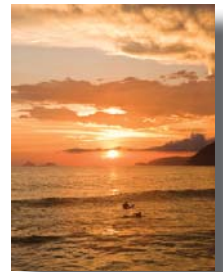
QuickBooks® Service Discontinuation Plan

As of May 31, 2010, you will no longer be able to receive technical support, process your payroll, send invoices by e-mail, process credit card transactions through QuickBooks® or perform other add-on services if you are still using the 2007 version.

Peachtree® Obsolescence Policy

Peachtree® has discontinued product support for Release 2007, however any support plans purchased by customers on Release 2007 products before November 30, 2009 will be supported until they expire. Product support includes live customer support, Simple Payroll and other add-on products or services.

*If you have questions regarding software upgrades, please call our office. **We offer discounts and free shipping on QuickBooks® software and payroll tax subscriptions.***



Pennsylvania Withholding Payment Changes

Beginning June 1, 2010 employers with an annual PA withholding liability of \$20,000 or more will be required to pay their withholding taxes on a semi-weekly basis.

If paychecks are dated Wednesday, Thursday or Friday, you will be required to deposit the PA withholding tax by the following Wednesday. If paychecks are dated Saturday, Sunday, Monday or Tuesday, you will be required to deposit the PA withholding tax by Friday of the same week.

If you have not received a payment frequency change notice from the Department of Revenue and are unsure if you meet the \$20,000 requirement, please call the Department at 717-787-1064.

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Record Keeping and The PPAC Act

Increased 1099 Reporting

One of the largest record keeping burdens facing businesses under Healthcare Reform is the expanded reporting requirements for information returns, otherwise known as 1099s. There are two substantial changes to the current reporting requirements.

Generally, under current law any business that makes payments of compensation, interest, rents, royalties, etc. totaling \$600 or more during the year to a **non-incorporated** payee is required to report the payments to the IRS and the recipient by filing a Form 1099. Under the new law, **1099 reporting will be expanded to include corporations** for payments made after 2011. Payments made to tax-exempt corporations will remain non-reportable.

The other significant change in the law is the requirement to issue 1099s for payments made in consideration for property in excess of the \$600 threshold. In other words, in addition to services, etc. 1099s will be required for the purchase of materials, supplies, inventory, etc. Keep in mind, as outlined above, this now will include both incorporated and non-incorporated businesses. From a practical standpoint, 1099s will be required to virtually all vendors that are paid more than \$600 in 2012.

What to do now?

The first step is to evaluate your current process for collecting the information necessary for filing 1099s. Start by ensuring that your accounting system can capture total payments made to a vendor during the calendar year, regardless of your fiscal year end. In addition, review your procedures to ensure that you are gathering and updating W-9 forms from your vendors. W-9s are the form vendors provide to customers to give information regarding tax identification numbers, and correct company names and addresses.

Conclusion

The Patient Protection and Affordable Care Act substantially increases the administrative burden on businesses. As a result, the need for quality accounting procedures and practices has never been more important. If you have any questions or if we can be of any assistance in helping you prepare for these changes, please give us a call.

Additional Legislation Affecting Employers

PPAC Act Provision	Applies to Employers with:
SHOP Exchange eligibility*	100 or fewer employees
Small employer tax credit for providing health insurance	25 or fewer FT employees; \$50k maximum average wage
Penalty for not providing minimum essential health coverage or affordable coverage	50 or more FT employees
Simple cafeteria plans for small businesses	100 or fewer FT employees
Automatic enrollment in employer health plan	Employers that have more than 200 FT employees and offer health coverage
Grants for wellness programs	Fewer than 100 employees who work 25 or more hours a week
* Beginning in 2017, states may loosen restrictions on SHOP exchange eligibility.	

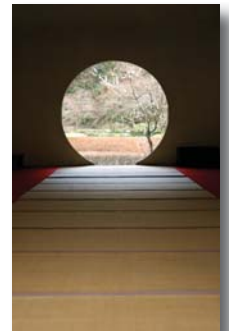
Payroll Portals Provide Efficiency For Clients

by Joel Flinchbaugh CPA - Carlisle

As a part of our continuing effort to expand and improve the services we offer to our payroll clients, we are excited to introduce the use of portal technology. While the term "portal" may seem scary and hi-tech, it is really just a secure, simple and efficient way to store and share information with our clients.

Through the use of a portal, we are able to allow clients to have round the clock access to payroll and other documents, securely send confidential information to us, enter employee information such as wage and withholding changes, and even enter payroll hours.

Clients set up on a portal can also allow employees to have access to a private portal where they can enter their own hours, have access to their W-2s and paystubs, and make changes to their withholding allowances, etc. The value of a payroll portal is enhanced significantly because it can be customized to meet each individual client needs regarding accessibility and functionality. If you would like to be given a demonstration on how a payroll portal may work for you, give us a call.



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