



HERBEIN+COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

Members of PKF North America, Pennsylvania Institute of CPAs,
American Institute of Certified Public Accountants Div. of CPA Firms/Private Practice Sections
www.herbein.com

Dear Client:

We would like to take this opportunity to make you aware of certain changes concerning 2012 payroll taxes. The maximum wage base and tax rates for each portion of the FICA tax are as follows:

	Maximum Wage Base	Employee Tax Rate	Employer Tax Rate
MHI (Medicare Tax)	No limit	1.45%	1.45%
OASDI (Social Security)	\$ 110,100	<u>6.20%</u>	<u>6.20%</u>
Total FICA Tax		<u>7.65%</u>	<u>7.65%</u>

As in the past, the employer and employee will each pay the tax up to the respective maximum wage base, if any. Please be aware that there are ongoing discussions by our political leaders to propose tax legislation that includes a provision to reduce the OASDI Employee tax rate to 4.20% for 2012. A similar tax provision was in effect for 2011.

Other payroll tax laws, which you should be aware of are as follows:

1. The employer federal unemployment tax (FUTA) rate is currently .6% (.006) and the present maximum taxable wage level is \$7,000. For employers in states subject to FUTA Credit Reduction, including Pennsylvania and other states which have drawn from a designated federal loan account, the FUTA rate increased by .3% (.003) to .9% (.009) for the second half of 2011. The FUTA Credit Reduction will increase annually by .3% (.003) until the state pays off its loan. An increase in the 2012 FUTA Credit Reduction is not expected to be approved until late 2012. Therefore, employers in Pennsylvania and other Credit Reduction states should plan for the 2012 FUTA tax rate to be increased to 1.2% (.012). Employers are not required to make FUTA deposits until the accumulated tax liability exceeds \$500. Form 940 is used to report this tax.
2. Employers with annual liability of \$1,000 or less for Social Security and Medicare taxes and income tax withholding will be notified by the IRS to use Form 944. In tax year 2012, employers will be able to opt out of filing Form 944 and request to file Form 941 for any reason if they follow the request procedures stated in Revenue Procedure 2009-51.
3. Form 8919, Uncollected Social Security and Medicare Tax on Wages, will allow taxpayers improperly treated as independent contractors to pay Social Security and Medicare taxes. The form and additional information are available on www.irs.gov.
4. Income tax withholding tables in IRS Publication 15-T for the advance earned income credit (EIC) payments and the wages of nonresident alien employees have been developed for use after February 17, 2009. Disregarded entities (eligible single-owner entities) and qualified subchapter S subsidiaries (QSubs) must report and pay employment taxes using the entities' own name and EINs.

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5. The IRS has eliminated federal tax deposits by paper coupon after December 31, 2010. Information on the Electronic Federal Tax Payment System (EFTPS), including how to enroll, can be found at www.eftps.gov or by calling EFTPS Customer Service at 1-800-555-4477.
6. Employer state unemployment tax remains capped at a maximum taxable wage level of \$8,000. You will be notified of any change in your employer's contribution rate by the Department of Labor and Industry during the months of January or February.

The implementation date of the electronic filing requirement has been delayed and employers will be notified when a new date is determined. At that time, no paper Unemployment Compensation (UC) forms will be mailed to employers. Electronic filings of the quarterly reports will be required under the new UC Management System. Please visit the PA Department of Labor & Industry's website to learn more about the UC Management System at www.dli.state.pa.us.

7. Employee state unemployment tax (SUTA) remains the same for the 2012 tax year at a rate of .08% on all wages.
8. The Pennsylvania state income tax rate for 2012 remains unchanged at 3.07%.

If our office renders payroll services on your behalf, the withholding changes will be automatically instituted.

Note that Forms 1099 are required to be filed to report any interest, dividend, rent, attorney fee and non-employee compensation payments made during the 2011 tax year if they exceed \$10 per payee for interest and dividends or \$600 per payee for other payments. When filing your 1099s for the 2011 tax year, you must include the telephone number of the contact person who will be responsible for answering questions relating to the completion of such forms.

Employers filing more than 249 forms are required to file Forms W-2, W-2c, W-3c, 1099 and 1042-S electronically. If you are currently using the IRS Filing Information Returns Electronically System ("FIRE"), please visit <http://fire.irs.gov> for more information. New users are required to request authorization to file electronically with the IRS by submitting Form 4419, Application for Filing Information Returns Electronically.

With regard to filing Form W-2 with the Social Security Administration, applications or authorizations are not required to file the first Form W-2 electronically; rather, a business filing electronically for the first time is required to register to use the SSA Business Service Online ("BSO") at <http://www.socialsecurity.gov/bsowelcome.htm>. Small submitters (fewer than 250 Forms W-2) may also be able to file Forms W-2 online. For more information, visit SSA's Business Services Online Website identified above and select "Tutorial."

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With respect to retirement plan contributions, the maximum regular 401(k) contributions limit increases to \$17,000 for the 2012 tax year. The maximum 401(k) catch-up contributions remain at \$5,500 for 2012. The maximum IRA contribution remains unchanged for the 2012 tax year at \$6,000 (\$5,000 and \$1,000 catch-up contributions). Catch-up contributions result from the 2001 tax law changes and are only available to eligible individuals who are age 50 or older by the end of the calendar year.

The IRS has recently announced that the mileage rate allowance for business use of a vehicle for 2012 is 55.5 cents. This rate is used to calculate the tax deduction for business travel as an alternative to deducting actual costs of maintaining an automobile. The rate also is used by many companies to reimburse workers who use their own cars on company business.

With regard to local earned income tax withholdings, please be aware that "Act 32" is effective on January 1, 2012. Every business that employs individuals at worksites within Pennsylvania, or employs individuals who work from their homes in Pennsylvania, is required to withhold the applicable local earned income tax amount from employees' wages and remit the tax to the appropriate tax officer. If you have any questions regarding these new withholding requirements, please contact our office.

If you should have any questions concerning these requirements and/or changes, please do not hesitate to contact our office.

Sincerely,

Herbein + Company, Inc.