

December 2014



HAYASHI | WAYLAND

TO OUR PAYROLL TAX CLIENTS:

HAPPY HOLIDAYS FROM HAYASHI WAYLAND!

To assist you in gearing up for the coming year, we have provided updated rates and limits for 2015:

SOCIAL SECURITY AND MEDICARE:

FICA is a combination of Social Security and Medicare taxes.

Employer and Employee rate for Social Security will stay the same at 6.2% on wages to \$118,500.

Maximum Social Security withholding is \$7,347.00 for 2015.

Both employee and employer rate for Medicare is 1.45% on all wages. An additional employee Medicare tax for individuals making more than \$200,000 per year continues to be in effect for 2015. The employee Medicare tax rate will increase by .9% to 2.35%. The rate only applies to an employee wages in excess of \$200,000.

There is no maximum Medicare withholding.

FEDERAL UNEMPLOYMENT TAX:

The wage limit remains at \$7,000 and the NET tax rate with full state credit is 0.6% for 2014. California was a credit reduction state for 2014, requiring a credit reduction of 1.2% to be paid on all 2014 FUTA wages by January 31, 2015. As a result of this credit reduction, California employers will pay a net FUTA tax rate of 1.8% for 2014.

CALIFORNIA DISABILITY INSURANCE:

California Disability Insurance (SDI) will change to .9% for 2015.

Ceiling wage for withholding SDI will change to \$104,378 for each employee.

Maximum California SDI withholding is \$939.40 for 2015.

CALIFORNIA UNEMPLOYMENT INSURANCE:

Wage limit remains at \$7,000.

For subject employers, the ETT rate will remain at 0.1%.

The SUI contribution rate varies by employer. You will receive your rate notification in December. **Please advise us OR your payroll service of your 2015 rate.**



***** CURRENT DEVELOPMENTS *****

California Mandatory Paid Sick Leave Law: The Governor signed AB 1522 – California’s Healthy Workplaces, Healthy Families Act of 2014. The new law goes into effect on July 1, 2015. Employers with at least one employee, who works at least 30 days in a year in California, must provide up to 24 hours of paid sick leave in a calendar year to current or new employees. Employees, including part-time and temporary, who work more than 30 days in a year are entitled to earn sick leave. An employee accrues paid sick days at the rate of one hour for every 30 hours worked. Exempt employees accrue sick days based on the lesser of their normal work schedule or a 40 hour work week. An employee can use accrued paid sick days after being employed for 90 days, after which day the employee may use paid sick days as they are accrued. Accrued paid sick days carryover to the following year of employment, but an employer can limit an employee’s use of paid sick days to 24 hours or three days in each year of employment.

Salinas Valley Enterprise Zone: On July 11, 2013 AB93 and SB 90 were signed into law which effectively eliminated the Enterprise Zone Program effective January 1, 2014. If you had already hired an employee prior to that date and obtained a voucher certificate you may continue to accrue tax credits for that employee while they still work for you. It appears that the tax credits will continue to carry forward for up to 10 years from the expiration of the zone.

Retirement Test Amounts: Anyone reaching the age of 66 years in 2015 has reached “full retirement age” (FRA), and can earn any amount after that point without affecting their Social Security benefits. Workers who will reach FRA in 2015 can earn \$3,490 per month in the months before reaching FRA. Workers who will not reach FRA until after 2015 and are receiving benefits can earn up to \$15,720 before benefits are reduced.

Mileage: The standard mileage rate for computing the value of the business use of an automobile is 57.5 cents per mile beginning January 1, 2015.

Per Diem rates: Effective October 1, 2014, the IRS’s high/low per diem rates are as follows, \$194/120 for lodging and to \$65/52 for meals and incidentals. For a list of cities that qualify for the high rate, please contact our offices.

401(K) Deferrals: The maximum elective deferral amount to 401(k) increases to \$18,000 for 2015. The catch-up limit for additional contributions by employees age 50 or older is \$4,000.

Sales and Use Tax Rate: The statewide sales and use tax rate remains at 7.5%. The higher tax rate will apply until December 31, 2016, at which time it may decrease by .25%. If you live in a special tax district your rate is 7.5% plus the applicable district tax.

California State Minimum Wage: California state minimum hourly wage remains at \$9.00 per hour for all employees for 2015.

***** ADDITIONAL REMINDERS *****

Threshold for Federal Payroll Tax Deposits: The requirements remain the same, if you owe \$2,500 or less in your reporting period (annual for agricultural [943], quarterly for non-ag [941]), you are not required to make deposits and may pay the taxes with the return. The threshold for depositing federal unemployment tax (940) also remains the same as last year, i.e. \$500 at the end of any quarter.

Deposit Frequency: There is no change for 2015 with regard to the timing of federal payroll tax deposits, though your frequency designation may have changed. Under the current rules, you are either a monthly or a semiweekly depositor based on the level of total taxes paid during the "look back period." It is the employer's responsibility to verify which schedule they should follow. To obtain a recap of the current rules in flowchart format, give us a call. Generally, depositing all withheld SDI and PIT with the EDD using the same schedule required for federal tax deposits will keep you in compliance with state rules. For 2015 Electronic Funds Transfer (EFT) for EDD is mandatory if SDI/SIT deposits average \$20,000 or more during the prior fiscal year. (July 1 through June 30). This does not apply to UI or ETT. In addition if you meet the requirement for mandatory EFT filing of payroll taxes with the EDD and you have child support withheld from employee's payroll you are required to remit the child support payments electronically as well.

Independent Contractor Reporting - Form 542: If you will be required to file a 1099-Misc on a sole proprietor, Form 542 still must be reported within 20 days of the earlier of either:

- Entering into a contract which equals or exceeds \$600
- When the aggregate payments to an Independent Contractor equal or exceed \$600

Business and Agricultural Tax Statements: The State of California requires that every business, upon written request of the Assessor, shall file a written property statement by April 1st of each year. Furthermore, businesses owning taxable personal property having an aggregate cost of \$100,000 or more are required to file a statement, whether or not requested by the Assessor. Taxable personal property includes furniture, machinery, equipment and supplies used in the course of business or farming. Licensed vehicles are generally excluded.

W-4's: If you question the Form W-4 or DE-4 because it meets either of the following two conditions: (1) the employee claims more than 10 withholdings or (2) the employee claims exemption from State or federal income tax withholding and the employee's usual weekly wages will exceed \$200, then you must submit a copy of this form to the Franchise Tax Board. The IRS no longer requires notification. Exempt employees must file a new W-4 with you prior to February 16, 2015.

New Hires: A reminder when hiring new employees - you must determine employment eligibility under the Immigration Reform and Control Act of 1986. This includes completing Form I-9, Employment Eligibility Verification Form for each new employee hired. Keep the completed I-9 on file with that employee's W-4. There is no requirement to complete new forms for existing employees; however, employers must use the new form for new hires as well as when their employees require re-verification. All new or rehired employees must be reported to the EDD within 20 days of starting work using Form DE 34. Beginning on January 1, 2014 state legislation now defines an individual as a rehire if the employer/employee

relationship has ended and the individual has been separated from that same employer for at least 60 consecutive days. Be sure to report these individuals on your Report of New Employee Form DE 34. This requirement is part of a nationwide effort to locate individuals for the purpose of establishing, modifying and enforcing child support obligations.

1099's: Forms 1099 must be filed by February 2, 2015 for any 2014 payments of \$600 or more made to non-corporate entities for rents or services rendered. Form 1099 reporting requirements continue to include payments to incorporated law firms. Attorney's fees should be reported in box 7, or gross proceeds including attorney's fees, damage awards, and other payments in box 14. 1099's must also be filed for interest or dividend payments in excess of \$10, as well as many other types of payments.

Independent Contractors: Please be very careful when paying individuals for services as independent contractors rather than as employees. The IRS and EDD have been looking very closely at these persons, and in many cases have determined that they should be treated as employees. The result is a large bill for back taxes, interest and penalties. For further information regarding the tests that they use in this determination, please contact our offices.

Reimbursements: When making advances or reimbursements to employees for business expenses, be sure that these payments are part of an "accountable plan". If not, they need to be included as wages to your employee. The basic requirements for an accountable plan are that the expenses (1) have a business purpose, (2) are documented properly, and (3) unspent amounts advanced are returned by the employee. For further details, please contact our offices.

Unsure if or how any of these changes affect you or your company's tax situation? If so, please feel free to contact us. You and your business are important to us and we want to help ensure your success.

Sincerely,



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