

I have prepared this memo as a service to my clients. Feel free to pass it on to your friends and family. They may be in search of a C.P.A. who can guide them through challenging tax laws while focusing on ways to reduce their tax requirements. As always, referrals are greatly appreciated and aptly rewarded. Thank you for the opportunity to serve you and as always feel free to call so we can discuss your particular tax situation.

This memo discusses Nanny filing requirements, payroll filing and informational filing for 2008 with action required by 1/31. See the discussion below for more detailed guidance.

Payroll Tax Information

Household Employees (Nanny)

I wanted to check in and see if you will need my help in preparing your Nanny payroll for 2008. If you have your Nanny spreadsheet completed you can send it to me and I will prepare the appropriate documents and return them to you for signing and mailing. I can provide a Nanny spreadsheet and my Nanny memo if you have questions. The Forms are due to the Nanny by 1/31 and to the Government by 2/28.

Form 941

This form is filed quarterly. The deposit schedule for this tax, however, varies depending on the amount of the tax liability payment for each pay period. It is the combination of Federal Withholding Tax, Employee's share of FICA and Medicare, and the Employer Match of FICA and Medicare. If you know that your total tax liability for the quarter is going to be less than \$2,500 you can just send the payment to the IRS with your 941 form quarterly. Most companies have to make their deposits through EFTPS (Electronic Federal Tax Payment System) or by submitting a check with a tax coupon (form 8109) to a financial institution. There are two deposit schedules - monthly and semi-weekly - for determining when you have to make your deposits. Before the beginning of each calendar year, you must determine which of the deposit schedules you are to use. You determine this by your "lookback period". The lookback period begins July 1st and ends June 30. For 2009 reporting, your lookback period would be July 1 of 2007 through June 30 of 2008. If you reported \$50,000 or less of taxes for the lookback period, you are a monthly schedule depositor; if you reported more than \$50,000 you are a semiweekly depositor. Monthly depositors must make their deposit by the 15th of the following month. Semiweekly depositors make their deposits as follows: If the payday was on a Wed, Thurs, or Friday, the deposit is due that next Wednesday. If the payday was on a Sat, Sun, Mon or Tues, the deposit is due that next Friday. For more details, go to your search bar and type in Circular E. This is the IRS Employers' Tax Guide. See pg 19. (See additional info about Earned Income Credits, etc) You can also order a hard copy of the Circular E from the IRS. The wage limit for FICA and Medicare is \$102,000 for 2008 and \$106,800 for 2009.

Form 940

This tax, also known as FUTA, is the Federal Unemployment Tax. It is filed annually, due the end of January for the preceding year. We pay both Federal Unemployment Tax (FUTA) and State Unemployment Tax (SUTA) in the state of Washington (see below). There is nothing withheld from the employee's check for FUTA – it is all paid by the employer. For 2008, the FUTA tax rate is 6.2% on the first \$7,000 you pay each employee for the year. Even though this form is only filed annually, for depositing purposes, figure the tax quarterly. If your tax liability for the quarter is \$500 or less, you do not have to make a deposit yet – you can carry it over to the next quarter. If it's over \$500, you make your deposit through EFTPS or with a voucher 8109 at a financial institution. The Circular E also has more information about this tax on page 29.

Employment Security

This tax, also known as SUTA, is the state unemployment tax. It is filed and paid quarterly. Watch the rate on this tax – changes are often missed and the wrong amount is reported and paid. Corporate Officers may choose to be exempt. **For 2009, a new ruling requires every Corporate Officer to fill out an exemption request by January 15th, or else they will be covered.** Under the old system, Corporate Officers were generally exempt unless the corporation requested that they be covered. It's now the opposite; they will be covered unless they request not to be. Download the form from Employment Security web site - <http://www.esd.wa.gov>. The wage base for paying this tax is \$34,000 at this time. Hours worked on this tax form include paid vacation and holiday. You can also find rates on the web site. You can download software called UIFastTax directly from the Employment Security website for free, and pay your tax and file quarterly reports.

Department of Labor & Industries

This tax, often called State Industrial Insurance, or Workers' Comp, is for injury claims. It is a type of insurance that employers are required to have in case their employees get injured on the job. Watch your payroll companies - they don't always handle L&I, and it can get missed, and get you in trouble with the state. Ask them if they are paying this tax if you are not handling it yourself. This tax is paid on hours worked, and different kinds of workers have different rates, based on risk of injury, etc. An office worker will have a different rate than a laborer, so check rates on their website and call if you aren't sure. L&I will assign rates for you. This tax can also be paid online, using Quick File or Deluxe File. See web site - <http://www.lni.wa.gov>. There is an employee portion of L&I and an employer portion. These are broken out on the rate notice. Also, the tax is paid only on hours worked – not holiday, sick, PTO, or vacation.

Third-party Payroll Service

Providers Issues Many businesses use a third-party service provider to process their payroll. Although this is generally an efficient, cost effective way to handle a company's payroll needs, it is important for you to understand that, even if a third party is making the deposits, the employer (including potentially, the owners and officers of the employer) remains the responsible party as far as the IRS is concerned.

There have been a number of recent prosecutions of individuals and companies who have, acting under the guise of a service provider, stolen funds intended for payment of employment taxes. To ensure this does not happen to your business, we recommend taking the following precautions when using a third-party payroll service provider:

- Make sure the businesses (rather than the service provider's) name and address is on the payroll returns. If there are any issues with your account, the IRS will notify you. However, this notice will typically go to the address of record—the address on the payroll tax return, which should be your business address, so you'll get the notice if there is a problem. If appropriate, you can then forward the notice to the payroll processor.
- For your protection, always ask to see verifiable proof that the payroll service provider has a fiduciary bond in place (to help protect against the service provider defaulting on its obligations).
- If a service provider will be making your tax deposits, you should make sure it enrolls in the government's Electronic Federal Tax Payment System (EFTPS) if it hasn't already. Doing so should allow you to easily confirm that the proper payments are being made on your behalf. You should also make it a practice to verify EFTPS payments when reconciling your business bank accounts.

EFTPS is secure, accurate, easy to use, and provides an immediate confirmation for each transaction. It is free and will enable you to verify federal tax payments electronically 24 hours a day, 7 days a week through the Internet, or by phone. You can enroll online at **EFTPS.gov**, or call EFTPS Customer Service at (800) 555-4477 for an enrollment form.

Please contact us if you would like to find out more about EFTPS or have any other questions about how to ensure that you have proper safe guards in place for your payroll processing whether it's outsourced or completed in house.

Informational Tax Filing Requirements for 2008

It's that time of the year again—when the government gathers information on wages and other payments your business made during the year. You are undoubtedly aware of the W-2, Wage and Tax Statement, which must be provided to each of your employees and to Social Security Administration. These forms are due to employees by January 31 & to Social Security Administration by **February 28**. But your information-reporting obligations don't end there. Here's a rundown of other common payments that may require an information return.

- **Payments of \$600 or more to contractors or other services providers** (other than corporations) must be reported to the recipient and to the IRS on Form 1099-MISC, Miscellaneous Income. The form is due to the recipient by January 31st and to the IRS by **February 28th**.

- **Payments to attorneys** for business-related services must be reported to the attorney and to the IRS. These payments must be reported on Form 1099-MISC regardless of the amount and regardless of whether the attorney is incorporated.

- **Rents** totaling more than \$600 paid to an individual landlord, partnership, or estate (but not rents paid to a corporation) must be reported on Form 1099-MISC. (However, rents paid to a real estate agent are generally not required to be reported.)

Other less common payments made by your business may also trigger an information-reporting requirement.

For example, an information return may be required if you:

- **Traded** your business services for the services of another business
- **Paid** wages to the estate or beneficiary of a deceased employee
- **Made cash payments** to purchase fish for resale
- **Cancelled** a borrower's debt in connection with a business of lending money
- **Paid out winnings** in connection with a gambling or race track business

Bear in mind that the penalties for failure to comply with these information-reporting requirements can be stiff. For example, you can be hit with a penalty as high as \$50 for each return that is filed incorrectly or is not filed on time.

If you need help sorting out your information-reporting responsibilities or assistance in preparing the required returns, please feel free to call.

With best regards,



Brian Berlage, CPA

Under IRS regulations, I must inform you any tax advice contained in this message was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law. By regulation, a taxpayer cannot rely on professional advice to avoid federal tax penalties unless that advice is reflected in a comprehensive tax opinion