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## 2012 FEDERAL AND WASHINGTON STATE PAYROLL TAXES, MINIMUM WAGE, AND INDEPENDENT CONTRACTOR TESTS

The 2012 maximum earnings subject to tax are:

### **SOCIAL SECURITY** (old age, survivors and disability insurance)

\*The 2% employee reduction in the payroll tax has been extended through February of 2012, with the probability of reaching an agreement to extend the reduction for all of year 2012.

	<u>Rate</u>	<u>Maximum Earnings Subject to Tax</u>	<u>Maximum Tax</u>
Employee	*4.2%	\$110,100	\$4,624.20
Employer	6.2%	\$110,100	\$6,826.20
Self-employed	10.4%	\$110,100	\$11,450.40

### **MEDICARE** (hospital insurance)

	<u>Rate</u>	<u>Earnings Subject to Tax</u>	<u>Maximum Tax</u>
Employee	1.45%	All	No Limit
Employer	1.45%	All	No Limit
Self-employed	2.9%	All	No Limit

Social Security and Medicare taxes apply to wages paid to an individual by his or her spouse in the course of the spouse's trade or business, to a child employed by his or her parent in the course of the parent's trade or business if the child is 18 or older, and to a parent employed by a son or daughter in the course of the son's or daughter's trade or business.

Employers are subject to the employer portion of Social Security and Medicare tax on cash tips reported by their employees.

The Internal Revenue Service and the Social Security Administration conduct a program which cross checks wages. Therefore, an employer should ensure that W-2 wages agree to the quarterly Federal 941 forms.

### **DEPOSIT REQUIREMENTS**

Under IRS rules, you are either a monthly or a semiweekly depositor. The IRS will notify you if you have a change in your deposit status for 2012.

Your deposit schedule for a calendar year is determined from the total taxes reported on your Form 941 in a four-quarter lookback period - July 1 through June 30. For 2012, the lookback period is July 1, 2010 through June 30, 2011. If you reported \$50,000 or less of employment taxes for the lookback period, you are a monthly depositor; if you reported more than \$50,000, you are a semiweekly depositor. There are two exceptions - the \$2,500 rule and the \$100,000 rule. The deposit rules and exceptions are discussed in the following sections.

### **Monthly rule**

Under the **monthly rule** employment and other taxes withheld on wages paid during a calendar month must be deposited by the 15th day of the following month. An employer is a monthly depositor for a calendar year if the total of employment taxes for the four quarters in the lookback period was \$50,000 or less.

### **Semiweekly rule**

An employer is a semiweekly depositor for a calendar year if the total of employment taxes during its lookback period was more than \$50,000. Under the **semiweekly rule** amounts accumulated on wages paid on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Amounts accumulated on payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.

### **\$2,500 rule (Exception 1)**

If an employer accumulates less than \$2,500 tax liability during a quarter, no deposits are required and this liability may be paid with the tax return for the quarter. However, if you are unsure that you will accumulate less than \$2,500, deposit under the appropriate rules so that you will not be subject to failure to deposit penalties.

### **\$100,000 One-day rule (Exception 2)**

If the total accumulated tax reaches \$100,000 or more on any day during a deposit period it must be deposited by the next banking day, whether an employer is a monthly or semiweekly depositor.

### **Deposits on banking days only**

If a deposit is required to be made on a day that is not a banking day, the deposit is considered to have been made timely if it is made by the close of the next banking day. For example, if a deposit is required to be made on a Friday and Friday is not a banking day, the deposit will be considered timely if it is made by the following Monday.

Tax liability includes Federal income tax withheld, Social Security and Medicare withheld, and the employer's portion of Social Security and Medicare. The timeliness of deposits will be determined by the date received by an authorized depository or Federal Reserve Bank. However, a deposit received after the due date of the deposit will be considered timely if you show that it was mailed by the second day before the due date.

The **Monthly Summary of Federal Tax Liability** on Form 941 will be completed by monthly depositors. Semiweekly depositors and employers who accumulate a \$100,000 tax liability on any day will report their tax liability on **Schedule B** (Form 941), Employer's Record of Federal Tax Liability.

**Nonpayroll withholding**

Nonpayroll withholding is reported on Form 945, Annual Return of Withheld Federal Income Tax. Nonpayroll items include backup withholding and withholding on distributions from pensions, annuities, IRA's, and gambling winnings. Form 945 is an annual return, with a due date of January 31 of the following year. Deposit requirements are the same as for Form 941 taxes; however, be sure to **code as 945 Tax** when you electronically deposit your taxes.

**Electronic federal tax deposit**

Effective January 1, 2011 you must make electronic deposits of all depository taxes using the Electronic Federal Tax Payment System (EFTPS).

**FEDERAL UNEMPLOYMENT INSURANCE**

<u>For the Period</u>	<u>Rate</u>	<u>Maximum Credit for State Unemployment</u>	<u>Net Rate</u>	<u>Earnings Subject to Tax</u>	<u>Maximum Tax</u>
Jan 1 - Jun 30, 2012	6.2%	5.4%	.8%	\$7,000	\$56.00
Jul 1 - Dec 31, 2012	6.0%	5.4%	.6%	\$7,000	\$42.00

Tax on corporate officers could be higher if they elect not to be covered by state unemployment.

**STATE UNEMPLOYMENT TAX**

<u>Year</u>	<u>Variable Tax-Rate</u>	<u>Maximum Earnings Subject to Tax</u>	<u>Maximum Tax</u>
2012	Maximum of 5.82%	\$38,200	\$2,223.24

The rate is variable based on experience. For 2012 the maximum rate is 5.82% and the minimum rate is .14%.

**Exempting Corporate Officers**

Beginning in year 2009, corporate officers will be covered for state unemployment insurance unless their employer specifically exempts them. If a corporation wants to exempt its officers from coverage it must file a Corporate Officer Exemption Form for each officer with the Employment Security Department. Corporate officers are still subject to federal unemployment tax. These exemption forms should be kept on file by the corporation.

**STATE INDUSTRIAL INSURANCE, MEDICAL AID, AND PENSION FUND**

**Industrial insurance**

The Department of Labor & Industries has announced no general rate increase on average for 2012. Rates (premiums) are based upon industry-wide experience factors. Rates vary from one industry to another. You will be notified directly if you have a new rate.

**Medical aid and supplementary pension fund**

One-half of medical aid and supplementary pension may be deducted from the employee's pay. The total amount of money which may be deducted is commonly in the range of \$100 - \$200 per year for a full-time employee. Employers may, and many employers do, absorb this cost in lieu of the expenses of the paperwork involved in charging each employee on each paycheck his share of the premium. The payroll deduction rate is listed on your tax rate notice.

Corporations may elect to cover corporate officers who are also shareholders under state industrial insurance. We have the necessary election form. This election may be advisable for officers of closely-held businesses if there is a concern that a corporate officer/employee may suffer a work-related disability.

**MINIMUM WAGE**

State minimum wage is \$9.04 per hour as of January 1, 2012. All employees 16 years of age or older, except for certain jobs exempted by law, are covered under the State minimum wage law. Minors 14 and 15 years of age may be paid 85 percent of the adult minimum wage (\$7.68 for year 2012).

**INDEPENDENT CONTRACTOR TEST**

The IRS has developed a 20 factor test to help determine if an individual is an employee or an independent contractor. In general an employer/employee relationship exists if the person contracting for the services has the right to control and direct both the result of the service and the means by which the result is achieved. An independent contractor must hold a valid business license and be available to perform services for others.

The State of Washington requires independent contractors to hold a valid business license. Under audit, Employment Security will request the UBI number for each independent contractor you have employed. This number should be provided by your contractor.

**NEW HIRE REPORTING LAW**

Federal law requires employers to report information on newly hired or rehired employees to the Division of Child Support, Department of Social and Health Services, within 20 days of hiring. A properly completed W-4 Form faxed to 1-800-782-0624 should satisfy the requirements of this law. You can also report a new hire on the Internet at [www.childsupportonline.wa.gov](http://www.childsupportonline.wa.gov) or mail to New Hire Reporting, P.O. Box 9023, Olympia, WA 98507-9023.

Please contact us if you have any questions regarding payroll taxes.



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