

L. Ballard & Company, PSC

Certified Public Accountants

Client Newsletter

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Temporary Payroll Tax Cut Extension

On December 23rd, President Barack Obama signed the Temporary Payroll Tax Cut Continuation Act of 2011 (H.R. 3765), thereby extending the reduced 4.2% employee Social Security tax rate through February 2012. The reduced rate had been scheduled to end after December 31.

The IRS reported that employers should implement the new payroll tax rate as soon as possible in 2012 but not later than January 31, 2012.

If a full-year extension of the payroll tax cut is not enacted, a new “recapture” provision will apply to those employees who receive more than \$18,350 in wages during the two-month period (the Social Security wage base for 2012 is \$110,100, and \$18,350 represents two months of the full-year amount). This

provision imposes an additional income tax on these higher-income employees in an amount equal to 2 percent of the amount of wages they receive during the two-month period in excess of \$18,350 (and not greater than \$110,100).

This additional recapture tax is an add-on to income tax liability that the employee would otherwise pay for 2012 and is not subject to reduction by credits or deductions. The recapture tax would be payable in 2013 when the employee files his or her income tax return for the 2012 tax year. With the possibility of a full-year extension of the payroll tax cut being discussed for 2012, the IRS will closely monitor the situation in case future legislation changes the recapture provision.

2012 Standard Mileage Rates

On December 9, 2011, the IRS issued the 2012 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

For 2012, the rate for business miles will remain at 55.5 cents per mile. The rate for business

miles driven is unchanged from the mid-year adjustment that became effective on July 1, 2011.

The mileage rates for medical and moving expenses will decrease by 0.5 cents per mile. The rate for these expenses decreases from 23.5 cents per mile for the last half of 2011 to 23 cents per mile for 2012.

The mileage rate for services provided to charities remains unchanged at 14 cents per mile.

Taxpayers always have the option of tracking and recording the actual cost of operating their vehicle rather than using the standard mileage rates.

H-2A Worker Payments

Beginning in 2011, an employer must report compensation of \$600 or more paid to an H-2A agricultural worker in a calendar year for agricultural labor on Form W-2, Wage and Tax Statement. The employer will report the compensation in box 1 as Wages, tips and other compensation. However, no amount should be reported in box 3 (Social Security wages) or box 5 (Medicare wages). No amount should be reported on line 2 (wages subject to Social Security tax) or line 4 (wages subject to Medicare tax) on Form 943, Employer's Annual Federal Tax Return for Agricultural Employees.

Employers are not required to withhold federal income tax from compensation paid to an H-2A visa agricultural worker. Employers should withhold federal income tax only if the H-2A visa agricultural worker and the employer agree to withhold. The employee must provide a completed Form W-4, Employee's Withholding Allowance Certificate. If the employer withholds income tax, the employer will report the tax withheld in box 2 (Federal income tax withheld) on Form W-2 and on line 6 (Federal income tax withheld) on Form 943.

An H-2A agricultural worker is eligible to obtain a Social Security Number (SSN) from the Social Security Administration (SSA). If the H-2A agricultural worker fails to furnish his or her taxpayer identification number (TIN or SSN) to the employer and the aggregate annual payments made to the H-2A agricultural worker are \$600 or more, the employer must begin backup withholding on the payment(s) until the H-2A agricultural worker furnishes his or her TIN.

Beginning in 2011, compensation of \$600 or more paid to an H-2A worker in a calendar year must be reported on Forms W-2 and 943.

Remember 1099 Reporting Requirements

With the various changes in the 1099 reporting requirements during the last two years, many business owners are confused about their responsibilities.

Who must file?

Taxpayers only need to report payments on Form 1099-MISC when those payments are made in the course of a trade or business (includes farm). Personal payments are not reportable. Furthermore, for purposes of the 1099 reporting rules, nonprofit organizations are considered to be engaged in a trade or business and are subject to these reporting requirements.

What payments are subject?

Although Form 1099-MISC is used to report royalties, medical and health care payments, crop insurance proceeds and several other types of payments, most small

businesses will only need to use the form to report **rents** or **nonemployee compensation**. If you pay \$600 or more during the year to an individual, partnership, LLC, estate, or trust for rents or services (including parts and materials) then you are required to issue the payee a 1099-MISC. Please note that generally, payments to corporations or payments for goods are not subject.

What do I need to file 1099s?

In addition to the amount paid, you will need the payee's name, address, and tax identification number (SSN or EIN) in order to prepare Form 1099. If you do not have the payee's address or tax identification number, then you can request this information by providing the payee with a Form W-9.

If you wish to self-prepare Forms 1099-MISC, then the

forms can be obtained by calling the IRS at 1-800-TAX-FORM. If you wish our firm to prepare Forms 1099-MISC for you, then we ask that you complete the 1099 Summary form and submit it to your accountant. Forms W-9 and the 1099 summary are available at <http://www.lbccpas.com/resources.html>.

When do I need to file 1099s?

Forms 1099-MISC should be furnished to the payee by January 31st of the following year. For paper filers, Forms 1099-MISC should be filed with the IRS by February 28th. For electronic filers, the deadline is March 31st.

Penalties

The Small Business Jobs Act of 2010 increased the Form 1099 filing penalties. The minimum penalty for intentionally disregarding the 1099 reporting rules is \$500 for each occurrence (\$250 for failing to file with IRS and \$250 for failing to provide to payee)

The minimum penalty for intentionally disregarding the 1099 reporting rules is \$500 for each occurrence.

Hire-Related Income Tax Credits

Worker Retention Credit:

Employers may take an additional Federal general business tax credit for each worker hired after March 18, 2010 and before January 1, 2011 if the worker was previously unemployed and is retained for at least one year. Although this credit is available for employees hired in 2010, it can only be claimed in the 2011 tax year.

The Worker Retention Credit is equal to the lesser of \$1,000 or 6.2% of the wages the taxpayer paid to the retained worker during the one-year period. Contact your

accountant if you think that you hired any qualifying employees.

Kentucky Unemployment Tax Credit:

Kentucky taxpayers who hire unemployed Kentucky residents may be eligible to claim the Kentucky Unemployment Tax Credit. This credit is \$100 per each qualified person, and can be used to offset individual income tax, corporation income tax, or limited liability entity tax.

In order to claim the credit, the hired employee must be: 1) unemployed for at least 60

days before start date, 2) hired full-time, and 3) remain employed for at least 180 days. Furthermore, the qualifying employee cannot be any of the following: 1) person for whom the taxpayer receives federal payments for on-the-job-training, 2) related party of the taxpayer, or 3) dependent of the taxpayer.

Employers need prior approval from the Kentucky Office of Employment and Training that the hired person qualifies. Employers should update their new hire processes to assess if employees qualify for the credit.

Unemployment Insurance Changes

The Federal Unemployment Tax Act surcharge of 0.2% expired on June 30, 2011. Consequently, for most Kentucky employers, the FUTA rate went from 0.8% to 0.6% effective July 1, 2011.

Effective January 1, 2012, the Kentucky Unemployment Insurance taxable wage base (the amount on which quarterly unemployment taxes are calculated) will

increase from \$8,000 to \$9,000. In other words, employers will pay taxes on the first \$9,000 an employee earns.

Because Kentucky's Unemployment Insurance Trust Fund (among other states) had outstanding loans from the federal government to pay benefits for two consecutive years, employers will incur a 0.3% reduction in the amount of credit they can

take against their Federal Annual Employment Tax. For most Kentucky employers, the FUTA rate for 2012 will be 0.9%.

	<u>FUTA</u> <u>Rate</u>	<u>SUTA</u> <u>Wages</u>
Jan - Jun 2011	0.80%	8,000
Jul - Dec 2011	0.60%	8,000
2012	0.90%	9,000

L. Ballard & Company, PSC Client Login & File Upload

You may have noticed that we recently added a page called, "Client Login" to our website. On this webpage are the secure client login and an option to upload accounting files (i.e. QuickBooks). The secure client login can be used to access your client portal, which is effectively, a safe and secure online file cabinet. For those clients interested in this technology, we will place copies of their tax returns in the portal so that they can

have access to these documents at any time. You can email documents directly from the portal (i.e. to your banker) or upload additional documents (W-2s, 1099s, etc.) or files (QuickBooks or Peachtree files).

Also, on our client login page, is a place to upload your accounting files. As you know, only the smallest accounting files can be emailed. Instead of using a USB drive or CD, large QuickBooks or

Peachtree files can be directly uploaded though this site. Just select the name of your intended recipient, enter your email address, and browse to find the file(s) on your computer. Then select "Upload Files" and the files will be transferred. At this time, we will only set up client portal accounts for those interested.

If you are interested in setting up a client portal, please contact our office.

Please contact us if you have any questions or comments concerning any of the information discussed in this newsletter or any other tax or accounting matters.