

# CLAIBORNE LAVOIE ASSOCIATES

TAX AND ACCOUNTING PROFESSIONALS

## TAX FACTS 2017 Federal Tax Deposit Requirements

Rule	Determination for Base Period	Deposit Requirements	
		Pay Date	Deposit Day
Monthly	If the accumulated tax liability is less than or equal to \$50,000 for the look-back period.	Any Day	Deposit monthly by the 15th of the following month.
Semiweekly	If the accumulated tax liability is greater than \$50,000 for the look-back period.	Wednesday-Friday	Following Wednesday
		Saturday-Tuesday	Following Friday
Exception Rules	Tax Liability Amount	Deposit Day	
\$500 FUTA Rule	If the FUTA tax liability for any calendar quarter in 2017 is over \$500 (including any FUTA tax carried forward from an earlier quarter).	Deposit by the last day of the first month that follows the end of the quarter	
\$2,500 Rule	If the tax liability is less than \$2,500 for the entire quarter.	Liability may be paid with the quarterly tax return.	
\$100,000 Rule	If the accumulated tax liability is \$100,000 or more for any check date.	Deposit the next banking day.	

### California SDI and PIT Deposit Requirements

If Your Federal Deposit Schedule/ Requirement Is	And You Have Accumulated State PIT Withholdings of	If Pay Date is	PIT and SDI Deposit Due By	California "Deposit Schedule" box to mark on the DE 88/DE88ALL
Next Banking Day	Less than \$350	Any day	May 1, 2017 July 31, 2017 October 31, 2017 January 31, 2018	Quarterly
	\$350 to \$500	Any day	15 <sup>th</sup> of the Following Month	Monthly
	More than \$500	Any day	Next Business Day	Next Business Day
Semiweekly	Less than \$350	Any day	May 1, 2017 July 31, 2017 October 31, 2017 January 31, 2018	Quarterly
	\$350 to \$500	Any day	15 <sup>th</sup> of the Following Month	Monthly
	More than \$500	Wed., Thurs., Or Fri.	Following Wednesday	Semiweekly
	More than \$500	Sat., Sun., Mon., or Tues.	Following Friday	Semiweekly
Monthly	Less than \$350	Any day	May 1, 2017 July 31, 2017 October 31, 2017 January 31, 2018	Quarterly
	\$350 or More	Any day	15 <sup>th</sup> of the Following Month	Monthly
Quarterly or Annually	Less than \$350	Any day	May 1, 2017 July 31, 2017 October 31, 2017 January 31, 2018	Quarterly
	\$350 or More	Any day	15 <sup>th</sup> of the Following Month	Monthly

NOTE: If a deposit due date falls on a Saturday, Sunday, or legal holiday, the due date is extended to the next business day. For example, if a deposit is due on Friday, but Friday is a holiday, the deposit due date is extended to the following Monday.

# 2017 HIGHLIGHTS

## FEDERAL HIGHLIGHTS

### FICA

(Employee rate 6.2%; Employer rate 6.2%)

<b>Social Security</b>		<b>Medicare</b>
\$127,200	Taxable Base	No Limit
6.2%	Rate of Tax	1.45%**
\$7,886.40	Maximum Contribution	No Limit

\*\*The tax rate for employees increases to 2.35% on wages in excess of \$200,000

### FUTA

Taxable Base \$7,000.00

Rate of Tax 6.0%

Maximum Credit 5.4%

Please note that California has been classified as a credit reduction State for 2016 & 2017. This means that California employers will have to pay an additional 1.5% of FUTA tax. This has resulted in an overall increase in the FUTA taxes California employers pay.

## CA STATE HIGHLIGHTS

### ETT

\$7,000.00

0.1%

Taxable Base

New Employer Rate

### SUI

\$7,000.00

3.4%

### SDI

Taxable Base \$110,902.00

Rate of Tax 0.9%

Maximum Contribution \$998.12

### CA SUI & ETT

The State Unemployment Insurance (SUI) rate of 3.4% is assigned to all new employers automatically for up to three calendar years. Employers, who maintain a stable payroll, filing and paying taxes on time, will generally have a lower SUI rate. The EDD employer notice (DE 2088) is mailed in December. It gives employers their SUI, ETT and SDI rates for 2017.

## CA SDI

The State Disability Insurance (SDI) contribution rate will be 0.9% in 2017.

## PAYROLL DEPOSITS

Please make sure your payroll programs are updated for any changes in the SUI and SDI rates before the first payroll is processed in 2017. Employer contributions to SUI and ETT are due quarterly and paid with the DE 88 state deposit coupon. For withholdings taken from employees' wages for PIT & SDI, CA state deposit rules generally follow federal deposit guidelines; that is, if an employer makes a federal deposit, they are required to make a state deposit. Once an employer makes a next banking day deposit to the IRS, they automatically become a semiweekly depositor for the remainder of that calendar year and all of the following year. Payroll tax payments are due and must be reported in the quarter the wages were paid, not in the quarter the wages were earned.

## MANDATORY FEDERAL EFTPS PARTICIPATION

All taxpayers need to be making federal deposits by Electronic Funds Transfer (EFT). You can register or get more information online at [www.eftps.gov](http://www.eftps.gov). Please refer to the following page for details.

## MANDATORY CA EFT PARTICIPATION

Beginning January 1, 2017, employers with 10 or more employees will be required to electronically submit employment tax returns, wage reports, and payroll tax deposits to the Employment Development Department (EDD). All remaining employers will be subject to this requirement beginning January 1, 2018. Any employer required under existing law to electronically submit wage reports and/or electronic funds transfer to the EDD will remain subject to those requirements. For more information, visit [E-file and E-pay Mandate for Employers](#).

Employers who do not meet the mandatory CA EFT requirements are encouraged to file by EFT on a voluntary basis. Newly developed online access allows California employers to manage their own accounts via the Internet. Employers are able to access account and payment information, review account statements, and pay all payroll tax liabilities online. To register or get more information visit <https://eddservices.edd.ca.gov>.

## **ON YOUR RADAR**

### **Individual Income Tax Rates**

There were changes to both the federal and California individual income tax rates for 2017. Please be sure your payroll programs and any system you use to process payroll is up to date.

### **Additional Medicare Tax of .9% on Wages in Excess of \$200,000 per year**

An employer must withhold additional Medicare Tax from wages it pays to an individual in excess of \$200,000 in a calendar year. The additional Medicare tax only applies to the employee withholding portion of Medicare taxes and not to the employer portion. Medicare withholding of 1.45% must be withheld on the first \$200,000 of an employee's wages and at a rate of 2.35% on wages in excess of \$200,000 in a calendar year. This additional tax **must** be withheld by the employer.

### **Medicare 3.8% Net Investment Income Tax**

This tax applies to estates, trusts and individual taxpayers whose adjusted gross income exceeds certain amounts. Please click on the following link for a full explanation of this tax:

[http://www.oakhurstepas.com/~oakhurst/files/3\\_8\\_Medicare.pdf](http://www.oakhurstepas.com/~oakhurst/files/3_8_Medicare.pdf)

### **Watch for 2017 Tax Rate Information from the Employment Development Department**

Your Notice of Contribution Rates and Statement of Unemployment Insurance (UI) Reserve Account (DE 2088) for calendar year 2017 will be generated in December 2016. For questions about your statement, please call (916) 653-7795. When you call, please have your DE 2088 and your employer account number available.

### **California Sales and Use Tax Rate**

Current **base** sales tax rate is now 7.25%.

### **Standard Mileage Rates**

The business mileage rate was \$0.54 cents for 2016. The medical and moving rate was \$0.19 cents for 2016. Beginning on January 1, 2017, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- \$0.535 cents per mile driven for business;
- \$0.17 cents per mile driven for medical or moving purposes;
- \$0.14 cents per mile driven in service of charitable organizations.

(California conforms to these rates.)

# **YEAR-END FILING REQUIREMENTS**

## **W-2 Filing**

If filing paper returns: Send the entire first page of Form W-3 with Copy A of Forms W-2 by January 31, 2017 to the Social Security Administration (SSA) at the following address:

Social Security Administration  
Data Operations Center  
Wilkes-Barre, PA 18769-0001

See Circular E (Pub. 15) for special mailing addresses and a list of IRS-approved private delivery services. PDF versions are available on their website at [www.irs.gov/w2](http://www.irs.gov/w2).

Furnish Copies B, C, and 2 of Form W-2 to the employee by January 31, 2017. You will meet the “furnish” requirement if the form is properly addressed and mailed on or before the due date.

Do not file Forms W-2, W-3, W-2c, and W-3c downloaded from the IRS website with the SSA. They are provided for informational purposes only. A penalty of up to \$100 per information return may be imposed for filing such forms that cannot be scanned. A penalty of \$260 per information return may be imposed if the returns have not been filed.

Visit SSA’s Employer Reporting Instructions and Information website at [www.socialsecurity.gov/employer](http://www.socialsecurity.gov/employer), select “Electronically File Your W-2s,” and provide registration information. You will be able to create and file “fill-in” versions of Forms W-2 with SSA and can print out completed copies of Forms W-2 for filing with state and local governments, distribution to your employees, and for your records. Form W-3 will be created for you based on your Forms W-2. If you file 250 or more Forms W-2, you must file them electronically unless the IRS has granted you a waiver. You may be charged a penalty if you fail to file electronically when required.

## **Form 1099**

The penalties for failure to furnish information returns (such as 1099’s) are substantially greater for information returns required to be filed after December 31, 2016, than they have been in the past. There penalty is now \$260 per return for failure to furnish information returns.

In addition to the rules for issuing 1099’s to entities that are not corporations, the following lists some of the payments to corporations that are reportable and often times overlooked by taxpayers:

- Medical and health care payments (Form 1099-MISC);
- Barter exchange transactions (Form 1099-B);
- Attorneys’ fees and gross proceeds paid to an attorney (Form 1099-MISC);
- Substitute payments in lieu of dividends and tax-exempt interest (Form 1099-MISC);
- Cancellation of debt (Form 1099-C);
- Payments by a federal executive agency for services (Form 1099-MISC);
- Acquisitions or abandonments of secured property (Form 1099-A);
- Fish purchases for cash (Form 1099-MISC).

For a complete list of reportable payments to corporations, refer to Section P in the 2016 General Instructions for 1099’s on the IRS website at [www.irs.gov](http://www.irs.gov). Form 1099-MISC must be furnished to the recipient by January 31, 2017, and the IRS on or before January 31, 2017.

## **YEAR-END FILING REQUIREMENTS (continued)**

### **Form 1099-INT**

Generally, Form 1099-INT must be filed for each person to whom you have paid at least \$10 in interest income reportable in boxes 1, 3, and 8. There are some exceptions as noted in the 2016 Instructions for 1099's. Report only interest payments made in the course of your trade or business; payments to individuals are excluded. These must also be furnished to the recipient by January 31, 2017, and the IRS on or before February 28, 2017 (March 31<sup>st</sup> if filing electronically).

### **Form 1099-MISC**

For most businesses, the Form 1099-MISC must be filed for each person to whom you have paid during the year:

- At least \$10 in royalties (box 2) or broker payments in lieu of dividends or tax-exempt interest (box 8);
- At least \$600 in rents, services (including parts and materials), prizes and awards, other income payments, medical and health care payments, crop insurance proceeds;
- Payments to attorneys of \$600 or more in the course of your trade or business (box 7).

In addition, use Form 1099-MISC to report that you made direct sales of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment. You must also file Form 1099-MISC for each person from whom you have withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.

### **Use Tax Registration and Filing**

Purchases subject to use tax must be reported on form BOE-401-E. Filings must be reported through the Board of Equalization website. By definition, a qualified purchaser is any business, whether or not licensed, that:

- Receives at least \$100,000 in gross receipts in any given calendar year from all in-state and out-of-state business operations including gross rental, portfolio and personal service income;
- Is not required to hold a seller's permit with the BOE;
- Is not required to be registered or is not a holder of a use tax direct payment permit with the BOE.

Qualified purchasers must register with the Board of Equalization and file an annual use tax return—even if there is no use tax liability—by April 15 each year to report and pay use tax on untaxed purchases made in the preceding calendar year. The April 15 due date applies to both calendar- and fiscal-year taxpayers. For more information please visit [www.boe.ca.gov](http://www.boe.ca.gov) and search “use tax information”.

## **REPORTING WORKERS TO THE EDD**

California businesses must report new employees and certain independent contractors to the EDD. Here's a review of the requirements:

### **Independent Contractors**

Businesses must report individual independent contractors subject to Form 1099-MISC filing requirements to the EDD within 20 days of either making payments totaling \$600 or more or entering into a contract for \$600 or more within that calendar year, whichever is earlier. This includes independent contractors from other states that work in, derive income from, or are subject to the laws of California.

This is an annual requirement, so even if the business reported the independent contractor in prior years, the contractor must be reported again in 2017 if requirements are met. Use Form DE 542, **Report of Independent Contractor**. Check the "ongoing" box if you cannot determine when the independent contractor will reach the \$600 threshold. A business is not required to file Form DE 542 for an independent contractor who is a corporation, general partnership, limited liability partnership, or limited liability company. This information can be filed on paper or on-line at <https://eddservices.edd.ca.gov>.

### **Employees**

All California employers must report all their new or rehired employees who work in California to the New Employee Registry within 20 days of the start-of-work date. The "start-of-work" date is considered to be the first day an employee performs services for wages. This includes all employees, regardless of age or projected wages, who:

- Work full, or part-time, year-round or seasonal;
- Work less than a full day;
- Discontinue their employment prior to the twentieth day of employment;
- Work in California, but live outside of California;
- Are a shareholder/employee.

If you acquire an ongoing business and employ any of the former owner's workers, these employees are considered new hires and should be reported to the New Employee Registry.

File Form DE 34, **Report of New Employee(s)**, or send a copy of the employee's Form W-4, **Employee(s) Withholding Allowance Certificate**, to the EDD. If you use the employee's Form W-4, you must add the employee's start-of-work date, the employer's California employer account number, and the employer's Federal identification number (FEIN). New hire data may also be submitted online using the EDD's e-Services for Business at <https://eddservices.edd.ca.gov>.

### **Penalties**

The EDD may assess a \$24 penalty for each failure to report a new hire or an independent contractor unless the failure is due to good cause. If the employer and employee conspire to omit filing the required information or issue a false or incomplete report, the EDD may assess a penalty of \$490 (UIC 1088.5).

## **BONUS / LUMP SUM PAYMENTS**

The 2017 California withholding rate is 10.23% for stock options and bonus payments, unchanged from 2016. A withholding rate of 6.60% applies to other lump-sum payments that are supplemental wage payments such as vacation pay, overtime and commissions, unchanged from 2016. The federal withholding rate remained at 25% for supplemental wages in 2017.

## **HOLIDAY GIFT COUPONS**

Many employers give their employees holiday gift coupons instead of the traditional ham, turkey or gift basket. Gift coupons provide employees with more choices and greater convenience. Because cash and cash equivalent fringe benefits like gift coupons have a readily ascertainable value, the IRS has ruled that they do not constitute “de minimis” fringe benefits because these items are not unreasonable or administratively impracticable to account for. These items must be reported for payroll tax purposes as wages subject to all employment and withholding taxes, and be included on the employee’s Form W-2.

## **FILING ONLINE**

The EDD e-File program allows you to key-in and submit the following EDD tax and wage forms:

- **Quarterly Wage and Withholding Report of Wages** (DE 9 & DE9C)
- **Payroll Tax Deposit** (DE 88)
- **Report of Independent Contractor(s)** (DE 542)
- **Report of New Employee(s)** (DE 34)

Reasons to file online include:

- The service is available 24 hours per day, 7 days a week.
- You can view and verify reports before submitting.
- EDD sends immediate confirmation of successful filing.
- It’s easier to report online than on a paper form.

Register at: <https://eddservices.edd.ca.gov> or for more information, call: (800) 796-3524 or email to [ecom@edd.ca.gov](mailto:ecom@edd.ca.gov).

## 2016 & 2017 Federal Contribution Limitation Amounts

### Retirement Contribution Limits:

#### IRAs (Regular and Roth)

AGE	2016	2017
Up to Age 50	\$5,500	\$5,500
Age 50 +	\$6,500	\$6,500

#### 401(k); 403(b); 457 Plans

AGE	2016	2017
Up to Age 50	\$18,000	\$18,000
Age 50 +	\$24,000	\$24,000

#### Simple IRAs

AGE	2016	2017
Up to Age 50	\$12,500	\$12,500
Age 50 +	\$15,500	\$15,500

#### Defined Contribution Plans\*

	2016	2017
Profit Sharing/money purchase	\$53,000	\$54,000
SEP IRA	\$53,000	\$54,000

\*2017 Annual compensation limits of defined benefit plans is \$270,000

### Health Savings Accounts Contribution Limits:

	2016		2017	
	Family	Self	Family	Self
Contribution limit	\$6,750	\$3,350	\$6,750	\$3,400
Additional catch-up contribution for taxpayer age 55 or older	\$1,000 per qualifying spouse	\$1,000	\$1,000 per qualifying spouse	\$1,000
Minimum health insurance deductible	\$2,600	\$1,300	\$2,600	\$1,300
Maximum out of pocket	\$13,100	\$6,550	\$13,100	\$6,550