



To: Clients/Friends  
From: Tax Department  
Date: December 31, 2011  
Re: Payroll Tax Rate Changes

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In order to assist in the preparation of paychecks and payroll tax returns, we have listed the payroll withholding taxes that are effective January 1, 2012.

<u>Type of Tax</u>	<u>Amount Withheld</u>
Federal Withholding Tax	Amount is determined pursuant to the withholding tables contained in Federal Circular E.
Social Security (OASDI) and Medicare Tax (HI)	The social security wage base for 2012 has increased to \$110,100. For wages paid for the first two months of 2012, the Social Security Tax Rate is 4.2%. The 4.2% rate applies to employees. A 6.2% rate applies to employers. The 4.2% rate is effective up to the end of February 2012 or the first \$18,350 of wages, whichever comes first. Unless an extension agreement is reached the employee rate will revert back to 6.2% after February. The Medicare tax rate is 1.45%, with no limit to the amount of wages subject to the tax.
Pennsylvania Income Tax	The rate of 3.07% continues to be withheld, which is the same rate as 2011.
New Jersey Gross Income Tax	The rates for 2012 range from 1.4% to 8.970% on graduated levels of income. Keep in mind, there is New Jersey tax due for New Jersey residents working in Philadelphia when the effective state rate exceeds the Philadelphia non-resident rate.
City of Philadelphia	For residents of the City, the rate is 3.928% and for non-residents the rate is 3.4985%. These rates are effective through June 30, 2012.
Pennsylvania Unemployment Compensation Employee Withholding	All wages are subject to .08% withholding.
Pennsylvania Unemployment Compensation Employer Expense	The wage base of \$8,000 for each employee remains the same for 2012. There is currently a proposal to raise this wage base but for now it remains the same. Tax rates are dependent upon each employer's unemployment experience record, and, in 2012, will include several surcharges designed to improve the solvency of the UC Fund. The PA Dept. of Labor has not released the 2012 employer surcharge rates as of the date of this letter.

<u>Type of Tax</u>	<u>Amount Withheld</u>
Local Earned Income Tax/Occupational Privilege Tax	Most Pennsylvania municipalities impose a local earned income or occupational privilege tax, which in many cases is 1% & \$52, respectively. However, please refer to your local tax collector for the percentage and amount since they vary. Under newly enacted Act 32, employers must withhold at the higher rate of the employees home or place of work. There are also new forms to be completed by the employees that must be retained by the employer.
New Jersey Unemployment Compensation	The employee's rate of .705% is to be withheld for 2012. The employer's rate is dependent upon the employer's unemployment experience record. The tax is calculated only on the first \$30,300 of compensation.
Self-Employment Tax	The rate of 10.4% tax is computed on the first \$18,350, and 12.4% on the next \$91,750 of self-employment income, and a 2.9%. Medicare Tax is computed on all self-employment income.

#### Electronic Federal Tax Payment System (EFTPS)

The IRS has issued regulations under section 6302 which provide that beginning January 1, 2011, you must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically by electronic funds transfers. Forms 8109 and 8109-B, Federal Tax Deposit Coupon, cannot be used after December 1, 2010. For more information about electronic funds transfers, visit the IRS website at [www.irs.gov/e-pay](http://www.irs.gov/e-pay).

#### Federal Depository Requirements (FWT & FICA)

You will be either a monthly or semi-weekly depositor. The Internal Revenue Service should have notified you what your deposit status is for the coming calendar year. If you are not notified, you should use the same method as the previous year.

Your deposit schedule for a calendar year is determined from the total taxes reported on your Form 941 (or 941E) in a four quarter look-back period-July 1, through June 30. If you reported \$50,000 or less of employment taxes for the look-back period, you are a monthly depositor; if you reported more than \$50,000, you are a semi-weekly depositor. Two special exceptions exist:

1. Businesses that have less than \$2,500 in quarterly employment taxes may make payments every three months with the filing of Federal Form 941.
2. Businesses that accumulate a tax liability of \$100,000 or more on any day during a deposit period, must deposit the tax by the next banking day, whether the business is a monthly or semi-weekly schedule depositor. If this happens, you become a semi-weekly depositor for the remainder of the calendar year and for the following calendar year.

#### Semi-weekly Rule

Under the semi-weekly rule, amounts accumulated on paydays made on Wednesday, Thursday and/or Friday must be deposited by the following Wednesday. Amounts accumulated on paydays made on Saturday, Sunday, Monday and/or Tuesday must be deposited by the following Friday. Therefore, each employer must make one weekly deposit, depending on his or her payday.

#### Monthly Rule

Under the monthly rule, employment and other taxes withheld on payments made during a calendar month must be deposited by the 15th day of the following month.

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New Employers

You will be a monthly depositor for the first year of your business.

The above requirements can prove to be quite onerous. A payroll service can help eliminate problems and missed deposits.

Reminders for 2012

1. When filing the quarterly payroll tax forms, remember to remit a deposit against the FUTA tax liability (Form 940). The tax deposit should be 0.9% of the first \$7,000 of wages paid, per employee, in 2012 for PA and NJ. No deposit is required until the FUTA liability reaches \$500.
2. Remind all employees to complete Form W-4 and claim all the allowances to which they are entitled. Be sure to receive Form W-9 for all commissions, interest, rents, etc. paid to individuals. Form I-9 (Employment Eligibility Verification) is a mandatory requirement for all employees and should be completed on the first day of employment. Also report new hires to the states as detailed later.

City of Philadelphia – Wage Tax Due to the City

The Revenue Commissioner has established the following parameters for filing frequency:

For 2012, if you remit more than \$20,000 in any type of Philadelphia tax or if you are a payroll service, you will have mandatory electronic filing of wage tax. You should receive a letter stating this.

<u>Filing Period</u>	<u>Amount</u>
Quarterly	Less than \$350 tax due per month
Monthly	From \$350 to \$16,000 tax due per month
Weekly	Greater than \$16,000 tax due per month

Due dates for the filing periods are as follows:

Quarterly	1st Quarter	April 30th
	2nd Quarter	July 31st
	3 <sup>rd</sup> Quarter	October 31st
	4th Quarter	January 31st

*(more....)*

Monthly                                   The 15th day of the following month.  
Weekly                                   Three (3) banking days after the payment of each payroll.

Social Security Beneficiaries, Self-Employment & Wage Earnings Limits

As of January, 2012, the full retirement age is 65 years and 10 months for retirees born in 1942 and 66 years for retirees born between 1943- 1954. If a beneficiary reaches the full retirement age in 2012 the earned income limit is \$38,880. Beneficiaries will lose \$1 of benefits for each \$3 of earned income over the earnings limit of \$38,880. In 2012, the earnings range is between \$14,640 and \$38,880 for those beneficiaries between 62 and full retirement age. These beneficiaries lose \$1 of benefits for each \$2 earned within the earned income range. There is no earnings limit for the years after the beneficiary attains full retirement age.

Maximum 401(k) Deferral

For 2012, the maximum amount permitted for elective deferrals for 401(k) plans and 403(b) plans is \$17,000.

For 2012, the catch-up provision for individuals who are at least fifty (50) years old before the end of the plan year is \$5,500 for 401(k) plans.

New Hire Reporting Law

All employers are required to report information on newly hired employees. The reporting requirement varies from state to state. Each state is required to inform business entities of their state requirements. If you have any questions regarding your state filing requirements, please contact us.

For Pennsylvania, within twenty (20) days, send a complete Form W-4 or the new hire reporting form to:

Commonwealth of Pennsylvania  
New Hire Reporting Program  
PO Box 69400  
Harrisburg, PA 17106-9400  
OR  
Fax: (717) 657-HIRE (4473) Phone: (888)  
PAHIRES-(888) 724-4737  
[www.panewhires.com](http://www.panewhires.com)

For New Jersey, within twenty (20) days, send a complete Form W-4 to:

New Jersey New Hire Directory  
PO Box 4654  
Trenton, NJ 08650-4654  
OR  
Telephone: 1-877-NJHIRES  
Fax: 1-800-304-4901  
[www.nj-newhire.com](http://www.nj-newhire.com)