



December 8, 2011

Dear Client:

Enclosed please find our annual updated payroll tax information schedule providing you with the new general rules concerning payroll tax rates, limits, and deposit requirements for the year 2012.

Keep in mind that these rules are general in nature only, and some unusual circumstances could result in the application of different or additional requirements. Thus, if you have a situation that does not fit neatly into one of these specific categories listed, please feel free to give us a call and we can discuss the applicable requirements.

We have enclosed for your convenience a copy of the provisions regarding employee business expense reimbursement regulations. It is important in terms of providing you with the appropriate deductions and minimizing taxes on the part of the party being reimbursed. Also enclosed is a copy of a statement which should be used in the case of all employer-provided vehicles. Remember, the rules are different for owners and officers of the company. Please contact us for calculations of these expenses. The value of the benefit derived from personal use of an employer-owned or leased vehicle needs to be included on the employee's 2011 Form W-2, subject to social security, medicare taxes and state and federal withholding taxes.

Lastly, any cash payments in the form of bonuses should also be included on the employee's 2011 Form W-2 and applicable payroll tax with withholdings.

Please note that on January 1, 2012 the standard mileage rate will be 55.5 cents per mile.

If any circumstances not covered by the enclosed should arise or if you have any questions concerning these rules, please call.

Sincerely,

Ricci & Company LLC

**PAYROLL TAX INFORMATION
2012**

	<u>Rate</u>	<u>Maximum Wages</u>	<u>Maximum Withholding</u>
SELF-EMPLOYED PERSONS:			
Self-Employment Taxes:			
Social Security	10.40%	\$110,100	\$11,450.40
Medicare	<u>2.90%</u> 13.30%	No limit	No limit
EMPLOYEE WITHHOLDING:			
SS Employers' Portion	6.20%	\$110,100	\$6,826.20
Medicare Employers' Portion	1.45%	No limit	No limit
SS Employees' Portion	4.20%	\$110,100	\$4,624.20
Medicare Employees' Portion	<u>1.45%</u> 13.30%	No limit	No limit
New Mexico- ESC	Rate varies according To experience	VAR	\$22,400
FUTA	.6%	\$ 7,000	

The FUTA tax rate will remain at 6.0% through 2012. There is a credit of 5.4% given, the net effect being at FUTA rate of .6%

As noted above. Each company has its own state unemployment tax (SUTA) rate. Please send new rate when you receive it if we're preparing your payroll reports.

The federal withholding rates changed for 2012. If you do not receive a new Circular E, please call our office and we will be glad to give you the information. Please remember to update your software accordingly. State withholding rates will also change. Please refer to your new CRS-1 filer's kit for the new tables.

As of the date of this letter, the federal minimum wage is \$7.50 an hour. The Albuquerque minimum wage is \$7.50 per hour. Tipped wages are currently \$2.13 an hour.

The current gross receipts tax rate is 7.00% for Albuquerque. The new Gross Receipts Tax Rate Schedule should be sent to you before the first of the year. If you are unsure of rate changes, please give us a call. **Please read your new CRS1 booklet; new rates may apply.**

PAYMENT OF FEDERAL PAYROLL TAX DEPOSITS

Withholding and FICA

There have been no changes for 2012 regarding when to make federal employment tax deposits.

Under the current rules, each employer will be classified as either a monthly or a semi-weekly depositor. Your status will depend upon the amount of employment taxes you reported for a one-year "look back" period ending the preceding June 30. You have probably already received an updated notice from the IRS indicating your filing classification. Please forward a copy of the notice to our office.

If you reported employment taxes of \$50,000 or less for the look back period, you will be designated a "monthly depositor." For the next calendar year, you will generally have to deposit your employment taxes for each month on or before the 15th day of the following month (e.g., on or before November 15 for the month of October).

If you reported more than \$50,000 of employment taxes for the look back period, you will be designated a "semi-weekly depositor." For the next calendar year, you will generally have to deposit your employment taxes on or before two specified days of the week - Wednesday or Friday - depending upon when you pay your employees.

Pay Days

Wednesday, Thursday
And/or Friday

Saturday, Sunday, Monday
And/or Tuesday

Deposit Date

On or before the
following Wednesday

On or before the
following Friday

Exceptions

The regulations provide an important exception to the general deposit rules. If, on any day within a monthly or a semi-weekly deposit period, you have accumulated \$100,000 or more of employment taxes, those taxes must be deposited by the close of the next banking day. Once the \$100,000 exception applies to you, you automatically become a semi-weekly depositor for the remainder of the calendar year and for the following calendar year.

If you have accumulated less than \$2,500 in employment taxes for the quarter, you can deposit or remit the amount with your quarterly return filed by the due date.

Electronic Federal Tax Payment System (EFTPS)

Effective January 1, 2011, the IRS requires **all federal tax deposits** to be filed electronically.

FUTA

If your federal unemployment tax liability is \$500 or more at the end of a quarter, the amount must be deposited by the last day of the following month. Deposits are to be filed electronically.

NTTC's

Taxpayers who issue nontaxable transaction certificates (NTTC's) are required to keep the information on file.

Household Employees

The rules regarding the employment of household employees still apply in 2012. Please refer to the 2011 Circular E, Employer's Tax Guide, or the attached household employer checklist, for more information, or call us to discuss specific details.

Health Insurance Premiums - S Corporations

S Corporations must report the amount of health insurance premiums paid for 2% shareholders, and their family (if family covered), on the shareholder's 2011 Form W-2. This additional compensation is not subject to social security or medicare taxes. The corporation can then deduct the premiums on the corporation's 2011 tax return as compensation.

Pension Plan Limits

The limitation on the exclusion for elective deferrals under 401(k) plan is \$16,500 for 2011 and increased to \$17,000.00 in 2012. For those over 50 years old, an additional catch-up amount of \$5,500 is allowed for the year ending 2011 and 2012.

The contribution amount regarding elective deferrals to SIMPLE retirement accounts increased to \$11,500 and, if over 50, an additional catch-up amount of \$2,500 is allowed for the year ending 2011. There are no anticipated changes for 2012.

1099 Filing The IRS is verifying 1099 information and assessing penalties for mismatches. Please be sure you have the payee's legal name, federal ID number and address correct. The 1099's must be sent to the recipient by January 31, 2012 and to the IRS by February 28, 2012. The IRS is assessing a \$50.00 penalty for each 1099 that is not filed with the correct information and for late filing. The minimum penalty for intentional disregard of the filing requirements is \$100 per payee.

PROCEDURES BY THE EMPLOYER REGARDING REIMBURSEMENT OF EXPENSES TO EMPLOYEES

- I. The employer should continue to reimburse for specific expenses which employees incur throughout the year for such items as educational seminars, dues, telephone expenses, and any other business related expenses.
- II. Expenses that are not being turned in to the employer during the year for reimbursement will be handled under the following method. Normally, the only expenses not turned in throughout the year relate to expenses for the business use of automobiles. However, if the employer is only paying on an annual basis for other expenses, the following procedure will also apply.
 - A. The employer, in the last half of December of each year, will pay an estimated amount for expense reimbursement. The amount may exceed the estimated expenses.
 - B. The employer would then provide a statement to the employee at that time indicating:
 1. Amount that is being paid as reimbursement.
 2. Amount of expenses that have been previously substantiated by the employee to the employer which relate to the amount of expense reimbursement being paid. If some expenses are paid during the year by the employer under Method I, they would not be included on the statement.
 3. Excess amount of the reimbursement that has not yet been substantiated by the employee.
 4. A request that the employee substantiates any additional business expenses that have not yet been substantiated and to return any amounts remaining unsubstantiated within 120 days of the statement. If employee does not substantiate the expenses then the amount paid becomes income and will be reported on the W2.
 - C. When the individual income tax return is prepared early the following year, we would request at that time that the employee put their information together concerning any expenses which have not yet been substantiated to the employer. In most cases this will only be expenses related to business usage of automobiles.
 - D. The amount that was reimbursed by the end of the calendar year would be compared to the amount of expenses actually being substantiated under Step C. The excess amount would then be paid back to the employer within 120 days of when the statement mentioned in Step B was provided to the employee. The employer may wish to have as part of the employment agreement with the employee a provision that if such amount is not paid back to the employer within 120 days of when the statement described in Step B is provided, the employer would withhold the amount of unsubstantiated reimbursement from the employee's last check which falls within the 120-day period from the date the statement was issued.
 - E. During the first three quarters of each year, statements should be provided by the employer to the employee indicating that no amounts were paid to the employee and no expenses were substantiated by the employee to the employer. No amounts should be paid to the employee except during the fourth quarter of each calendar year.
 - F. The regulations issued by the Internal Revenue Service do not indicate that we have to treat all expenses the same. A combination of Methods I and II can be used for different expenses. In most situations all expenses, except automobile expenses, will be submitted to the employer and paid throughout the year as outlined under Method I. For automobile expenses, a reimbursement would be paid in December of each year with the substantiation to the employer being done when the individual return is prepared.

CORPORATE ESTIMATED FEDERAL INCOME TAX PAYMENT REQUIREMENTS

A corporation that anticipates year-end federal tax of \$500 or more must estimate its income tax liability for the current tax year and pay four quarterly estimated tax installments during that year. You can use Form 8109, if you qualify, or the Electronic Federal Tax Payment System (EFTPS).

For calendar-year corporations, estimated tax installments are due on April 15, June 15, September 15, and December 15. If any due date falls on a Saturday, Sunday or legal holiday, the payment is due on the first following business day.

To avoid a federal penalty for installments that are due for tax years beginning after 1993, each installment must equal at least 25% of the lesser of (1) 100% of the tax shown on the current year's return (or of the actual tax if no return is filed) or (2) 100% of the tax shown on the corporation's return for the preceding tax year, provided a positive tax liability was shown and the preceding tax year consisted of 12 months. A lower installment may be paid if it is shown that use of an annualized income method or, for corporations with seasonal incomes, an adjusted seasonal method would result in a lower required installment.

Large corporations cannot use 100% of the preceding year's tax to calculate estimated tax payments except for the first quarter payment. A large corporation (other than an S Corporation) is one that had taxable income of \$1 million or more for any of the 3 tax years immediately preceding the current tax year.

Members of a controlled group must also apportion the lower income tax brackets among themselves when estimating their tax liability for purposes of estimated tax payments.

The corporation must pay New Mexico estimated payments if they reasonably expect its tax liability for the current year to be \$5,000 or more. The rules to avoid a New Mexico penalty are different than the federal rules. Please call us if you need to discuss these rules.