



Tax Planning Notebook



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DOUGHERTY, LLP
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ACCOUNTANTS

THE LATEST TAX DEVELOPMENTS

1835 Market Street, 26th Floor, Philadelphia, PA 19103
Tel: 215/567-7770, Fax: 215/567-6081, www.bbdcpa.com

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2010 PAYROLL TAX: YOUR GUIDE TO THE CHANGES

The following summary highlights payroll tax changes for 2010:

Special Rules for Health Insurance Costs of 2% Shareholder-Employees

The IRS has released new rules related to health insurance premiums paid on behalf of more than 2% shareholder-employees. The corporation must either pay the premiums directly or reimburse the shareholder for documented premium payments. The corporation also must include the payments in Box 1 of the shareholder-employee's W-2, but they do not get included as wages for Social Security or Medicare. The employee must then report the W-2 income, but then deduct the premiums on line 29 of Form 1040. If you have such premiums, make sure to let your payroll service know the amount so they can add them to the W-2s in their year-end processing. ***If you fail to follow these directions, the IRS will say your S-Corporation health premiums are taxable and non-deductible.***

Social Security Changes

The Social Security Administration has announced there will not be an automatic increase to the wage base, earnings limit, or monthly benefit amounts in 2010 as there was no cost-of-living adjustment.

Wage Base

The maximum amount of earnings subject to the Social Security payroll tax will remain at \$106,800 for 2010.

The maximum yearly Social Security tax paid by an employee earning \$106,800 or more and his or her employer will remain at \$6621.60 each.

The Medicare tax has not changed. Employees and their employers each pay the Medicare tax at the rate of 1.45% on all salary and wage income. Self-employed individuals pay Medicare taxes at the rate of 2.9% on income from self-employment.

Earnings Limit

Workers who have applied for Social Security and are ages 62 through 64 will start to lose benefits once they earn more than \$14,160 in 2010. These workers lose \$1 in benefits for every \$2 they earn beyond the earnings limit. Workers who reach full retirement age (65 and 10 months for retirees born in 1942; 66 for those born

in 1943-1954) are exempt from any earnings limit for Social Security purposes.

Benefits Increase

Social Security benefits will not increase in 2010. The estimated average monthly benefit amount for retired Social Security beneficiaries will remain \$1,153, while the maximum Social Security benefit for a worker retiring at full retirement age is \$2,346. A worker retiring at age 62 will see a reduction in his/her monthly benefit of up to 30% based on his/her date of birth. Please take note, for retirees born in 1942, full retirement age is 65 years and 10 months; for those born in 1943-1954, it is 66 years. Full retirement age will gradually increase to age 67 for those born in 1960 or later.

Federal Income Tax Withholding

New wage withholding tables will appear in Circular E, Employer's Tax Guide, released in mid-December. The new tables reflect the cost of living changes that take effect in 2010, such as higher personal exemptions and standard deductions. These tables should be used for all wages paid as of January 1, 2010.

2010 Payroll Tax Highlights

- Social Security Changes (This Page)
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Federal Unemployment Tax

The taxable FUTA wage base of \$7,000 and the rate of tax (0.8%) after considering the state tax credit will remain unchanged for 2010.

(Read more about 2010 Payroll Tax Changes on Page 2)

YOUR NOTES:

From Page 1– More News About 2010 Payroll Tax Changes**State Income Tax Withholding*****Pennsylvania***

As in 2009, employers should again continue to withhold 3.07% from an employee's gross compensation during 2010. Also unchanged from 2009, employers with \$20,000 or more of withheld employee wages must remit this amount using the available electronic funds transfer options.

Remember that employer payments to "cafeteria" style health plans are excluded from the employee's gross income.

Please note that Pennsylvania has E-TIDES software available for paying and filing sales/use tax and employment tax returns. E-TIDES software calculates your tax liability, acknowledges receipt of your return and payment, records information exactly the way you sent it, and saves you time and postage. If you are filing your own returns, PA TIDES software can be installed on any personal computer with at least a 386 processor and downloaded free from the Internet at: <http://www.etides.state.pa.us>.

Philadelphia

Effective January 1, 2010, the Philadelphia income tax rates were reduced for both residents and nonresidents. For residents, the rate has been reduced to 3.9296% while the nonresident tax rate was lowered to 3.4997%. Taxpayers are

advised that wage tax should be withheld and remitted at the rate in effect on the date of the paycheck. The filing and deposit requirements for Philadelphia remain unchanged.

New Jersey

There were no announced changes in the New Jersey withholding tables for 2010. A reminder that wages in excess of \$500,000 are subject to withholding at 9.9%.

Delaware

Delaware withholding tables effective January 1, 2010 are available on their Web site at <http://revenue.delaware.gov/services/WITBK.shtml>

Maryland

Maryland personal income tax withholding is based on the top marginal rate of 6.25% plus the local county tax rate. The local county rates range from 1.25% to 3.20%. Maryland provides a withholding calculator on its Web site. The calculator can be found at <http://interactive.marylandtaxes.com/business/calculators/WHCalc2010.asp>.

State Unemployment Taxes***Pennsylvania***

For 2010, the taxable wage base for employers' contributions will remain at the first \$8,000 of wages. As a result of higher unemployment, the Trigger Mechanism in the Unemployment Tax Act was implemented. This resulted in both an

employer surcharge and an employee tax.

The 2010 rate will increase from .06% to .08%. A .08% (.0008) tax on employee wages, or 80 cents for each \$1,000 earned, will be charged against employees. The tax applies to all wages (i.e., it is not limited to the first \$8,000 in wages). A 5.8% surcharge will be factored into employer contribution rates. There also will be an additional .65% (.0065) tax for employers in addition to the surcharge.

New Jersey

The taxable wage base upon which both the employer and employee pay tax will increase from \$28,900 in 2009 to \$29,700 in 2010.

The employee's portion for all funds, including unemployment and disability, workforce development and family leave insurance contributions, increases from 0.925% (.00925) in 2009 to 1.045% (.01045) in 2010.

Delaware

For 2010, the taxable wage base will remain at the first \$10,500 of wages. There is no employee tax.

New York

The taxable wage base for 2010 will remain at the first \$8,500 of wages. There is no employee tax.

Maryland

The taxable wage base remains the same for 2010 at the first \$8,500 of wages. There is no employee tax.

Standard Mileage Rate Decreased For 2010

The standard mileage rate for computing the value of the business use of an automobile has been decreased for 2010 to 50 cents per mile. The medical and moving expense

rate decreases to 16.5 cents per mile. In addition, the mileage rate for charitable use will remain 14 cents per mile. Employers may use the standard mileage rate to pay for

auto expenses incurred by employees under an accountable expense reimbursement plan or expense allowance arrangement.

YOUR NOTES:

Retirement Plan Update

Limits for Qualified Plans and IRAs

Qualified Plans

Contribution Limits

For 2010, the maximum deferral under a 401(k), 403(b), salary reduction SEP or a 457 plan remains at \$16,500. The maximum employee contribution to a SIMPLE plan remains unchanged at \$11,500 for 2010.

The "catch-up" provision for additional contributions is applicable to those individuals who attain the age of 50 before the end of the plan year. The additional deferral amount for a 401(k), 403(b), salary reduction SEP or a 457 plan is \$5,500 in 2010.

For SIMPLE accounts, the catch-up contribution amount remains at \$2,500 for 2010. A qualifying participant may make "catch-up" deferrals without regard to the plan's percentage of compensation limits. These are additional annual contributions which may be made over and

above an employee's maximum regular contribution.

The contribution limit to defined contribution plans, such as Keogh or profit-sharing plans, remains at \$49,000 in 2010.

The maximum allowable contribution for 2010 will be the lesser of \$49,000, or 100% of the participant's compensation. The maximum amount of compensation allowable for this computation remains at \$245,000 in 2010.

Benefit Limits

The annual benefit limitation for a participant in a defined benefit plan in 2010 remains at \$195,000. The allowable benefit is equal to the lesser of \$195,000, or 100% of the participant's average compensation for his/her highest three consecutive years. This limit is reduced if benefits begin before age 62 and increase after age 65.

IRAs

For 2010, contributions to traditional or Roth IRAs remain at \$5,000. Remember, however, these contributions are subject to limitations based upon modified adjusted gross income. The deductibility of contributions to traditional IRAs depends upon the taxpayer's status as an active participant in an employer sponsored retirement plan.

Contributions to Roth IRAs, which are never deductible, are not affected by an employee's participation. The Act contains a similar "catch-up" provision for IRA contributions. Subject to the same limitations for IRAs as above, the allowable contribution for qualifying taxpayers will remain at \$6,000 in 2010. Past contributions to an IRA do not affect an individual's ability to make use of the increased contributions limit. Regardless of whether you have made prior contributions or not, the increased limit is still available.

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