

December 31, 2020

Dear Client:

We would like to take this opportunity to make you aware of certain changes concerning 2021 payroll taxes. The maximum wage base and tax rates for each portion of the FICA tax are as follows:

	<u>Wage Base</u>	<u>Employee Tax Rate</u>	<u>Employer Tax Rate</u>
MBHI (Medicare Tax)	No limit	1.45%	1.45%
OASDI (Social Security)	Up to \$ 142,800	<u>6.20%</u>	<u>6.20%</u>
Total FICA Tax		<u>7.65%</u>	<u>7.65%</u>
Additional Medicare Tax	In Excess of \$ 200,000	<u>0.9%</u>	<u>-</u>

As in the past, the employer and employee will each pay the FICA tax up to the respective maximum wage base, if any.

Effective January 1, 2013, employers are responsible for withholding additional Medicare tax at the rate of 0.9% from wages and other compensation that is paid to an employee in excess of \$200,000 in a calendar year. The additional Medicare tax must be withheld by the employer regardless of the individual's filing status or wages paid by another employer. The additional tax only applies to the employee portion of the Medicare tax.

Other payroll tax laws which you should be aware of are as follows:

1. The 2021 employer federal unemployment tax (FUTA) rate remains at .6% (.006) and the present maximum taxable wage level is \$7,000. Employers are not required to make FUTA deposits until the accumulated tax liability exceeds \$500. Form 940 is used to report this tax.
2. Employers with an annual liability of \$1,000 or less for Social Security and Medicare taxes and income tax withholding, will be notified by the IRS to use Form 944. In tax year 2021, employers will be able to opt out of filing Form 944 and request to file Form 941 for any reason if they follow the request procedures stated in Revenue Procedure 2009-51.
3. Form 8919, Uncollected Social Security and Medicare Tax on Wages will allow taxpayers improperly treated as independent contractors to pay Social Security and Medicare taxes. The form and additional information are available at www.irs.gov.
4. Income tax withholding tables in IRS Publication 15 will be released in the near future. Please check the IRS website at www.irs.gov prior to preparing your first 2021 payroll for guidance.
5. Disregarded entities (eligible single-owner entities) and qualified subchapter S subsidiaries (QSUBs) must report and pay employment taxes using the entity's own name and EIN.
6. The IRS has eliminated federal tax deposits by paper coupon after December 31, 2010. Information on the Electronic Federal Tax Payment System (EFTPS), including how to enroll, can be found at www.eftps.gov or by calling the EFTPS Customer Service at 1-800-555-4477.

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7. Employer state unemployment tax is capped at a maximum taxable wage level of \$10,000 for the 2021 tax year (remains unchanged from 2020). You will be notified of any change in your employer's contribution rate by the Department of Labor and Industry during the months of January or February.

In November 2012, the Department of Labor and Industry began the transition to the Unemployment Compensation Management System (UCMS) for electronic filing of unemployment compensation (UC) quarterly reports (Form UC-2/2A) and payment of UC contributions. UCMS is now available to all UC-Tides users for the first-quarter 2013 filing period and thereafter. Please visit the PA Department of Labor and Industry's website to learn more about the UC Management System at www.uctax.pa.gov. There is a penalty for paper filing these forms unless you were granted a waiver.

Effective January 1, 2017, employers are required to pay Unemployment Compensation (UC) contributions and reimbursement Statement of Accounts electronically if the total liability owed equals or exceeds \$5,000 for a payment period. Once the threshold is met, all subsequent payments must also be submitted electronically, even if amounts due for subsequent periods are less than \$5,000.

8. Employee state unemployment tax (SUTA) is .06% on all wages for the 2021 tax year (remains unchanged from 2020).
9. The Pennsylvania state income tax rate for 2021 remains unchanged at 3.07% as of the date of this letter.
10. Local Services Tax (LST) is a weekly payroll deduction, if the total LST rate enacted exceeds \$10. The tax will now be withheld from the employee each time they are paid on a prorated basis determined by the number of payroll periods in a calendar year. If the total LST rate enacted is \$10 or less, the tax may be collected in a lump sum.

Also, if the total LST rate enacted exceeds \$10, the Act requires that all jurisdictions exempt individuals with income within their jurisdictions of less than \$12,000. Employees will have the right to complete a Local Services Tax Exemption Certificate.

11. The City of Pittsburgh Payroll Expense Tax is assessed at a rate of .55% (.0055) of gross compensation generated as a result of the employer conducting business within the City of Pittsburgh. This tax is levied on employers and is not to be deducted from employee wages. Self-employed individuals are also subject to this tax. Report and pay the tax due with Form ET-1 quarterly.

If our office renders payroll services on your behalf, the withholding and reporting changes will be automatically instituted.

Effective January 1, 2017, the filing deadline for Form W-2 is January 31st for taxpayers filing in both paper form and electronically.

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Also, note that Forms 1099 are required to be filed to report any interest, dividend, rent, royalty, attorney fee and non-employee compensation payments made during the 2020 tax year if they exceed \$10 per payee for interest, dividends and royalties or \$600 per payee for other payments. When filing your 1099s for the 2020 tax year, you must include the telephone number of the contact person who will be responsible for answering questions relating to the completion of such forms. The filing due date is unchanged for all Forms 1099. The IRS has released Forms 1099-NEC to specifically report Non-Employee Compensation payments in 2020. Federal Form 1099-MISC is still available for other miscellaneous payments.

The Trade Preferences Extension Act of 2015 increases the penalty for failure to FILE “information returns” for 2020 from \$100 to \$270 and increases the penalty for failure to FURNISH “information returns” from \$100 to \$270. “Intentional disregard” of the filing requirements is at least \$540 per information return with no maximum penalty.

Beginning with payments made in calendar year 2012, under the Pennsylvania Act 85 of 2012, payors of either non-employee compensation or payments made under an oil and gas lease from sources within Pennsylvania are required to submit a copy of federal Form 1099-MISC to the PA Department of Revenue. Non-employee compensation is generally payments made to non-employees for services in the course of your trade or business. Payments made under an oil and gas lease typically may include rents, royalties, bonuses and other income regardless of how the payment is reported on the Form 1099-MISC.

If the payor is required to file electronically for Pennsylvania employer withholding, the Form 1099-MISC or 1099-NEC shall be filed electronically in Pennsylvania using e-TIDES. The due date for filing Forms 1099-MISC or 1099-NEC with the PA Department of Revenue is January 31, 2021 for all filers reporting non-employee pay. The due dates for filings not related to non-employee pay are February 28, 2021 for paper filers and March 31, 2021 for electronic filers.

Entities making rent and royalty payments on PA property to nonresidents in excess of \$5,000 will now be required to withhold personal income tax on the payments. This requirement also applies to non-employee compensation or business income paid to nonresidents if payments exceed \$5,000. Personal income tax must be withheld from the applicable payments and reported on Form 1099-MISC filed electronically. Please contact our office if you need assistance with these withholding requirements.

Employers filing more than 249 forms are required to file Forms W-2, W-2c, W-3c, 1099, 1042-S and 8027 electronically. If you are currently using the IRS Filing Information Returns Electronically System (FIRE), please visit <http://fire.irs.gov> for more information. New users are required to request authorization to file electronically with the IRS by submitting Form 4419, Application for Filing Information Returns Electronically.

With regard to filing Form W-2 with the Social Security Administration, applications or authorizations are not required to file the first Form W-2 electronically; rather, a business filing electronically for the first time is required to register to use the SSA Business Services Online (BSO) at <http://www.ssa.gov/bsowelcome.htm>. Small submitters (fewer than 250 Forms W-2) may also be able to file Forms W-2 online. For more information, visit SSA’s Business Services Online Website identified above and select “Tutorial.”

The IRS has released a new Form W-4 for year 2020 to accommodate the changes under the TCJA. It is highly recommended that employees file a new W-4 form with their employer to provide better accuracy in withholding since the elimination of the personal allowances that had been claimed in the past. If the employee is a student or other person eligible to claim exempt from federal tax withholding, there is no longer a box on the form to check. The employee should write “Exempt” in the space below – Step 4(c) and complete Steps 1(a), 1(b) and 5.

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The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan. IRS Notices 2011-28 and 2012-9 provide relief by making this requirement optional for certain smaller employers until the IRS issues final guidance. The relief is that employers who filed fewer than 250 Forms W-2 for the previous calendar year will not be required to report the cost of health insurance coverage on the 2020 Forms W-2. Reporting the cost of health care coverage on the Form W-2 does not mean that the coverage is taxable. The value of the employer's excludable contribution to health coverage continues to be excludable from an employee's income. This reporting is for informational purposes only and will provide employees useful and comparable consumer information on the cost of their health care coverage.

PLEASE NOTE: THERE ARE NEW EMPLOYER INFORMATION-REPORTING REQUIREMENTS OF THE AFFORDABLE CARE ACT (ACA) FOR 2016 AND FORWARD.

Employers may be required to file annual information returns with the IRS and furnish statements to employees on their health care plan coverage information beginning in 2017 (for reporting on calendar year 2016). The ACA's reporting requirements apply to all employers with 50 or more full-time or full-time equivalent employees during calendar year 2020. Small employers with fewer than 50 full-time employees (including full-time equivalents) will be required to file as well if they are members of a controlled or affiliated service group that collectively has at least 50 full-time employees (including full-time equivalents). In addition, employers of all sizes that offer employer-sponsored self-insured coverage will also need to report information to the IRS and to affected individual employees.

The federal filing deadlines for this new ACA reporting are not consistent with W-2 and 1099 reporting. For 2020, Form 1095-B or Form 1095-C, as applicable, must be provided to employees by March 2, 2021. Form 1094-B or Form 1094-C (transmittal forms), as applicable, and copies of each 1095-B/Form 1095-C are due to the IRS by February 28, 2021, or by March 31, 2021 if filing electronically. If a company files 250 or more Forms 1095-C, it will be required to file electronically.

If you have any questions regarding the appropriate Form 1094 and Form 1095 filing requirements, please contact our office.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) allows employers to defer the deposit and payment of the employee's share of Social Security taxes and self-employed individuals to defer payments of certain self-employment taxes from September 1, 2020 to December 31, 2020. The deferral of withholding of Social Security taxes is optional for employers, and if taken, must begin withholding and repayment again on January 1, 2021. The total deferred amount was originally to be remitted on or before April 30, 2021. For more information, please see the FAQ's at www.irs.gov. The Consolidated Appropriations Act, 2021 (CAA, 2021) further extends repayment until December 31, 2021.

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The CARES Act also allows employers to defer payment of the employer portion of the Social Security tax for 2020. Repayment is required of 50% of the deferral in 2021 and 50% in 2022.

With respect to retirement plan contributions, the maximum regular 401(k) contributions are \$19,500 for the 2021 tax year. The maximum 401(k) catch-up contribution is \$6,500 for 2021. The maximum IRA contribution for the 2021 tax year remains the same at \$7,000 (\$6,000 and \$1,000 catch-up contributions). Catch-up contributions result from the 2001 tax law changes and are only available to eligible individuals who are age 50 or older by the end of the calendar year.

The optional standard mileage rates for business use of a vehicle will decrease once again in 2021 to 56 cents per mile. This rate is used to calculate the tax deduction for business travel as an alternative to deducting actual costs of maintaining an automobile. The rate also is used by many companies to reimburse workers who use their own cars on company business. The rate for medical or moving expenses also decreased to 16 cents per mile and remains 14 cents per mile for charitable use.

With respect to local earned income tax withholdings, please be aware that "Act 32" became effective on January 1, 2012. Every business that employs individuals at worksites within Pennsylvania or employs individuals who work from their homes in Pennsylvania, is required to withhold the applicable local earned income tax amount from the employee's wages and remit the tax to the appropriate tax officer. If you have any questions regarding the withholding requirements, please contact our office.

If you should have any questions concerning these requirements and/or changes, please do not hesitate to contact our office.

Sincerely,



Herbein + Company, Inc.