

Federal Updates

Please review this summary of changes to federal tax deposit rules and regulations that could affect you.

Line Added to Form 941 for Unreported Tips

Tipped employees can submit Form 4137 (Social Security and Medicare Tax on Unreported Tip Income) to declare unreported tips with their personal tax returns. The Internal Revenue Service (IRS) can use this data to assess whether employers owe additional FICA tax.

If the IRS determines that additional liability is due based on these unreported tips or based on an examination of the employer's records by an auditor, the agency issues a Section 3121(q) Notice and Demand letter to affected employers, this notice will indicate how much tax is owed; this tax must be remitted based on our federal tax deposit frequency.

Note: The IRS does not issue these notices retroactively. When the IRS determines that additional employer taxes are owed on tips (regardless of when the tips were earned), it becomes a liability as of the date on the notice.

Effective for 2011 and after, this information must also be reported separately on Form 941. A new line, 5e, has been added to the return to report the additional employer FICA tax due titled "Section 3121(q) Notice and Demand – Tax due on unreported tips."

These notices are not common; however, if we receive a notice on behalf of your employees, we will inform you and you will be invoiced for any tax amount due. If you receive one of these notices, you must notify your payroll contact immediately and send us a copy of the notice.

Supplemental Wages over \$1,000,000

Special rules apply if supplemental wages paid to any one employee exceed \$1,000,000 during the calendar year. If total supplemental wage payments to an employee for the year exceed \$1,000,000, the excess is subject to withholding at 35 percent for 2012 – regardless of any other withholding rules and the employee's Form W-4. Supplemental wages paid to an employee during the calendar year that are equal to or less than \$1,000,000 follow regular withholding rules for supplemental wages.

- Notify your payroll contact if your payroll includes a payment that will put your employee over \$1,000,000 in supplemental wages paid year-to-date.

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Reporting Taxable Adjustments for Separated Employees

Taxable adjustments (for example, personal use of a company car, imputed value of group-term life insurance) should be reported with regular payroll whenever possible. Regular reporting of these adjustments allows required employee taxes to be withheld from wages. If taxable adjustments are reported without wages, the employer may be liable for the employee portion of taxes.

- ❑ When employees leave the company voluntarily or involuntarily, report taxable adjustments with the employees' last check; otherwise, you may be liable for the employee portion of taxes.

If you pay any part of an employee's income tax or FICA withholding, the amount paid must be reported as additional taxable wages for the employee. Additional employment taxes, both employee and employer portions, must be withheld on this added income.

- ❑ If you cannot report taxable adjustments on an employee's last check, discuss it with your payroll contact. We can help you calculate the additional amount needed to cover the employee FICA.