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December 2013

Dear Client:

Happy New Year! We have listed some of the most common payroll changes for 2014 and included 2013 amounts for a reference.

WAGE BASE REVISIONS FOR 2013

	<u>2014</u>	<u>2013</u>
Social Security Taxable Wage Base	\$117,000	\$113,700
Social Security Tax Rate- Employer	6.2%	6.2%
Social Security Tax Rate- Employee (see note below)	6.2%	6.2%
Medicare Taxable Wage Base	No Limit	No Limit
Medicare Tax Rate – Employer & Employee	1.45%	1.45%
Washington State Unemployment	\$41,300	\$39,800
Washington State Minimum Wage	\$9.32/hr	\$9.19/hr

Update your state Unemployment and Labor & Industries payroll tax rates in your computerized payroll systems after January 1st 2014 and before your first 2014 paychecks.

Affordable Care Act, how this could affect your business if you employ more than **50** employees, ask us what you will need to prepare for the mandated Health Insurance Premiums for all full time employees.

SALARY DEFERRAL LIMITS

401(K) & 403(B) Plans- Employee elective deferral limits are \$17,500. For individuals age 50 or older, an additional \$5,500 can be deferred. Please note that salary deferrals withheld from paychecks must be paid within 7 business days. There also must be a notification sent to the employees once a year.

SIMPLE IRA PLANS DEFERRAL LIMITS

Employee elective deferral limits are \$12,000. For individuals age 50 or older, an additional \$2,500 can be deferred.

EMPLOYEE DOCUMENTATION

Please find attached the following forms: W-4, I-9, Department of Social and Health Services. The new hire **MUST** be reported to the Department of Social and Health Services within 20 days of their hire date. You **MUST** have on file for each employee a copy of each form and appropriate documentation for the I-9. The I-9 is kept and updated every 3 years after date of hire or one year after the date employment ends, which ever is later. The W-4 **MUST** be updated each year.

CONTRACTOR VS. EMPLOYEE

Federal and state regulators continue to look more closely at companies' relationships with the people who work for them as independent contractors. If the person you are paying does not have a current business license and insurance, then you **MUST** pay them as an employee. You must have a **W-9** on file for each 1099 you send out, without a w-9 on file you can be charged with backup withholding. If you cannot decide for yourself whether they are an employee or independent contractor you can fill out an SS-8 and send it to the IRS and they will decide for you.

VCSP (Voluntary Compliance Settlement Program) is available for business owners to reclassify workers as employees for employment tax purposes for future tax periods from contractor workers. Ask us how this works.

ANNUAL FORM 1099

Unless you have specifically asked us to prepare your 1099's, it is your responsibility to prepare and file them. Any payments of \$600 or more to an individual, non-corporate entity, or an attorney for services require a 1099. If our services are required, please inform your accountant so the form is filed timely.

PAYROLL SERVICES

The beginning of the New Year is a good time to consider having us prepare your payroll. We're proud of the efficient, timely and very affordable services we offer.

In addition to freeing you from the burden of payroll preparation, we also:

Prepare all quarterly tax reports and W-2's.

Provide current and YTD salary and withholding information shown on the employee's stub.

Provide payroll tax deposit amounts and instructions to insure timeliness.

Provide electronic filing of payroll tax forms and electronic payment of payroll taxes upon request.

MILEAGE RATES

2014 IRS standard mileage rate is **56 cents** per mile. 2013 IRS standard mileage rate was 56.5 cents per mile.

CORPORATE OFFICER COMPENSATION

Be sure that your officer compensation can meet the IRS standards. For S-corporations they are looking at unreasonably low salaries. It is also prudent that the wages are paid quarterly and payroll taxes paid quarterly. There is no definition of what is "reasonable" and the IRS will determine it based on each company's facts and circumstances. The better the documentation you have in the corporate minutes and business reason for your wages, the more likely that the compensation would stand up in an audit. It is important that a mileage log be kept for all non-specialty vehicles. Also, personal use of the company vehicles needs to be calculated and added to wages.

For a C-corporation, the IRS is looking at excessive salaries. A reasonable salary is determined based on the shareholder's qualifications, the work performed, prevailing salaries, the size of the business and general economic conditions. Failure to pay dividends can be construed as indicating that compensation is for more than personal services.

SELF-EMPLOYED MEDICAL INSURANCE FOR S-CORPORATION SHAREHOLDERS

In order to deduct health insurance premiums paid for an S-corporation shareholder, the insurance must be purchased in the name of the corporation. The premiums paid by the corporation should be included in the shareholder's W-2 as wages. The insurance included in wages is not subject to FICA.

As always, if you have specific questions or concerns, please call, view our website at www.petersonjakecpa.com, or find us on Face Book for more information. We want to thank you for another great year, and we look forward to serving you in 2014.

Sincerely,

Peterson & Jake, CPA, Inc.