



# PETERSON & JAKE, CPA INC.

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December 14<sup>th</sup>, 2016

Dear Client:

Happy New Year! We have listed some of the most common payroll changes for 2017 and included 2016 amounts for a reference.

## WAGE BASE REVISIONS FOR 2017

	<u>2017</u>	<u>2016</u>
Social Security Taxable Wage Base	<b>\$127,200</b>	\$118,500
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	<b>\$45,000</b>	\$44,000
Washington State Minimum Wage	<b>\$11.00/hr.*</b>	\$9.47/hr.

Update your state Unemployment and Labor & Industries payroll tax rates in your computerized payroll systems after January 1<sup>st</sup> 2017 and before your first 2017 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 \$18,000. For individuals age 50 or older, an additional \$6,000 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 \$12,500. For individuals age 50 or older, an additional \$3,000 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, whichever is later. The W-4 **MUST** be updated each year. (If you ever need further documentation, the forms are on our website.) It is very important that you provide your employee's a paystub that reflects year to date totals each pay period.

## **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, to avoid penalty, without a W-9 on file you can be charged with backup withholding. Common law rules to use: Behavior, Financial & Type of Relationship. 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, unless paid with a credit card. If our services are required, please inform your accountant so the form is filed timely as well as provide W-9's, they need to be submitted to the IRS by January 31<sup>st</sup>, 2017. Penalties for timely filing have increased to the following amounts.

	<b>Time returns filed/furnished</b>	<b>Returns due 01-01-16 thru 12-31-2016</b>	<b>Returns due 01-01-17 thru 12-31-2017</b>
Lg Business & Gov. Entities	<b>Not more than 30 days late</b>	\$50 per return/ \$529,500* maximum	\$50 per return/ \$532,000* maximum
Small Business		\$50 per return/ \$185,000* maximum	\$50 per return/ \$186,000* maximum
Lg Business & Gov. Entities	<b>31 days late – August 1.</b>	\$100 per return/ \$1,589,000* maximum	\$100 per return/ \$1,596,500* maximum
Small Business		\$100 per return/ \$529,500* maximum	\$100 per return/ \$532,000* maximum
Lg Business & Gov. Entities	<b>After August 1 or Not At All</b>	\$260* per return/ \$3,178,500* maximum	\$260 per return/ \$3,193,000* maximum
Small Business		\$260* per return/ \$1,059,500* maximum	\$260 per return/ \$1,064,000* maximum
Lg Business & Gov. Entities	<b>Intentional Disregard</b>	\$520* per return/ No limitation	\$530* per return/ No limitation
Small Business		\$520* per return/ No limitation	\$530* per return/ No limitation

## **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.

\*\* Please note that W-2 filing by paper and E-filings are due to Social Security by: **01/31/2017**

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.

For future looking plans in regards to employees and hours, with the new ACA regulations coming into effect over the next year there are penalties that come into play if you are a large employer (an employer with 50 full time employees, which calculations can also include part time employees) and do not offer your employees health coverage. The IRS extended the due date from January 31<sup>st</sup>, 2017 to March 2<sup>nd</sup>, 2017 for employers to provide forms 1095-Bs and 1095-Cs to employees. Employers have until the February 28<sup>th</sup>, 2017 to paper file 1094-Bs and 1094-Cs or March 31<sup>st</sup>, 2017 for electronically sent forms. Please contact our offices if you think this may or will relate to you in the future.

Due to the limited time to submit W-2's, we are asking our clients to verify employee contact information before we complete the forms. Included with the letter is a simple breakdown of the information needed for the forms.

## **MILEAGE RATES**

**2017** IRS standard mileage rate is **0.535 cents** per mile. 2016 IRS standard mileage rate was 0.54 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. Due to ACA rules, new plans need to follow the new group plan regulations regarding nondiscrimination, this may affect plans for medical insurance through your company. For further guidance please contact us.

## **MEDICAL REIMBURSEMENT PLANS TO EMPLOYEES**

As of December 7<sup>th</sup>, the Senate has passed legislation that ultimately denies the IRs to enforce the \$100 per day for each employee penalty for medical reimbursement plans. If you previously had such a plan or would consider having such a plan, please contact our office.

## **NEW FLSA REGULATIONS ON SALARIED EMPLOYEES:**

The Department of Labor has recently released the Fair Labor Standards Act the “Final Rule,” which increased the minimum salary basis test to \$913/week. This law was set to begin December 1<sup>st</sup>, 2016, but due to the recent court case *State of Nevada et al. v. U.S. Department of Labor*, Civil Action No. 4:16-cv-00731-ALM, this law is temporarily barred. It has been recommended that if:

1. You have already implemented the change to keep going forward
2. If you have created a plan and let your employees know of the change, but have not implemented the changes. Go forward with the plans to implement
3. If you have not created a plan or let your employees know, do not announce/make changes until there is more clarification as to the law.

That being said, it is your decision which is to be best for your company! We are as always, keeping up to date with such cases and regulations to keep you informed of the necessary changes that need to happen.

**\*NEW MINIMUM WAGE REGULATIONS: INITIATIVE 1433:**

Initiative 1433 overrides the state minimum wage previously shown, to a new rate of \$11.00 on January 1, 2017. The rate will progressively increase until the state minimum wage is \$13.50 by 2020. Included in this initiative, is by January 1, 2018 employers will be required to provide paid sick leave accruing at a minimum rate of 1 hour per 40 hours worked.

As always, if you have specific questions or concerns, please call, view our website at [www.petersonjakecpa.com](http://www.petersonjakecpa.com), or find us on Facebook for more information. We want to thank you for another great year, and we look forward to serving you in 2017.

Sincerely,

**Peterson & Jake, CPA, Inc.**

# **NEW HIRE REPORTING INFORMATION FOR WASHINGTON**

## **1. What is the new hire law?**

The “Personal Responsibility and Work Opportunity Reconciliation Act” (PRWORA) of 1996 was passed as part of the larger welfare reform legislation. This Act requires that all employers report information on people they hire or re-hire to a state directory shortly after they are hired. Although a Federal law, this legislation looks to the individual states to implement the law and to maintain the directories of new hires. Washington Revised Code, Title 26, Chapter 26.23, Section 26.23.040 is the implementation of PRWORA within the State of Washington.

## **2. Why is new hire reporting required?**

New hire reporting was designed to speed up any child support withholding order processes by expediting collection of child support from parents who change jobs frequently. It also helps locate non-custodial parents to help in establishing paternity and child support orders. Thus, employers serve as key partners in ensuring financial stability for many children and families by helping them receive the financial support they deserve.

## **3. Who is required to report?**

Employers doing business in the state of Washington must report on the following employees:

- **New Employees:** Employers must report information on newly hired employees who reside or work in the State of Washington.
- **Rehired or recalled employees:** Employers must report information on employees who are rehired or recalled to work after being laid off, furloughed, separated, granted a leave without pay or are terminated from employment after 30 days and who reside or work in the State of Washington. This includes teachers, substitutes, seasonal workers, etc.
- **Temporary employees:** Temporary agencies are responsible for reporting information on any employee hired to report for an assignment. This need be done only once, employees do not need to be re-reported each time they report to a new client, unless there is a break in service or gap in wages, in which case they need to be reported as a rehire.

Employers doing business in the state of Washington must report information on anyone hired if the individual is considered an employee for purposes of paying federal income tax withholding. This includes employees of all ages, those who work less than a full day, those still in a probationary period, part-time, seasonal employees and employees who are rehired. This information must be reported even if the employee is employed for only a few hours before termination.

Employers are not required to report information on terminated employees.

## **4. What information must be reported?**

In accordance with the Federal legislation, the State of Washington requires the following information to be reported:

- The employer’s Federal Employer Identification Number (FEIN). If the employer has more than one FEIN, use the same one used to report quarterly wage information
- The employer’s name
- The employer’s address
- The employee’s name (full name: first, middle and last)

# **NEW HIRE REPORTING INFORMATION FOR WASHINGTON**

- The employee's address
- The employee's Social Security Number
- The employee's date of birth

## **5. How and where is this information reported?**

Washington New Hire Reporting offers several options that make it easy for employers to report new hires. The options available are:

### **Telephone Reporting**

- New hires in Washington may be reported 24 hours a day by dialing (800) 562-0479 then selecting option 3. Be sure to include all required information.

### **Electronic Reporting**

- Go to <https://fortress.wa.gov/dshs/csips/NewHire/> and click "Begin Session" to register to report any new hires on-line or to send a secure file electronically through the Washington New Hire Reporting site. For step-by-step instructions on registering and reporting new hires on line go to: <https://fortress.wa.gov/dshs/csips/NewHire/help.asp> Formats and instructions for submitting comma-separated or fixed-width field files are also included on this web page.
- Go to <https://fortress.wa.gov/dshs/csips/NewHire/options.asp> for the data specifications and other instructions on how to send a tape or diskette with new hire reporting information. Mail any diskettes or tapes to:

**Mail diskettes to:**

ISSD Data Control  
New Hire Reporting  
P.O. Box 9023  
Olympia, WA 98507-9023

**Mail tapes to:**

ISSD Data Control  
New Hire Reporting  
14th and Jefferson  
MS: 45889  
Olympia, WA 98504-5889

### **Non-Electronic Reporting**

- Printed List: If you cannot or do not wish to report new hire information electronically, you might be able to have your accounting, payroll, or personnel software create a printed list containing your new hire data. The printed list must contain all of the required information, use at least a 10-point font size, and have the employer's name, Federal Employer Identification Number, and address clearly displayed at the top of the report.
- New hire reporting form: Go to <http://www.dshs.wa.gov/pdf/esa/dcs/18-463.pdf> to download the form or use the one attached.
- W-4 form: You may choose to submit a W-4 form as a new hire report. If you do, please ensure that the W-4 is easily readable and has the employer's name, Federal Employer Identification Number, and address written in blocks 8 and 10 on each form.
- New hire reports may either be faxed or mailed to the following:

**Mail reports to:**

ISSD Data Control  
New Hire Reporting  
P.O. Box 9023  
Olympia, WA 98507-9023

**Fax reports to:**

Toll-free: (800) 782-0624

# **NEW HIRE REPORTING INFORMATION FOR WASHINGTON**

## **Other Reporting Methods**

- Payroll Service: Leading payroll services are already electronically reporting new hires for thousands of employers. If you use one a payroll or accounting service see if the service can report new hires for you.

## **6. How often must the information be reported?**

Employers are required to submit new hire reports within 20 days after an employee is hired, rehired or returns to work. If you have multiple new hires in a month and are submitting electronic files, these files must be submitted which are not less than 12 days nor more than 16 days apart.

## **7. What is the penalty if the report is late?**

A penalty of \$25 per employee per month may be assessed for each failure to report a new hire. Also, a penalty of \$500 may be assessed for the failure to report new hire information if the failure is the result of conspiracy between the business or government entity and the employee.

## **8. How will the information be used?**

Federal and State laws contain strict regulations on how new hire reporting information may be used. New hire reporting information is matched against any open child support orders to locate non-custodial parents and enforce these orders.

This information will also be fed into a national directory to provide more current information for locating out-of-state noncustodial parents.

New hire information may also be used by states to help detect and prevent fraudulent payments to recipients of unemployment insurance, worker's compensation and welfare benefits.

The use of this information helps maintain financial stability in Washington families and helps to keep down the cost of welfare, unemployment and worker's compensation insurance.

## **9. What to do if you have never reported new hires.**

Begin by reporting any new employees you've hired or rehired since your last quarterly report. Then going forward be sure to report any new hires or rehires within 20 days of the hire date.

## **10. Additional information.**

For questions about new hire reporting you can contact the Washington New Hire Reporting Coordinator toll-free at (800) 562-0479. You can fax questions to a specific information request line at (360) 664-5210. You can also e-mail questions to: [dcshire@dshs.wa.gov](mailto:dcshire@dshs.wa.gov)



## NEW HIRE REPORTING METHODS AND INSTRUCTIONS

### INTERNET REPORTING

**NOTE: Internet reporting is our preferred method of reporting. Use the following web site address:**

[www.dshs.wa.gov/newhire/](http://www.dshs.wa.gov/newhire/)

### TELEPHONE REPORTING

Call 1-800-562-0479 and select menu option #3 to speak with one of our staff to report new or rehired employees by telephone. Operators are available Monday through Friday from 7 a.m. until 4:00 p.m. Automatic voice recording is available all other hours, seven days a week.

### FAX REPORTING

Fax reports to 1-800-782-0624. **If you use another company's fax machine to send your report, please write your company's name and telephone number on the cover sheet and report.**

### FORM REPORTING

You may use the report form printed below, W-4 forms, and other lists to report new or rehired employees. Page 2 shows other ways to report new or rehired employees. Do not use I-9 forms to report new or rehired employees.

**If you use the report form printed below, please make copies for future reporting or call (800) 562-0479 to request a packet containing an expanded version of the form.**

EMPLOYER NAME AND ADDRESS		EMPLOYER FEDERAL ID NUMBER (FEIN)	
<b>NEW OR REHIRED EMPLOYEES</b>			
EMPLOYEE NAME			
EMPLOYEE ADDRESS			
EMPLOYEE CITY	EMPLOYEE STATE	EMPLOYEE ZIP CODE	
EMPLOYEE SOCIAL SECURITY NUMBER			EMPLOYEE BIRTH DATE
EMPLOYEE NAME			
EMPLOYEE ADDRESS			
EMPLOYEE CITY	EMPLOYEE STATE	EMPLOYEE ZIP CODE	
EMPLOYEE SOCIAL SECURITY NUMBER			EMPLOYEE BIRTH DATE

## **MAGNETIC MEDIA REPORTING**

Please use unlabeled cartridges or diskettes. If requested, we return cartridges and diskettes. For record layout information, please call the number listed below and ask for the magnetic reporting help desk.

Address cartridge and diskette volume file characteristics as follows:

	<b>3480 CARTRIDGE</b>	<b>DISKETTE</b>
Configuration	36 Track	IBM Compatible
Character Code	EBCDIC	
Recording Density	N/A	
Volume Labels	None	
File Labels	None	
Blocking Factor	36 records Per Block	
Block Size	8,676 Characters	
Record Length	241	241

## **COMPUTER PRINTOUT & LISTING REPORTING**

You can use computer printouts or lists to report new or rehired employees. However, we prefer Internet reporting whenever possible. Each printout or list must contain the information listed on page 1 of this form. Use 10 to 12 points font size to ensure readability.

### **Mail Diskettes or Paper Reports To:**

ISSD DATA CONTROL  
NEW HIRE DIRECTORY  
PO BOX 9023  
OLYMPIA WA 98507-9023

### **U.P.S. Cartridge Reports To:**

ISSD DATA CONTROL  
NEW HIRE DIRECTORY  
14TH AND JEFFERSON  
MS:45889  
OLYMPIA WA 98504-5889

## **MULTI-STATE EMPLOYER REGISTRATION**

Employers doing business in more than one state may select one state to report new or rehired employees. To register as a multi-state employer, call the National Registry at (410) 277-9470 or fax your request to (410) 277-9325 (9:00 a.m. - 4:00 p.m. Eastern time) or write to:

OFFICE OF CHILD SUPPORT ENFORCEMENT  
MULTISTATE EMPLOYER NOTIFICATION  
PO BOX 509  
RANDALLS TOWN MD 21133-0509

## **QUESTIONS**

E-mail your questions to [dcshire@dshs.wa.gov](mailto:dcshire@dshs.wa.gov) or call (800) 562-0479 (select option #2).

No person because of race, color, national origin, creed, religion, sex, age, or disability, shall be discriminated against in employment, services, or any aspect of the program's activities. This form is available in alternative formats upon request.
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