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Dear Bookkeeping Client:

**PROPOSED TAX PLAN LEGISLATION WOULD REDUCE EMPLOYEE'S
PORTION OF SOCIAL SECURITY TAX BY 2%**

A major economic stimulus factor is the proposal to reduce the Social Security payroll tax in 2011 for employees from 6.2 percent to 4.2 percent. (Employers will still have to pay their 6.2 percent.) We will know more about this legislation in the coming days and weeks before the end of 2010.

2011 CHANGES IN CALIFORNIA EDD QUARTERLY REPORTING

Your State of California quarterly reports will look different in 2011. Starting with the first quarter of 2011, employers will begin filing new quarterly EDD forms.

- Quarterly Contribution Return and Report of Wages DE 9
- Quarterly Contribution Return and Report of Wages (continuation) DE 9C

Employers will report their Unemployment Insurance (SUI), Employment Training Tax (ETT) and State Disability Insurance contributions (SDI) along with Personal Income Tax withholding (PIT), quarterly on DE 9 instead of annually on the Annual Reconciliation Statement (DE 7). Detailed wage items for each worker will be reported quarterly on form DE 9C instead of form DE 6.

STANDARD MILEAGE RATE

The IRS standard mileage rate for business miles driven in 2011 will be **51 cents per mile.** Please remember when reimbursing employees for the business use of their private vehicle it is an optional reimbursement rate, not mandatory. It is the maximum deductible amount you can pay your employee. If circumstances warrant you may consider a company policy that pays less than the IRS rate.

HIRE ACT = EMPLOYER TAX CREDIT

The HIRE ACT has been effect in 2010 for employees hired between February 3, 2010 and December 31, 2010. The act gives a federal payroll tax credit for the employer's portion of social security tax for hiring a worker that has been unemployed for at least 60-days immediately preceding employment. Qualified employees must complete and sign form W-11 Employee Affidavit. Please contact us if you have hired qualified workers so we can process your tax credit. In addition, for each worker retained for at least a year, businesses may claim an additional general business tax credit, up to \$1,000 per worker, when they file their 2011 income tax returns.

EMPLOYER PAID HEALTH INSURANCE REPORTED ON 2011 W-2's

Starting in 2011 employer-paid health insurance will be reported on W-2 forms. The health insurance will be reported as an information item only on W-2s. Contrary to widely circulating chain e-mails it will definitely not be considered taxable income.

SELF-EMPLOYED DISABILITY INSURANCE

California Disability Insurance is available to self-employed persons. Disability insurance elective coverage publication DE 2565 is available on the EDD website, www.edd.ca.gov.

CONTINUE TO LOOK OUT FOR SCAMS & FRAUD

Continue to be aware that e-mails and postal service mail from companies or individuals may be a scam trying to get your money, access or infect your computer or get personal information. Be aware that the IRS does not send out e-mails to taxpayers.

IRS WILL NO LONGER ACCEPT FEDERAL TAX DEPOSIT COUPONS TAKEN TO BANK

Starting January 1, 2011 all federal tax payments for business must be made via EFTPS (Electronic Federal Tax Payment System). All coupon users are being pre-enrolled in EFTPS. Our office is a Batch Provider with the IRS. Call us if you need help with electronic payments.

EARNED INCOME CREDIT

After 2010, employees can no longer get advance payments of the earned income credit in their pay during the year like they could in 2010 and earlier years. This is because the law has changed. However, if an employee is eligible, they will still be able to claim the credit on their income tax return.

2011 PAYROLL TAX RATES

SDI RATE INCREASES TO 1.2% FOR 2011: The SDI rate for 2011 will go up .1% but the wage limit will remain the same at \$93,316. SDI withholding includes SDI (State Disability Insurance) and PFL (Paid Family Leave).

SUI & ETT RATES FOR 2011: EDD determines SUI rates annually. For 2011 rates will range from 1.5% to 6.2% on wages to \$7,000 for each employee. New employers' rate is 3.4% for up to three years. EDD will mail notices with your 2011 rate on December 31, 2010. ETT (Employment Training Tax) remains .1%.

FUTA RATES FOR 2011: FUTA (Federal Unemployment) is an employer tax only. The IRS has not announced any change in the FUTA rate for 2011. The 2010 rate is .8% on wages to \$7,000.

PAYROLL DEDUCTIONS: The Social Security wage limit does not increase for 2011. It stays the same as 2010 at \$106,800. Unless the proposed tax plan legislation is adopted the FICA rate remains the same (see chart below). If you do payroll on your own computer, be sure to get your payroll update for the new 2011 tax tables. If you do your payroll by hand, use the new tables in the 2011 Circular E (IRS Publication 15) and 2011 California Payroll Tax Guide. **Quickbooks payroll requires users to set their new SUI rate each year. Please check the setting for your SUI rate and change for 2011 if necessary.**

2011 Payroll Tax Rates

SDI	1.2%	(X .012) on wages to \$93,316 (Max \$1,119.79)
Social Sec. Employer	6.2%	(X .062) on wages to \$106,800 (Max \$6,621.60)
**Social Sec. Employee (see note below)	6.2%	(X .062) on wages to \$106,800 (Max \$6,621.60)
Medicare	1.45%	(X .0145) on all wages – no limit
	Note:	(6.2% Soc. Sec. + 1.45% Medicare = 7.65% FICA)
SUI	Varies	On wages to \$7,000- EDD will mail 2011 rate on 12/31/10
ETT	.1%	(X .001) on wages to \$7,000 (not all employers pay ETT)
FUTA (2010 Rate)	.8%	(X .008) on wages to \$7,000 (certain requirements for .8% rate)

**** Employee Social Security Rate is subject to change in 2011 depending on passage of pending legislation. Proposed 2011 rate for employees is 4.2%.**

COMMUNICATING BY E-MAIL

If you find it easier to communicate by e-mail here are staff e-mail addresses. Please e-mail us so we can get you in our address books.

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**Best wishes for a happy holiday season and a prosperous 2011
from the Tribble & Ayala staff,**

Angels Camp Office:

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Arnold Office:

Heather Stone, Marcia Kovacs, Debbie McGee

Please visit our website: www.tribbleayala.com to view previous year's newsletters containing useful information.