

To: Payroll Tax Return Clients
From: Bob McLaren
Date: January 15, 2011
Re: 2011 Payroll Tax Changes

FEDERAL TAXES

The Taxable Wage Base for Social Security remains unchanged at \$106,800 for 2011. The employee portion of the Social Security tax drops to 4.2%, while the employer portion remains at 6.2%. The maximum Social Security employee withholding will be \$4,485.60 and company match will be \$6,621.60. The Medicare rate remains unchanged at 1.45%. The Federal Unemployment tax remains at 0.8% of gross wages up to \$7,000 of taxable wages, assuming that you file and pay your state unemployment taxes in a timely manner. The deposit threshold for FUTA taxes remains at \$500. FUTA taxes must be deposited by the end of the subsequent month to the quarter in which the cumulative liability exceeds \$500. In 2011, Federal payroll taxes must be paid using the on-line EFTPS.

STATE INCOME TAXES

The rate for PA remains at 3.07% of gross income.

NJ uses a rate table. The rate is graduated and there is a yearly withholding allowance of \$1,000.00 per exemption subtracted from gross income.

PA and NJ employers should withhold and remit taxes on PA and NJ residents based upon the employee's state of residence.

PA and NJ employers must submit their quarterly tax filings via the respective state's website.

STATE UNEMPLOYMENT TAXES

PENNSYLVANIA: The employee's contribution on all wages remains the same at .08%. The taxable wage base for employer contributions is unchanged at \$8,000. The employer's contribution rate is set by the state. The new employer rate for most businesses is the same at 3.703%. The new employer rate for new construction businesses is the same at 10.2626%. **If you use payroll software, please enter your 2011 rate into your system.**

NEW JERSEY: The taxable wage base has been decreased to \$29,600. The employee tax rate is increased from 1.045% to 1.41%. NJ employers must submit their quarterly tax filings via the state's website.

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LOCAL EARNED INCOME TAXES

If your business is located within a municipality with an earned income tax, you should withhold the earned income tax from all of your employees, except for Philadelphia residents for whom you should withhold Philadelphia wage tax.

BRISTOL TOWNSHIP: 0.5%
LOWER SOUTHAMPTON: 1%

The following is a list of the Lower and Central Bucks County School Districts which impose a 1% Earned Income Tax. If you have a question concerning the taxes of any other school district or municipality, please contact us.

CENTENNIAL	COUNCIL ROCK
CENTRAL BUCKS	NEW HOPE/SOLEBURY

PHILADELPHIA WAGE TAXES

Effective 01/01/2011: PHILADELPHIA RESIDENT: 3.928%
PHILADELPHIA NON-RESIDENT: 3.4985%

OTHER LOCAL TAXES

Pennsylvania municipalities can require employers to withhold up to \$52 from employees for a Local Services Tax (LST). Check with your municipality to determine the amount of tax and the withholding requirements. The LST is remitted on a quarterly basis.

Employers located in areas with a combined tax rate exceeding \$10 are required to exempt employees whose total earned income and net profits from all sources is less than \$12,000 for the calendar year. Employees must file an annual exemption certificate to receive the exemption request. Employers located in areas not exceeding \$10 may or may not have a low income exemption. If an employee exceeds the low income exemption, employers are required to withhold a "catch-up" lump sum tax equal to the amount of tax that was not withheld from the employee as a result of the exemption and continue withholding the same amount per pay period that is withheld for other employees. The school district portion may not have an earnings exemption, or may be less than the municipal exemption. If no exemption request is submitted and the employee does not earn enough to be subject to the tax, a refund request may be submitted by the employee. To calculate the amount to be withheld from each employee's pay you will take the tax amount in effect and divide it by the number of pay periods in the coming year.

MINIMUM HOURLY WAGE

FEDERAL: \$7.25 per hour
PENNSYLVANIA: \$7.25 per hour
NEW JERSEY: \$7.25 per hour

NEW HIRE REPORTING

Reporting of all new employees hired is mandatory. Reports are due within 20 days of hire date. PA and NJ have a New Hire Form and will also accept the Federal Form W-4.

New employees should complete Form W-4 and Form I-9. These forms should be kept on file at the employer's office.