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Dear Client:

The attachments to this letter provide a summary of payroll reporting requirements for the 2020 calendar year-end and a discussion of the applicable payroll changes you should be aware of for 2021. Please share this information with the appropriate individuals within your organization.

The attached is presented for general information purposes and to assist those preparing their own payrolls. This information is also posted on our website at www.bbpcpa.com. From our website you can link to the Internal Revenue Service and other governmental agencies' websites, and download selected forms and publications pertinent to your business needs.

We hope you find the information provided here helpful. Please contact us if we can provide you with additional assistance.

Very truly yours,

BLACK, BASHOR & PORSCH, LLP
Certified Public Accountants

PAYROLL INFORMATION2020 SOCIAL SECURITY AND MEDICARE

The Social Security wages base (the maximum pay on which Social Security tax is levied) is \$ 137,700 for 2020 and \$ 142,800 for 2021.

	<u>2020</u>	<u>2021</u>
Social Security Withholding Rate - Employees	6.20%	6.20%
Medicare Withholding Rate - Employees	1.45%	1.45%
Social Security Withholding Rate - Employers	6.20%	6.20%
Medicare Withholding Rate - Employers	1.45%	1.45%

Employers will pay 7.65 percent of the first \$ 137,700 for 2020 and \$ 142,800 for 2021 and 1.45 percent of the wages in excess of \$ 137,700 for 2020 and \$ 142,800 for 2021.

For the self-employed, the rate is 15.3 percent on the first \$ 137,700 for 2020 and \$ 142,800 for 2021 and 2.9 percent on the excess over \$ 137,700 for 2020 and \$ 142,800 for 2021, with approximately half of the tax being deductible in calculating adjusted gross income.

0.9 Percent Additional Medicare Tax

An additional Medicare Tax is still effective and increases the employee-share of Medicare tax by an additional 0.9 percent of covered wages in excess of certain "higher income-levels".

An employer is required to collect Additional Medicare Tax with respect to wages paid to the employee in excess of \$ 200,000 in a calendar year. This rule applies without regard to the employee's filing status or other wages/compensation.

There is no "employer match" for the Additional Medicare Tax.

HEALTH INSURANCE REPORTING ON W-2S

Required for certain employers in preparing 2020 W-2s and future years.

This is required for those employers who had greater than 250 W-2s in the previous year. It is optional for other employers.

The Affordable Care Act requires certain employers to report the cost of coverage under an employer-sponsored group health plan. Reporting the cost of health care coverage on the Form W-2 does not mean that the coverage is taxable. The value of the employer's excludable contribution to health coverage continues to be excludable from an employee's income. The portion paid by both the employer and the employee health care coverage is reported on Box 12 of W-2 with a code of "DD".

The following link will provide information regarding what is required to be reported, and questions and answers related to these requirements:

<http://www.irs.gov/uac/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage>

EARNINGS TEST FOR RETIRED WORKERS

SSA uses the formulas below, depending on your age, to determine how much your benefit must be reduced:

- **If you are under full retirement age (see below):** when you start getting your Social Security payments, \$ 1 in benefits will be deducted for each \$ 2 you earn above the annual limit. For 2021, that limit is \$ 18,960. The earliest age that you can receive Social Security retirement benefits remains 62 even though the full retirement age is rising.
- **In the year you reach your full retirement age (see below):** \$ 1 in benefits will be deducted for each \$ 3 you earn above a different limit, but only counting earnings before the month you reach the full benefit retirement age. For 2021, this limit is \$ 50,520.
- **Starting with the month you reach full retirement age (see below):** you will get your benefits with NO limit on your earnings.

Please Note: Earned income is defined as income from wages or net earnings from self-employment. Pensions, 401(k) distributions, dividends, interest, and IRA distributions are NOT earned income.

What is Your Full Retirement Age?

<u>Year of Birth</u>	<u>Full Retirement Age</u>
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months

<u>Year of Birth</u>	<u>Full Retirement Age</u>
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

For various Social Security calculations - go to www.SSA.gov

NEW MILEAGE RATES FOR AUTOMOBILES

The 2021 and 2020 mileage rates will be as follows:

	<u>2021</u>	<u>2020</u>
for business miles	56.0¢	57.5¢
for charitable mileage	14.0¢	14.0¢
for medical travel	16.0¢	17.0¢

ELECTRONIC (EFTPS) TAX DEPOSIT REQUIREMENTS

The Internal Revenue Service has issued regulations requiring all depository taxes (such as employment tax, excise tax, and corporate income tax) to be made electronically using the Electronic Federal Tax Payment System (EFTPS). For more information about EFTPS or to enroll in EFTPS, visit the EFTPS website at www.eftps.gov.

FEDERAL WITHHOLDING TAX

The new federal withholding tax tables will soon be available on www.irs.gov. Search with keyword "2021 Circular E". Withholding rates for certain special circumstances are 22 percent for bonuses and 20 percent for certain retirement plan payouts.

MINIMUM WAGE

The Pennsylvania minimum wage is \$ 7.25 per hour for 2021. The Ohio minimum wage is \$ 8.80 per hour for 2021 (employers who gross less than \$ 323,000, \$ 7.25 per hour).

For Pennsylvania, the minimum cash wage for tipped employees will remain at \$ 2.83 per hour in 2021. However, an employer will have to make up the difference if the employee's tips and the \$ 2.83 per hour do not make up the Pennsylvania minimum wage. For Ohio, the minimum cash wage for tipped employees will be \$ 4.40 per hour in 2021.

OVERTIME PAY RULES

The Fair Labor Standards Act (FLSA) overtime rule determines whether employees are eligible or exempt for overtime pay. **Exempt employees**, because of their rate of pay and type of work that they do, are not eligible for overtime pay for hours worked over 40 in a workweek. **Nonexempt employees** must be paid time and a half for any hours worked more than 40 in a workweek.

The U.S. Department of Labor in September 2019 issued long awaited final regulations that extend federal overtime pay to workers. Effective January 1, 2020, the minimum salary required for an employee to qualify for an exemption from overtime pay is \$ 684 per week (equivalent of \$ 35,568 per year), and this will increase to \$ 780 per week (\$ 40,560) annually) on October 3, 2021 for Pennsylvania employers.

PENNSYLVANIA - TAX DEPOSIT REQUIREMENTSElectronic Funds Transfer (EFT) Threshold is \$ 1,000 -

The electronic funds transfer (EFT) threshold is \$ 1,000 for taxes other than personal income tax. Payments of \$ 1,000 or more for any of the following taxes must be made electronically:

- Sales/Use Tax
- Employer Withholding
- Liquid Fuels Tax
- Fuel Use Tax
- Motor Carrier Road Tax
- Corporate Net Income Tax

Taxpayers subject to the electronic payment requirement must remit the payments by automated clearing house (ACH) debit, ACH credit, or credit card.

All payments of these taxes of \$ 1,000 or more must be made by an approved EFT method, and taxpayers of other payments - regardless of tax type or amount - are encouraged to voluntarily remit payments via EFT.

Businesses making EFT payments should register to file and remit online through e-TIDES. Taxpayers not currently registered for e-TIDES are encouraged to visit www.etides.state.pa.us for additional information.

PENNSYLVANIA STATE WITHHOLDING

The rate for Pennsylvania state withholding for 2021 remains unchanged at 3.07 percent (.0307).

PENNSYLVANIA UNEMPLOYMENT COMPENSATION - EMPLOYER TAX

The taxable wage base on which an employer contributes to the Pennsylvania UC Fund remains at \$ 10,000 for 2021. This is the same wage base as 2020. All employers are required to electronically file quarterly UC tax and wage reports through UCMS. To access UCMS go to www.uctax.pa.gov and click on the UCMS logo. All employers must register, if they have not already done this. Beginning with the payments due for the first quarter of 2020, if the total payment is greater than \$ 5,000, the payment will have to be made electronically. Once the threshold is met, all future payments must be made electronically.

PENNSYLVANIA UNEMPLOYMENT WITHHOLDING FROM EMPLOYEE WAGES

The tax rate for 2021 will be .06 percent (.0006) on total employee wages, or 60 cents for each \$ 1,000 paid. This is the same rate as 2020.

OHIO STATE WITHHOLDING TABLES

Ohio withholding tables can be found with the following link:

http://www.tax.ohio.gov/employer_withholding-tables-010119/employer-withholding-tables-010120.aspx

OHIO EMPLOYER AND SCHOOL DISTRICT WITHHOLDING FILING REQUIREMENT

Employers are required to file and remit payment for Ohio state and school district income tax withholding returns using the Ohio Business Gateway.

For assistance with Ohio Business Gateway registration, or to log-in, please visit the site at <http://business.ohio.gov/efiling/transactions/withholding>. For assistance with navigation, filing a return, and/or remitting payment, please visit the Self Help eLibrary at http://www.tax.ohio.gov/self_help/self_help_obg.aspx.

OHIO UNEMPLOYMENT COMPENSATION

Ohio employers reporting Ohio unemployment should note that the Ohio Unemployment Taxable Wage Base is \$ 9,000 per employee for 2021. This is the same wage base as 2020.

FEDERAL UNEMPLOYMENT COMPENSATION

The taxable wage base on which an employer contributes to the Federal UC Fund remains at \$ 7,000. This is the same base as 2020.

PENNSYLVANIA AND OHIO: The FUTA tax rate is .6 percent (.006) for Pennsylvania and Ohio for 2021.

CITY WITHHOLDING TAX

The 2021 wage tax rates for Pennsylvania communities in our tax area are as follows:

<u>EMPLOYER LOCATION</u>	<u>RESIDENT</u>	<u>NON-RESIDENT</u>	<u>NON-RESIDENT</u>	<u>NON-RESIDENT</u>	<u>NON-RESIDENT</u>
	<u>TAX</u>	<u>TAX RATE</u>	<u>TAX RATE</u>	<u>TAX RATE</u>	<u>TAX RATE FOR</u>
	<u>RATE</u>	<u>FOR</u>	<u>FOR</u>	<u>FOR</u>	<u>RESIDENTS</u>
		<u>RESIDENTS OF</u>	<u>RESIDENTS OF</u>	<u>RESIDENTS OF</u>	<u>ALL OTHER</u>
		<u>HERMITAGE</u>	<u>SHARON</u>	<u>FARRELL</u>	<u>COMMUNITIES</u>
City of Hermitage	2.25%	N/A	2.25%	2.50%	1.00%
City of Sharon	2.25%	2.25%	N/A	2.50%	1.00%
City of Farrell	2.50%	2.25%	2.25%	N/A	1.00%
Borough of Greenville	1.50%	2.25%	2.25%	2.50%	1.00%
Other Communities	1.00%	2.25%	2.25%	2.50%	1.00%

LOCAL INCOME TAX COLLECTION AND REPORTING

Under ACT 32, every employer must have every employee and all new hires complete and sign a Local Earned Income Tax Residency Certification Form. This form will identify the political subdivisions where the employee both lives and works. This is Form CLGS-32-6 (8-11) from the Department of Community and Economic Development. It is available on the DCED website at www.newpa.com. An employer must keep a copy of the Local Earned Income Tax Residency Certification Form in the employee's personnel file and have it available if they are audited.

This link can be used to determine the political subdivision where the employee lives and works. If you are having difficulty determining the correct PSD Code, we can assist you. <http://munstats.pa.gov/Public/FindLocalTax.aspx>

If an employee moves, they must complete a new residency certification form.

ACT 32 places the responsibility to collect the proper rate of tax from each employee on the employer. If the municipality tax is withheld incorrectly, the employer is liable for any tax not collected. The correct rate is the higher of the tax rate where the employee lives or the nonresident tax rate where he/she works based on his/her current Local Earned Income Tax Residency Certification Form.

Berkheimer Tax Administrator has been selected as the collector for Mercer County. Their website is www.hab-inc.com which details the filing requirements.

LOCAL SERVICES TAX (LST)

Information on withholding LST tax from employees' wages can be found at: <http://dced.pa.gov/local-income-tax-information/local-services-tax>.

Many of the local municipalities LST tax rate is \$ 52 and must be withheld on a pro-rata basis from each employee's paycheck.

For the municipalities' rates, use the website mentioned above and click on "municipal tax rates".

EMPLOYEE PERSONAL USE OF BUSINESS OWNED VEHICLES AND VEHICLE ALLOWANCES

Income to recognize must be reported on a W-2. Please contact us if you need assistance with calculations of taxable amounts.

REQUIREMENTS TO FILE INFORMATION RETURNS - 1099S, ETC.

File the appropriate Form 1099 for each person to whom you have paid during the year:

1099-MISC

- At least \$ 600 in rents, prizes and awards, other income payments, medical and health care payments, crop insurance proceeds, or,
- At least \$ 10 in royalties or
- Any fishing boat proceeds; or
- Gross proceeds of \$ 600 or more paid to an attorney.

1099-NEC (New for 2020)

- At least \$ 600 for services (including parts and materials)
(These payments were previously reported in box 7 of 1099-MISC)

Due Date

Form 1099-MISC must be provided to recipients by February 1, 2021, and filed with the IRS on or before March 1, 2021 (paper filed) or March 31, 2021 (electronically filed).

Form 1099-NEC must be provided to the recipient and filed with the IRS on or before February 1, 2021.

Generally, payments to corporations are not subject to these reporting requirements. Instructions for filing 1099-MISC/1099-NEC/1099-R can be found at www.irs.gov/pub/irs-pdf/i1099misc_15.pdf. Please contact our office if you have any questions concerning these information returns. Please carefully review the 1099 filing requirements, as the IRS has enhanced their verification process to identify non-filers.

PENNSYLVANIA REQUIREMENT TO FILE 1099-MISC/1099-NEC

Entities paying nonemployee compensation for Pennsylvania based work or rent payments for Pennsylvania real estate to non-residents, are required to submit copies of federal forms 1099-NEC/1099-MISC to the Pennsylvania Department of Revenue. Pennsylvania also requires those who issue 1099-R forms to submit a copy to the State. The forms submitted can be copies of the 1099s and mailed to the following address (if submitting 9 or fewer paper forms) by February 1, 2021:

PA Department of Revenue
Bureau of Individual Taxes
1099-R/1099-MISC/1099-NEC Forms
P.O. Box 280509
Harrisburg, PA 17128-0509

Filing 10 or more 1099-MISC/1099-NEC/1099-R forms must be done electronically.

Form 1096 does not need to be filed with Pennsylvania.

Anyone that pays Pennsylvania source non-employee compensation (or lease payments) to a non-resident individual or pass-through entity with a non-resident member, and who is required to file a federal Form 1099-MISC/1099-NEC, is required to withhold an amount equal to the Pennsylvania personal income tax rate if the payee received more than \$ 5,000.

W-2 ELECTRONIC REPORTING

The Social Security Administration encourages all employers to *e-file*. If you are required to file 250 or more Forms W-2, you must file the forms electronically unless the Internal Revenue Service granted you a waiver. If you are required to *e-file* but fail to do so, you may incur a penalty. Forms W-2 may be submitted by creating them on-line or by uploading a file in the EFW2 format. You must register with the Social Security Administration to submit W-2 information electronically. Information is available at <http://www.socialsecurity.gov/employer/>.

Before submitting W-2 forms to the Social Security Administration (SSA), make sure all name/Social Security number combinations match the Administration's files. The fines for failure to file using accurate names and Social Security Numbers are outlined in the Instructions for Forms W-2 and W-3 publication from the Internal Revenue Service.

The SSA provides the Social Security Number Verification Service (SSNVS) to allow online verification of employee names and Social Security numbers. There is a link available at <http://www.ssa.gov/employer/ssnv.htm>. You must be registered and have an activation code in order to use the service.

Payroll tip: When you hire a new employee ask to see his/her Social Security card and set up his/her payroll record using the name exactly as it appears on the card. Only make name changes to payroll records if the employee provides an updated Social Security card. Remind employees to promptly report name changes to Social Security Administration (e.g., marriage or divorce). Consider sending an annual memo or e-mail. Tell them mistakes mean money out of their pockets - mismatches can seriously affect their eligibility for and amount of future Social Security benefits.

You cannot report name changes for employees. They can call the Social Security Administration at 1-800-772-1213 and request Form SS-5, "Application for a Social Security Card", which covers name changes. SS-5 can be downloaded from the Internet at <http://www.ssa.gov/forms/ss-5.pdf>.

NEW HIRE REPORTING - OHIO

If your firm has employees, you have to report all newly hired and rehired employees to the Department of Human Resources. Reports must be filed on paper or reported on the internet at <https://newhire-reporting.com/oh-newhire/default.aspx> no later than 20 days after an employee is hired or returns to work following a separation of service. If you have any questions, you can call toll free at 1-888-872-1611.

The data will help set-up child support orders and detect unemployment and disability fraud.

NEW HIRE REPORTING - PENNSYLVANIA

Effective January 1, 1998, all employers are required to report information on newly-hired employees and rehired employees. For information about reporting new hires, go to

<https://www.cwds.pa.gov/cwdsonline/NewHire/NewHireProgramInformation/NewHireInformation.aspx>

You can then register and submit your new hires electronically or by paper or fax. All new-hire reports must be filed within 20 days of the date of hire. For more information, call Labor and Industry at: 1-888-724-4737, or our office at 724-981-7510 for further assistance on this matter.

INFORMATION REPORTING REQUIREMENT UNDER THE AFFORDABLE CARE ACT

Beginning with January 2016, certain employers are required to file additional forms relating to health insurance coverage for their employees. The requirements vary according to whether your business is an "applicable large employer". Applicable large employers are those that had, on average, at least 50 full-time employees (including full-time equivalent employees) during the preceding calendar year. Full-time employees are those who work, on average, at least 30 hours per week.

If you qualify as an "applicable large employer", the information that will need to be accumulated for each employee is as follows:

INFORMATION NEEDED UNDER AFFORDABLE CARE ACT FOR AN APPLICABLE
LARGE EMPLOYER FOR 2020
(MORE THAN 50 FULL-TIME AND FULL-TIME-EQUIVALENT EMPLOYEES)

EMPLOYEE INFORMATION

- The employee's name, address, and Social Security number
- The employer's name, address, and employer identification number
- Whether the employee and family members were offered affordable health coverage each month that met the minimum value standard
- The employee's share of the monthly premium for the lowest-cost minimum value health coverage offered for single coverage
- Whether the employee was a full-time employee each month
- Whether the employee was enrolled in the health plan
- If the health plan was self-insured, the name and Social Security number (or birth date if the Social Security number is unavailable) of each employee and family member covered by the plan by month

EMPLOYER INFORMATION

- The employer's name, address, employer identification number and contact person
- The total number of Forms 1095-C filed
- A certification by month as to whether the employer offered its full-time employees (and their dependents) the opportunity to enroll in minimum essential health coverage
- The number of full-time employees for each month of the calendar year
- The total number of employees for each month
- Whether special rules or transition relief applied to the employer
- The names and employer identification numbers of other employers that are in a controlled group or affiliated service group with the employer