

## 2018 FEDERAL PAYROLL TAX RATES

New Federal Income Tax withholding tables have been issued for 2018. This information will be included in IRS Publication 15 (Circular E).

FICA and Medicare – Employer & Employee			
TAX	FICA	MEDICARE	ADDITIONAL MEDICARE
Employee Wage Limit	\$0 to \$128,400	\$0 to \$200,000	Over \$200,000
Employer Wage Limit	\$0 to \$128,400	None	N/A
Employer & Employee Tax Rate	6.2% (0.062)	1.45% (0.0145)	N/A
Employee Tax Rate	N/A	N/A	1.45% + 0.9% = 2.35% (0.0235)
Employee Maximum Tax	\$7,960.80	\$2,900.00	No Limit
Employer Maximum Tax	\$7,960.80	No Limit	N/A

For wages paid to each employee up to \$128,400, the combined FICA and Medicare rate is 7.65% (.0765). For wages paid to each employee in excess of \$128,400, only the Medicare rate of 1.45% (.0145) applies. For wages paid to each employee in excess of \$200,000, the employer is required to withhold an additional 0.9% (0.009) for a total Medicare rate of 2.35% (0.0235). There is no employer matching for the additional 0.9% in Medicare tax.

Federal Unemployment Insurance (FUI)	
Wage Limit	\$7,000
Tax Rate	0.6% (.006) <sup>1</sup>
Maximum Tax (Generally)	\$42.00 <sup>1</sup>

<sup>1</sup>The FUI tax rate is 6.0% on the first \$7,000 of each employee's wages. Typically an employer receives a tax credit of 5.4% if its state unemployment insurance (UI) contributions were paid timely, thus effectively reducing the FUI tax rate to 0.6% (0.006). However, beginning with the second consecutive year that a state does not pay back their Federal Unemployment Account (FUA) loans, a credit reduction of 0.3% goes into effect. For each additional year that a loan remains unpaid, an additional credit reduction of 0.3% is taken. California was a credit reduction state in 2011, 2012, 2013, 2014, 2015, 2016 and 2017. As a credit reduction state, California employers should plan on an additional credit reduction of 0.3% (0.003) if FUA loans remain unpaid on November 10, 2018. Consequently, its tax credit could decrease from 5.4% to 3.0% (5.4% less 2.4%) resulting in an effective FUI tax rate of 3.0%, or 0.030 (6.0% less 5.4% plus 2.4%) for a maximum tax of \$210 for California employers. Additionally, after 5 years of outstanding loans, states may be subject to an additional credit reduction known as the benefit cost ratio (BCR) add-on. However, for 2017, California applied for, and received a waiver from the BCR add-on credit reduction, which could have made its UI tax rate even higher. We will keep you apprised of any changes.

Federal Supplemental Wage / Bonus Rates	
Optional Flat Rate - Supplemental Wages to \$1 Million	25%
Mandatory Flat Rate - Supplemental Wages over \$1 Million	39.6% <sup>2</sup>

<sup>2</sup>Highest rate of income tax allowed by federal law.

Federal Backup Withholding Rate	
Backup withholding for federal income tax	28% <sup>3</sup>

<sup>3</sup>For reportable payments when payee fails to provide a correct Taxpayer Identification Number.

## 2018 CALIFORNIA PAYROLL TAX RATES

New California Income Tax Withholding schedules have been issued for 2018. This information can be found in the California Employer's Guide (Publication DE 44).

State Disability Insurance (SDI) / State Unemployment Insurance (SUI) & Employee Training Tax (ETT)			
	SDI	SUI	ETT
Wage Limit	\$0 to \$114,967	\$0 to \$7,000	\$0 to \$7,000
Tax Rate	1.0%	1.5% to 6.2% <sup>4</sup>	0.1% or Zero
Maximum Tax	\$1,149.67	\$105.00 - \$434.00	\$7.00 or Zero

<sup>4</sup>The standard UI rate for new employers is 3.4%.

The SUI rate is assigned to employers based on experience. The Employment Development Department (EDD) sends Form DE 2088, Notice of Contribution Rates and Statement of UI Reserve Account to all employers in December informing them of their SUI rate. The notice will also indicate whether the employer's ETT rate is 0.1 percent or zero. Employers have 60 days from the date of notification to dispute their UI contribution rate.

California Supplemental Wage / Bonus Rates	
Supplemental Wages - Bonuses and Stock Options	10.23%
Supplemental Wages - Other than Bonuses and Stock Options	6.6%

California Backup Withholding Rate	
Backup withholding for state income tax	7% <sup>5</sup>

<sup>5</sup>For reportable payments when payee fails to provide a correct Taxpayer Identification Number.

# 2018 FEDERAL PAYROLL TAX REQUIREMENTS

## FEDERAL DEPOSIT REQUIREMENTS FOR 2018:

1. **Depositing Taxes:** All employers are required to make their federal tax deposits electronically via the Electronic Federal Tax Payment System (EFTPS). An employer may be subject to a 10% penalty if required to use EFTPS and fails to do so. The only exception to this rule is that an employer who files Form 941 can send a check with the return if their liability is \$2,500 or less for the quarter; or an employer who files Form 944 can send a check with the return if their liability is \$2,500 or less annually. When using EFTPS, be sure to indicate the type of tax and the tax period against which the deposit is to be applied:

**Type of Tax:** Form 941 for FICA, Medicare, and withheld income tax

**Tax Period:** The calendar quarter in which the payments are withheld, not the quarter in which the deposit is made

The IRS recommends employers who outsource their payroll to enroll in EFTPS to monitor their accounts and ensure that timely tax payments are being made on their behalf as employers are ultimately responsible for the timely filing of employment tax returns and the timely payment of employment taxes.

2. **In General:** An employer is either (1) a monthly depositor or (2) a semi-weekly depositor. The IRS will notify you of your deposit status only if there is a change in your deposit schedule. You are classified as a monthly or semi-weekly depositor based on the total taxes reported on Form 941 for the prior four quarters ending on June 30 of the preceding year (the look-back period). If you reported \$50,000 or less of employment taxes for the look-back period, you are a monthly depositor; if you reported more than \$50,000 of employment taxes during this look-back period, you are a semi-weekly depositor for the current year (but see the \$100,000 and \$2,500 deposit rules below).
3. **\$100,000 Next-Day Deposit Rule:** If you accumulate taxes of \$100,000 or more on any day in a deposit period, the taxes must be deposited by the close of the next business day. This rule applies to both monthly and semi-weekly depositors. The deposit period is a calendar month for a monthly depositor and Wednesday through Friday and Saturday through Tuesday for a semi-weekly depositor. Any monthly depositor who becomes subject to this \$100,000 next-day deposit rule immediately becomes a semi-weekly depositor for the remainder of 2018 and for all of 2019.
4. **Semi-weekly Depositor Rule:** Deposits of employment and other taxes withheld are due on Wednesday and/or Friday, depending on the day of the week that the payments are made:

Payment Days/Deposit Periods	Deposit Due Dates
Wednesday, Thursday and/or Friday	Following Wednesday
Saturday, Sunday, Monday and/or Tuesday	Following Friday

**Note:** For EFTPS deposits to be on time, they must be submitted by 5:00 p.m. Pacific Time the day before the date the deposit is due.

If a quarter ends in the middle of a deposit period, any taxes relating to payments made for the quarter just ended must be deposited separately from any taxes relating to payments made for the new quarter.

5. **Monthly Depositor Rule:** The employment and other taxes withheld on payments made during a calendar month must be deposited by the 15th day of the following month.
6. **\$2,500 Quarterly Deposit Rule:** If you accumulate less than a \$2,500 tax liability during either the current quarter or the preceding quarter and you were not subject to the \$100,000 next-day deposit rule during the current quarter, you are not required to make a deposit. You may pay the tax when you file your quarterly return.
7. **New Employers:** New employers are monthly depositors for the first year of their business (but see the \$100,000 next-day deposit rule exception above).
8. **Deposits on Business Days Only:** If a deposit is required to be made on a day that is not a business day, the deposit is considered to have been made timely if it is made by the close of the next business day. In addition, a special rule is provided for semi-weekly depositors to allow them at least three business days to make a deposit.

### FUI DEPOSIT REQUIREMENTS FOR 2018:

1. **Depositing Taxes:** All employers are required to make their FUI tax deposits electronically via the Electronic Federal Tax Payment System (EFTPS). An employer may be subject to a 10% penalty if required to use EFTPS and fails to do so. When using EFTPS, be sure to indicate the type of tax and the tax period against which the FUI deposit is to be applied:

Type of Tax: Form 940

Tax Period: The fourth calendar quarter of the tax year

2. **In General:** At the end of any calendar quarter, if your cumulative undeposited FUI tax exceeds \$500, a deposit is due by the end of the month following the quarter-end. Amounts of \$500 or less can be deposited or can be paid with annual Form 940 by January 31. If the due date is not a business day, the deposit is considered to have been made timely if it is made by the close of the next business day.



# 2018 CALIFORNIA PAYROLL TAX REQUIREMENT

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## CALIFORNIA DEPOSIT REQUIREMENTS FOR 2018:

1. Depositing Taxes: Employer contributions of UI and ETT are due quarterly; however, they may be submitted more often with any required Personal Income Tax (PIT) and SDI deposits. California PIT and SDI withholdings are due based on each employer's federal deposit schedule and the amount of accumulated PIT the employer has withheld. An employer will be subject to a penalty of 15% (an increase of 5% effective the third quarter of 2014) plus interest on late payroll tax payments.
2. E-file and E-pay Mandate: Beginning January 1, 2018, all employers are required to enroll in [e-Services for Business](#) to electronically submit employment tax returns, wage reports, and payroll tax deposits. Employers who are unable to comply with the mandate may request a hardship waiver. The penalties for noncompliance are \$50 per tax return, \$20 per wage item, and 15% of the payroll tax deposit due.
3. \$100,000 Next-Day Deposit Rule: If at any time you accumulate \$100,000 or more in federal employment taxes AND have accumulated more than \$500 in PIT withholding, you are required to deposit all state withholding taxes (SDI and PIT) by the next business day. Once you make a next-business-day deposit, you become a semi-weekly depositor for the remainder of 2018 and for all of 2019.
4. Semi-weekly Deposits: If you are a semi-weekly depositor for federal purposes AND have accumulated more than \$500 in PIT withholding during one or more payroll periods, you must make state deposits on the same dates as required for federal purposes.
5. Monthly Deposits: If you are a monthly depositor for federal purposes AND have accumulated more than \$350 in PIT withholding during one or more months of a quarter, you must make state deposits on the same dates as required for federal purposes.
6. Quarterly Deposits: If you are required to deposit quarterly for federal purposes AND have accumulated \$350 or more in PIT withholding, you must make state deposits by the 15th day of the following month. Otherwise, state deposits are due by the last day of the month that follows the quarter-end.

# 2018 FEDERAL REPORTING REQUIREMENTS

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## FEDERAL REPORTING REQUIREMENTS FOR 2018:

1. Employer's Quarterly Federal Tax Return (Form 941)

Form 941, Employer's Quarterly Federal Tax Return, is filed each quarter to report wages subject to income tax withholding or Social Security or Medicare tax, withheld federal income tax, both the employer's and the employee's share of Social Security and Medicare tax, and withheld additional Medicare tax. Form 941 must be filed by the last day of the month that follows the quarter-end. If the due date falls on a Saturday, Sunday or legal holiday, the due date is the next business day.

2. Employer's Annual Unemployment (FUTA) Tax Return (Form 940)

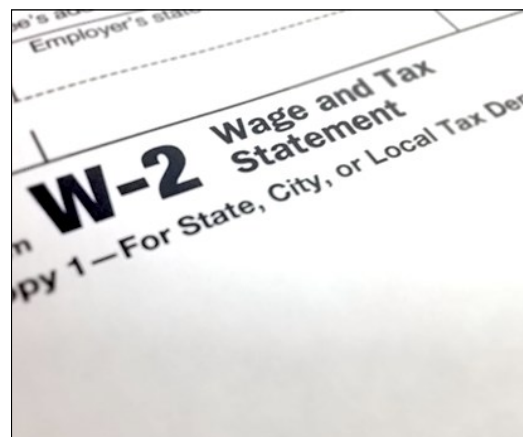
Form 940 Employer's Annual Unemployment (FUTA) Tax Return is filed annually to report wages subject to federal unemployment tax and the employer contribution. Form 940 must be filed by the last of the month that follows the year-end. If the due date falls on a Saturday, Sunday or legal holiday, the due date is the next business day.

3. Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund (Form 941-X)

File Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund to correct errors on a previously filed Form 941.

4. Wage and Tax Statement (Form W-2), and Transmittal of Wage and Tax Statement (Form W-3)

Form W-2, Wage and Tax Statement, is filed annually to report wages and amounts withheld. Copy A of Form W-2 along with Form W-3, Transmittal of Wage and Tax Statement, must be filed by January 31 of the following year. Employers who file 250 or more Forms W-2 must file electronically or they may incur a penalty, unless the IRS grants a waiver. Copies B, C and 2 of Form W-2 are furnished to employees also by January 31 of the following year. If the due date falls on a Saturday, Sunday or legal holiday, the due date is the next business day.



# 2018 CALIFORNIA REPORTING REQUIREMENTS

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## CALIFORNIA REPORTING REQUIREMENTS FOR 2018:

1. Quarterly Contribution Return and Report of Wages (Form DE 9) and Quarterly Contribution Return and Report of Wages (Continuation) (Form DE 9C): California employers are required to file Form DE 9, Quarterly Contribution Return and Report of Wages, and Form DE 9C, Quarterly Contribution Return and Report of Wages (Continuation).

Form DE 9 is filed quarterly to report UI, and ETT employer contributions, along with SDI and PIT withholding. File a DE 9, even if no wages were paid during the quarter. Form DE 9C is also filed quarterly to report detailed wage items for each employee. The EDD will assess a penalty of \$20 for each unreported employee (an increase of \$10 effective the third quarter of 2014), plus interest. Form DE9 and DE9C must be filed by the last day of the month that follows the quarter-end. If the due date falls on a Saturday, Sunday or legal holiday, the due date is the next business day.

2. Quarterly Contribution and Wage Adjustment Form (Form DE 9ADJ): File form DE 9ADJ to claim a refund, correct employee name and/or Social Security Number, or report employees previously not reported to the EDD.
3. Report of New Employee(s) (DE 34): All employers are required by law to report all new employees to the New Employee Registry (NER) within 20 days of their start-of-work date. Any employee who is newly hired, rehired, or returning to work from a furlough, separation, termination, or leave of absence without pay is considered a new employee. Report all new employees on Form DE 34. If you acquire an ongoing business and employ any workers from the acquired company, these employees are considered new employees and must also be reported to the EDD. The EDD may assess a penalty of \$24 for each failure to report the required new employee information (\$490 for intentional disregard).
4. Report of Independent Contractor(s) (DE 542): Any business or government entity that is required to file a federal Form 1099-MISC must also report specific information to the EDD regarding any [non-incorporated] independent contractor providing services to their business. This includes independent contractors from other states that work in, derive income from, or are subject to the laws of California. Report all independent contractors on Form DE 542 within 20 days of making payments either totaling \$600 or more or entering into a contract for \$600 or more in any calendar year, whichever occurs first. The EDD may assess a penalty of \$24 for each failure to report the required independent contractor information (\$490 for intentional disregard).
5. E-Services for Business: is an online filing and payment option available to all employers to view and manage their payroll tax accounts, file reports, make tax payments, update addresses, pay liabilities, and much more. The EDD encourages employers to enroll in [e-Services for Business](#) and begin using the system in compliance with the electronic mandate.

If you have any questions regarding payroll tax or reporting requirements or would like to discuss your specific tax needs, please contact our tax professionals at [taxalerts@windes.com](mailto:taxalerts@windes.com) or call toll free at **844-4WINDES** (844.494.6337).

# WINDES

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