2016 Payroll and 1099 Information

The year is coming to an end, and we want to provide information regarding changes for 2016. The attached 1099 information worksheet is for your use in preparing 1099 forms, or for you to provide us with the information so that we are able to prepare these forms on your behalf. Enclosed is a summary sheet for your use as a quick reference guide.

Additional FUTA Tax Payable
- California didn’t qualify for credit reduction since it still owed the Federal Government for borrowed unemployment funds. California employers must pay an additional FUTA tax of 1.5% per employee for a total of $147.00 per employee on their Form 940 report for 2015. Please be aware that some software programs may not automatically calculate the increase (Quickbooks will). Please contact our Core Accounting Services Department for assistance.

Sales Tax Increase
- Sales tax remains the same. For rates, please go to: stateboardofequalization@state.ca.gov for more information.

Summary of Changes and Reminders for 2016
- Social Security: The limit remains the same at $118,500. The rate remains at 6.2% for both employee and employer.
- Medicare: The rate remains 1.45% with no limit. Employees who earn more than $200,000 will continue to pay an extra 0.9% Medicare tax in 2016. (Employers don’t pay a matching portion for this amount).
- State Disability Insurance (SDI): The rate remains at 0.90% and the limit is raised to $106,742 for a total tax of $960.68 for 2016. (These changes should be installed with your payroll software update).
- SUI: Verify and change your rate as necessary based on your notification received from EDD. You should have received your new “EDD State of California Notice of Contribution Rates and Statement of UI Reserve Account for the Year 2016” notice in the mail or you can find your new rate on the following website: https://eddservices.edd.ca.gov/tap/open/rateinquiry/. If your SUI rate has changed from the rate used in 2015, you need to manually change it in your computer payroll module. Tax table updates do not include your new SUI and ETT rate. Make this change before you process a 2016 payroll.
- EDD Report of Independent Contractors (Form DE542) needs to be filed for the new year.
- Minimum wage increases on January 1, 2016 to $10.00 per hour. As a reminder, per California Labor Code section 2810.5, all employers must provide nonexempt employees with a wage notice upon hire and again within seven days after a change is made to either the employee’s rate of pay or pay allowances (such as in the case of a minimum wage change).

The Affordable Care Act requires 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, and is not taxable. This reporting is for informational purposes only and will provide employees with useful and comparable consumer information on the cost of their health care coverage. The value of the health care coverage will be reported in Box 12 of the Form W-2, with Code DD to identify the amount. There is no reporting on the Form W-3 of the total of these amounts for all the employer’s employees. In general, the amount reported should include both the portion paid by the employer and the portion paid by the employee.

• **The Affordable Care Act requires employers with at least 50 full-time workers to offer employee health insurance**. Each year, those employers must send a statement (Form 1095-C) to all employees eligible for coverage and also report to IRS. Form 1094-C acts as a cover sheet for the 1095-C reporting information to be sent only to the IRS. For more information on this filing requirement, please contact our Core Accounting Services Department.

**HSA Limits**: [www.hsacenter.com](http://www.hsacenter.com)
- The maximum individual annual contribution **remains at $3,350** (over 55 may add $1,000 = **$4,350**).
- The maximum family annual contribution **increases to $6,750** (over 55 may add $1,000 = **$7,750**).

**Pension Limits**: [www.401khelpcenter.com](http://www.401khelpcenter.com)
- The 401(k) annual contribution limit remains at **$18,000** (individuals over 50 may contribute **$24,000**). For more information on various retirement plan limits go to above website.

If you are utilizing payroll software, you should receive a new tax table update, or it will be available for download. Updates will need to be installed after running 2015 year-end reports, and before processing any payroll for 2016. Be certain to update your tables and closely review your first payroll in 2016. Again, change the SUI and ETT rates in your software, if necessary. If you need to re-run any 2015 reports after changing rates, you must revert back to the 2015 information, re-run reporting, then update to 2016 information again.

If you have any questions regarding your software, payroll taxes, or 1099s, don’t hesitate to contact our office. Please ask for one of our qualified Core Accounting Services Department staff members to assist you.

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