



Delisi & Associates, P.C.

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December 7, 2009

TO: Our Clients with Employees—Please give this letter to the individual in your company responsible for payroll.

RE: 2010 Tax Withholding Rates—Payroll

As the Holiday Season approaches, our staff would like to wish you and your families Happy Holidays and Happy New Year! We appreciate your business and look forward to 2010 being a safe and prosperous year for all.

Please visit our updated website: www.delisiassociates.com. There you will find financial calculators, newsletter articles (updated regularly), and a calendar of events displaying important due dates.

Good news! We are the only official Sage Software (Peachtree) Premier Training Center in Westmoreland County and are also ProAdvisors for QuickBooks. What this means for you is we can provide quality training for all versions of Peachtree and QuickBooks including manufacturing, construction, distribution, and non-profit. **Check our website regularly for posted calendar dates for training or call our office to set up a one-on-one training session with you or your company.** We can customize exactly what you need. Please contact Christine Hoke, our Certified Peachtree by Sage Trainer and QuickBooks ProAdvisor.

We are continuing to offer Peachtree, QuickBooks, Timeslips Time and Billing Software Packages, Quantum Manufacturing Edition MISYS, Inc., and support for businesses of all types and sizes. Our goal and primary focus has been to consistently provide quality accounting "solutions" to our clients.

When it comes to your business, your accounting software needs to deliver powerful reporting, forecasting, and business analysis tools. We offer the most flexible, full-featured, and affordable accounting packages to meet your business demands. If you are considering computerizing your recordkeeping, or looking for a change in software, call our offices or email christineh@delisiassociates.com for a free demonstration on any of the software packages. We also offer complimentary classes throughout the year. Please email Christine if you are interested in a specific topic about Peachtree, QuickBooks, or Timeslips.

At this busy time of year, it is time to prepare for changes in payroll withholding for 2010. The following rates and base amounts will be in effect for your first payroll dated in 2010.

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MINIMUM WAGE

The minimum wage is \$7.25 per hour effective July 24, 2009.

For employers with tipped employees, the cash wage remains at \$2.83 per hour. However, the employer must make up the difference if the tips plus the \$2.83 hourly wage does not total the regular minimum wage. The tipped wage only applies to employees who receive more than \$30 per month in tips. If an employee does not make more than \$30 per month in tips, the employer must pay the employee the regular minimum wage.

SOCIAL SECURITY

The social security rate remains at 7.65 percent for employees and 7.65 percent for employers, for a combined total of 15.3 percent. Continue to report the Social Security and Medicare taxes separately.

PART I: Social Security (old age, survivors, and disability insurance)

BASE: The maximum amount of wages subject to the social security portion of the tax remains at \$106,800.

RATE: The Social Security tax rate is 6.2 percent. This percent should be withheld from each employee's wages (tips included); the employer matches this withholding.

PART II: Medicare (hospital insurance)

BASE: The ceiling amount of wages subject to the Medicare portion of the tax has been eliminated. Therefore, all wages are subject to the tax.

RATE: The Medicare tax rate is 1.45 percent. This percent should be withheld from each employee's wages (tips included); the employer matches this withholding.

SUMMARY: Continue withholding at the rate of 7.65 percent up to \$106,800. For wages in excess of \$106,800, withhold at the rate of 1.45 percent.

MEMO: In sole proprietorships, children under the age of 18 and employed by a parent are exempt from Social Security. This also includes children employed by a partnership consisting only of parents.

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PENNSYLVANIA PERSONAL INCOME TAX WITHHOLDING

BASE: There is no maximum amount of wages subject to Pennsylvania withholding. All wages are subject to this tax.

RATE: The rate is 3.07 percent.

ALERT: NEW HIRE REPORTING

All employers must report information about any new employees within 20 days of their hire date. Employers will be required to report the new employee's name, address, social security number, date of hire, and date of birth.

FEDERAL PERSONAL INCOME TAX WITHHOLDING

BASE: There is no maximum amount of wages subject to Federal withholding. All wages are subject to this tax.

RATE: The rate is variable depending on frequency of pay periods, marital status of employees, and number of exemptions claimed by the employee on Form W-4. Consult Circular E--Employer's Tax Guide, which you should be receiving from the Internal Revenue Service for amounts of Federal tax to withhold. Be sure to use Circular E (Rev. January 2010).

W-4

FORMS: W-4 forms need to be completed for new employees. You may order copies of these forms from the Internal Revenue Service by calling 1-800-829-FORM or by visiting our website: www.delisiassociates.com and printing them out.

I-9

FORMS: All employers and employees must fill out an Employment Eligibility Verification Form. This form must be kept on file for at least three years after the date of hire or for one year after an employee is terminated. **Be sure to use the new form with the revision date of August 7, 2009.**

WORKING

PAPERS: All employers who hire youths (including their children) under the age of 18 are required to obtain working papers from these employees. Working papers are available in local high school offices.

LOCAL PERSONAL INCOME TAX WITHHOLDING

BASE: There is no maximum amount of wages subject to local withholding. All Pennsylvania taxable wages are subject to this tax.

RATE: The rate is 1 percent (generally). Employers are responsible to withhold the tax only from employees that live in the same municipality (city or township) in which the business is located. Many of our clients withhold for all employees regardless of their place of residence; however, this is optional.

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LOCAL SERVICES TAX

BASE: The base varies from municipality to municipality (city or township). Consult your local tax collector, or call our offices and we will contact them for you to determine the base amount in your area. You are not responsible to withhold the tax if an employee earns below the base during the year. If your base rate is greater than \$10, you must withhold a portion of the tax from each payroll. Weekly payroll withhold \$1 per pay (\$52/52) pays. Bi-weekly payroll withhold \$2 per pay (\$52/26 pays). Total tax \$52.

RATE: The rate varies between \$10 and \$52 per year.

MEMO: If an employee changes employers during the year, only a one time tax is paid. Check with any new employees.

EMPLOYER TAXES

THE FOLLOWING TAXES ARE NOT WITHHELD FROM EMPLOYEES BUT ARE THE RESPONSIBILITY OF THE EMPLOYER:

SOCIAL SECURITY

As previously stated, the employer matches Social Security withheld from employees at a rate of 6.2 percent to a base amount of \$106,800 and 1.45 percent of all wages paid.

CREDIT FOR EMPLOYER PAID SOCIAL SECURITY TAXES OF EMPLOYEE CASH TIPS

An employer in the food and beverage business may claim a nonrefundable income tax credit of employer Social Security taxes paid on tips exceeding those tips treated as wages for purposes of satisfying the minimum wages provisions of the Fair Labor Standards Act. The credit will be taken on the employer's year-end tax return.

FEDERAL UNEMPLOYMENT TAX

BASE: The base amount of wages subject to the tax remains at \$7,000.

RATE: The tax rate for Pennsylvania is determined at the end of 2009. The tax is calculated at .8 percent (.008 x gross wages for each quarter of the year).

MEMO: In sole proprietorships, children under the age of 21 employed by a parent, parents employed by a son or daughter, and spouse employed by a spouse, are exempt from this tax. This also includes children employed by a partnership consisting only of parents.

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PENNSYLVANIA UNEMPLOYMENT COMPENSATION TAX

BASE: The base amount of wages subject to the tax for 2010 remains at \$8,000.

RATE: The rate is calculated differently for each employer. Your new contribution rate will be mailed to you shortly by the Commonwealth of Pennsylvania.

MEMO: In a sole proprietorship, children under the age of 18 employed by a parent, parents employed by a son or daughter, and spouse employed by a spouse, are exempt from this tax. This also includes children employed by a partnership consisting only of parents.

CONTINUATION OF CHANGES TO PENNSYLVANIA UNEMPLOYMENT COMPENSATION TAX FOR 2010

An increase in unemployment has caused significant changes in Pennsylvania unemployment compensation that will continue through 2010.

These changes are:

1. A 5.8 percent surcharge plus an additional .65 percent will be added to your employer contributions. This amount will be included in your year 2010 contribution rate.
2. A .08 percent will be the new tax rate on employee wages for 2010. You will need to continue withholding this tax from all wages paid to your employees. (There is no base wage amount; therefore all wage amounts are subject to this tax). These amounts will be submitted to Pennsylvania with your quarterly reports.
3. Please advise your payroll company of any rate changes or make the necessary changes to your in-house payroll software.

SUBCONTRACTORS

MEMO: If you have paid over \$600 to or for any of the following during 2009, you are required to issue them a 1099:

- Unincorporated Subcontractors
- Unincorporated Landlords
- Rental of Equipment and Supplies

You will need their name, address, Federal Identification Number, or Social Security Number. There are severe penalties if you do not issue these forms. Contact our office if you need assistance in completing the form.

W-9

FORMS: W-9 forms need to be completed by all subcontractors. You may order copies of these forms by calling 1-800-829-FORM or by visiting our website: www.delisiassociates.com and printing them out.

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PEACHTREE USERS

Just a reminder to order the tax service update for the payroll module of your software. This update includes all changes to allow for proper printing of W-2s and 1099 reports for the year-end 2009 filings, federal withholding tax changes, and state withholding tax changes (if applicable) for January 1, 2010. All versions of Peachtree 2010 are here! If you have not upgraded to 2010, please call 724.832.8585 or email Christine Hoke at christineh@delisiassociates.com. All payroll tax updates should be loaded via the internet to avoid an additional \$50 charge for a CD.

IMPORTANT

Peachtree 2007 version has been retired. If you are using version 2007 - you must upgrade your software or you will not be able to do payroll in 2010 or receive support.

QUICKBOOKS USERS

If you have QuickBooks or QuickBooks Pro, the tax updates must be downloaded from QuickBooks' Payroll Website per your anniversary date. Please contact Sue Muller or Christine Hoke if you have any questions.

Feel free to call our offices with any questions about information contained in this letter. As always, we stand ready to assist you in financial and tax decisions.

Happy Holidays!

Sincerely,

Delisi & Associates, PC

Delisi & Associates, P.C.