PROXUS
managing the business of employment[sm]

# YEAR END 2011
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# 2012 BANKING HOLIDAYS

All Federal (Legal) Holidays will effect Direct Deposit transactions and employee account funding. To ensure your payroll processing schedule is correct***, please take a few moments to verify your input and check dates to accommodate the Federal Banking Holidays. Return your 2012 Payroll Processing Schedule noting any changes to your Input or Check Dates.***

If a Legal Holiday falls between your Input date and Check Date, input payroll 3 business banking days prior to check date to ensure timely funding of employee's accounts

**2012 FEDERAL BANK HOLIDAYS:**

| | |
|---|---|
| January 2, 2012 *** | New Year's Day celebrated (Monday) |
| January 16, 2012 | Martin Luther King Jr Day (Monday) |
| February 20, 2012 | Presidents Day (Monday) |
| May 28, 2012 | Memorial Day (Monday) |
| July 4, 2012 | Independence Day (Wednesday) |
| September 3, 2012 | Labor Day (Monday) |
| October 8, 2012 | Columbus Day (Monday) |
| November 12, 2012 | Veterans Day (Monday) |
| November 22, 2012 | Thanksgiving Day (Thursday) |
| December 25, 2012 | Christmas Day (Tuesday) |
| January 1, 2013 | New Years Day (Tuesday) |

*** January 1, 2012 New Years Day (Sunday) will be legally celebrated Monday, January 2
When Holidays fall on Saturday, Federal Reserve Banks and branches will be open the preceding Friday. For Holidays falling on Sunday, Federal Reserve and branches close the following Monday.

**PROXUS 2011 CLOSURES:**

| | | | |
|---|---|---|---|
| Jan 2, 2012 | New Years Day (celebrated) | | |
| May 28, 2012 | Memorial Day | Nov 22, 2012 | Thanksgiving Day |
| July 4, 2012 | Independence Day | Nov 23, 2012 | Thanksgiving Friday |
| Sept 3, 2012 | Labor Day | Dec 25, 2012 | Christmas Day |

*****Important*****

**Included in this Guide is a 2012 Payroll Schedule which lists Period Ending, Input, Check & Delivery dates for each payroll process. Our system will attempt to make adjustments to your calendar when a normally scheduled check date (or input date) falls on a Holiday. PC Connection & On-Line clients cannot change a check date; that must be done by Proxus.**

**Therefore, it is imperative that you review the schedule, note any changes and return to us by December 9. This will avoid incorrect check dates that result in costly re-runs, direct deposit errors and disgruntled employees.**

# 2011 YEAR END
# IMPORTANT DATES

| | | |
|---|---|---|
| **Holiday, Bonus, Adjustments , W2 Waiver, Supplies Order, SS# Verification** | Return by | Dec 09 |
| **2012 Payroll Input Schedule** – return with changes by | | Dec 09 |
| **W2 Verification Report** – return with changes by (Phone/Fax clients only). | | Dec 09 |
| **Report Profit Sharing/Retirement Plan Distributions by** Notify us of any employees that have received distributions from 401k, 403b, etc. 1099R's are produced for these transactions. | | Dec 09 |
| **Fax/Email Unemployment Contribution Rate Notices & Frequency Changes (Fed & State)** | | As Received |
| **Report Fringe Benefits and Third Party Disability Pay** by | | Final 2011 P/R |

**Supplemental Payroll Runs dated 12/30 or 12/31:**

**Tax Service Clients:**

| | |
|---|---|
| For Federal Liabilities over $100K, submit by | Dec 27 |
| For Federal Liabilities under $100K, submit by | Dec 28 |

**Non Tax Clients:**

| | |
|---|---|
| For Federal Liabilities over $100K, submit adjustments by | Dec 29 |
| For Federal Liabilities under $100K, submit adjustments by | Dec 30 |

**Automatic Purge of Terminated Employees will occur** First 2012 P/R

All employees with a "T" Status will be dropped from your master file (unless you have instructed otherwise) with the first payroll that is processed in the new year. To retain employees, change their Status to an "I" (Inactive) or ask us not to drop terminated employees by Dec 09

**PC Connection Clients – Download Tax Table Updates** As Prompted during Refresh

Keep your Tax Tables current with changes to rates/limits

**Delivery of Quarterly & Annual Tax Returns:**

**Tax Service Clients:**

| | |
|---|---|
| W-2's & accompanying reports will be delivered by | Jan 20 |
| CTS Quarterly Tax Statement with Annual Reconciliations by | Feb 15-20 |
| 2011 CD's including W-2's for archive purposes | Feb 20-24 |

**Non Tax Clients:**

| | |
|---|---|
| $4^{th}$ Quarter Tax Returns & W-2's will be delivered by | Jan 17 |
| 2011 CD's including W-2's for archive purposes | Feb 20-24 |

| | |
|---|---|
| **Delivery of Forms 1099** will occur by | Jan 20 |
| **Distribution of employee W-2's** must be completed by | Jan 31 |

# W-2 VERIFICATION REPORTS

**(The report was generated on Oct 26 – new hires added after this date will not appear on the report. Going forward, please verify all data when entering new hires using the Employee Maintenance Report included with payroll or your Change History report on-line.)**

The Social Security Administration (SSA) requires that the employee's name on their W-2 match exactly to the employee's name on their Social Security Card. SSA is extremely strict and will reject all W-2's that do not meet this requirement.

You must ensure that your employees' master records contain the correct name, SS# and complete address for printing on W-2's, 1099's and State Unemployment wage listings. SSA may impose a $50 penalty for each form filed with incorrect information. Also, the employee will not receive credit for the year towards future Social Security benefits.

We have included a **W-2 Verification Report and a Missing/Invalid Social Security Number Report** (if applicable) to give you an opportunity now to correct any errors that will potentially result in penalties. PC Connection & On-Line Clients should make their own corrections prior to the final payroll of 2011 and **<u>should not</u>** return the Verification Report to us. Phone-In/Fax clients should note any changes on the report and fax back to us by December 9.

**<u>Proxus can verify SS#'s for you directly with Social Security Administration</u>**. Complete the Request Form and return to us ASAP. Employees with zero SS# and 1099 employees will not be verified. Results will be emailed to you.

Please note that a missing or invalid SS# will also affect Unemployment Wage Reporting. Our Tax Service will <u>exclude</u> wages for employees with zero or invalid SS#'s. Non-Tax clients should be aware that the agency will not post wages for employees with missing or invalid SS#'s. In the event of an Unemployment claim, the wages will not be posted with the agency resulting in a delay of the employee's benefits and an administrative burden for you to produce evidence of employment.

**<u>W-2 Pension Column:</u>**

Any employee who made contributions to a Retirement Plan (401k, 403b) through payroll deductions will **<u>automatically</u>** **<u>have a YES in this column</u>** and the Retirement Box will be checked on the W-2. No action is required on your part.

However, if you have a **Pension Plan that is 100% Company Funded,** PC Connection & On-Line clients should manually change this field to a Yes on the Demographics or Job Info Screen. Phone-In/Fax clients should make the changes and fax us the Verification report by December 9. This will ensure the Retirement Box is checked correctly on the W-2 and prevent costly W-2C's.

The **2011 limits for 401k/403b Plans** are $16,500 plus an additional $5,500 for Catch-up Contributions. Look at your year-to-dates NOW to be sure employees will not exceed these legal limits. Notify us of any necessary adjustments prior to your last payroll of 2011. The employee may be penalized if the contributions exceed the limits.

# FRINGE BENEFITS

## Reporting Third Party Sickpay (Disability):

Insurance Companies and State Disability Offices are not required to mail their annual statements until Jan 15. Your W-2's and Quarterly Tax Returns are already completed by this time. Therefore, Third Party Disability is always a challenge at year-end. However, you should have been receiving periodic benefit statements throughout the year. If you have no employees on Disability during 4th quarter, you already have what you need to enter these transactions. If you do have employees on Disability during 4th quarter, call either your Insurance Carrier and/or State Office in late December and ask them for a statement. **(Please see the following page for Adjustment Deadlines and their impact.)**

**Do not report Disability Payments in payroll if the Insurance Company is issuing the W-2's**. Most Insurance Companies will "transfer" the reporting and deposit requirements to the employer. This means that you are responsible for issuing the W-2 and making the federal tax deposits. If you are not sure of your arrangement with your Insurance Co, call them now to determine your responsibilities. This will avoid duplicate filing of the W-2's for those individuals which could result in erroneous tax bills for the employees and/or you.

**Third Party Sickpay Taxability: (Refer to Commonly Used Fringe Benefit Code list for keying instructions)**

**Short Term Disability:** Taxable wages paid to the employee who is on disability for 6 months or less. Social Security & Medicare are required. Federal Withholding is optional.
**Long Term Disability:** Taxable wages paid to the employee who is on disability for more than 6 months. No Social Security or Medicare is withheld. Federal Withholding is optional. **NOTE**: These are the federal definitions of STD & LTD. Your plan may "define" LTD as less than 6 months. For taxation, the federal definitions apply.

## Fringe Health for "S" Corporations:

If your company is an S Corporation, health & accident insurance premiums paid by the company for greater than 2% shareholders are taxable income and are reported on the W-2. According to IRS, the premiums paid on behalf of these shareholders are taxable for Federal Income tax only and not taxable for Social Security & Medicare. Notify us if you have this type of adjustment and specify "S Corp Health"...with final 2011 payroll.

## Other Fringe Benefits:

**Personal Use of Company Car** – Taxable for Federal, Social Security & Medicare. It remains tax free for PA State Income Tax and smaller PA locals but is taxable for Phila.
**Group Term Life Insurance** – Federal Withholding is optional, is taxable for Fica/Medicare and is taxable in Phila.
**Moving Expenses** – Some reimbursements are taxable to the employee.

**Please report all Fringe Benefits as quickly as possible. Check with your accounting firm now to begin the process so you are able to close the year with your last 2011 payroll and avoid adjustment runs & amended tax returns.**

# YEAR END ADJUSTMENT PROCESSING

**In order for us to process year end adjustments, we may need to take control of your file making it impossible for you to enter or submit current (January) payroll data until we have completed the adjustment run. Please take this into consideration when planning year end adjustment processing !**

Clients are responsible for reporting all 4th Quarter Adjustments in a timely fashion. If you report adjustments after the due dates listed, liability for any late tax deposit penalties and interest will be your responsibility.

**<u>TAX SERVICE CLIENTS: Adjustments or P/R's dated 12/30 or 12/31:</u>**
For Federal Liabilities **over $100k**, submit on or before **Dec 27.** No later than Dec 28.
(You may be asked to wire funds depending on amounts & timing.)
For Federal Liabilities **under $100k**, submit on or before **Dec 28.**

***We must send our Quarterly File to the Tax Service on Dec 29, <u>as is!</u>***
Adjustments will be accepted for processing through January but will be subject to additional processing fees and filing requirements as noted below:

**<u>Adjustment or P/R data processed by December 30</u>** will be reflected on the Quarterly Tax Returns with no Amended Returns required. Quarterlies & W-2's will be rerun if necessary. Late deposit penalties and interest may apply for entries received after Dec 28 depending upon the dollar amount of the liability. Normal payroll processing fees will apply.

**<u>Adjustments processed between Tuesday, January 3 and Friday, January 6:</u>**
**<u>MAY</u>** result in Amended Tax Returns (billed at $65.00-$115.00/jurisdiction), late deposit penalty and interest charges, depending upon the status of your year-end processing. Reprints of W-2's at $3.50 each and a $25 additional processing fee will apply.

**<u>Adjustments processed after January 6:</u>** **<u>WILL</u>** result in Amended Tax Returns ($65.00 - $115.00 each), potential W-2C's ($10.00 each), $25 additional processing fee, reprints of W-2's at $3.50 each and agency late deposit penalty and interest charges.

**<u>NON-TAX SERVICE CLIENTS: Adjustments or P/R's dated 12/30 or 12/31:</u>**
<u>For Federal Liabilities **over $100K**</u>, submit by Dec 29. The deposit is due the next business day ,Tuesday, Jan 3.
<u>For Federal Liabilities **under $100K**</u>, submit by Dec 30. If the check date is 12/30, the deposit is due on Thursday, Jan 5. If dated 12/31, deposit is due Friday 1/6.
**<u>Caution</u>**: deposit amount is based on <u>accumulated</u> taxes <u>within a federal deposit period</u> and may include multiple P/R's.

Adjustments received after Dec 30 will be subject to an additional processing fee of $25. Your Quarterly Reports & individual W-2's will need to be re-run, and will be delivered within approximately one week.

***** <u>DO NOT INCLUDE 2011 ADJ'S ON A 2012 PAYROLL</u> *****

## 2012 TAX UPDATES

Several agencies have already released 2012 Tax Information. Some items are still under consideration. Federal Income tax rates will not be available until mid-December. The following list includes information we have at this time.

We will continue to keep you informed of any regulatory changes that will effect payroll processing. Please check www.proxushr.com on a regular basis through Dec & Jan. Click on Resource Center Tab (at the top), scroll down to Updates & Alerts.

**Social Security Wage Base:**

**$110,100 in 2012**. The Social Security rate will either revert back to **6.2%** for tax of $6826.20 or remain at **4.2%** for tax of $4624.20. The Medicare rate remains at 1.45% with no wage limit. We will post updates as details become available.

Retirees who will not reach full retirement age in 2012 can earn up to **$14,640/**yr ($1220/month) without losing benefits. $1 in benefits will be withheld for every $2 in earnings above the limit. Retirees who reach retirement age in 2012 lose $1 in benefits for every $3 earned above **$38,880** only counting earnings before the month they reach retirement age. Starting with the month retirees reach full retirement age, they will receive full benefits with no limit on earnings.

**2012 Retirement Plan Limits:**

| Description | Limit |
|---|---|
| 401k & 403b Contributions | **$ 17,000** |
| 401k & 403b Catch-up Contributions (Aged 50 or over) | **$ 5,500** |
| SIMPLE Retirement Plan Contribution | $ 11,500 |
| SIMPLE Retirement Plan Catch-up Contribution | $ 2,500 |
| Highly Compensated Employee - Limitation | **$ 115,000** |
| Key Employee dollar limitation (in top-heavy plan) | **$ 165,000** |
| Annual Compensation Limit | **$ 250,000** |

**Other Tax Rates/Limits: (**Phila 2012 rates may change before 12/31)**

| Tax Type | 2012 Rate | 2012 Wage Base | 2011 Rate | 2011 Wage Base |
|---|---|---|---|---|
| ****Phila Resident** | **3.928%** | N/A | 3.928% | N/A |
| ****Phila Non-Res** | **3.4985%** | N/A | 3.4985% | N/A |
| **NJ Unemployment-Employer** | **Agency Assigned** | **$30,300** | **Agency Assigned** | **Agency Assigned** |
| **NJ Unemployment-Employee** | **.425%** | **$30,300** | .425% | $29,600 |
| **NJ Disability-Employee** | **(New) .20%** | **$30,300** | .50% | $29,600 |
| **NJ Family Leave-Employee** | **.06%** | **$30,300** | .06% | $29,600 |
| **PA Unemployment-Employee** | **.08%** | N/A | .08% | N/A |
| **PA Unemployment-Employer** | **Agency Assigned** | $ 8,000 | Agency Assigned | $8,000 |
| **Futa – Employer (Changed July)** | **.60%** | $ 7,000 | .8%/.6% | $ 7,000. |
| **Qualified Parking Limit** | **$240** | N/A | $230 | N/A |
| **Qualified Transit Limit** | **(New) $125** | N/A | $230 | N/A |

# Miscellaneous 2012 Information

**Please continue to check our home page at www.proxushr.com for updates. Click on the Resource Center tab at the top, scroll down to Updates & Alerts. We will post final 2012 Tax rates as well as an Act 32 Primer with instructions on how to maintain employee info.**

**UC Rates:**

Please send us your Unemployment Rate Notices as received. We will make every effort to update the system with your first payroll of 2012. Fax or email to tax@proxushr.com.

**Social Security Rates**:

The 4.2% rate now in effect for employees is scheduled to expire December 31 and will revert to the 6.2% rate for 2012, UNLESS the federal government acts to extend or change the rate. A reduction in the matching Employer rate is being considered as part of the Jobs Bill currently under debate.

**FUTA (Federal Unemployment) Additional Tax Due:**

Employers in over 20 States will likely face increased Futa tax payments for 2011, even with the midyear reduction from .8% to .6%. As of August, many States have outstanding loans with the federal government totaling $40 billion. If the loan balances are not repaid by Nov 10, employers in these States will be subject to a “credit reduction” for 2011 resulting in additional Futa tax due for 2011. Generally, the increase in tax will be from .3% to .9% of the Futa taxable wages earned by each employee working in any one of these States: AL, AR, CA, CT, FL, GA, ID, IL, IN, KY, MI, MN, MO, NC, NJ, NV, NY, OH, PA, RI, SC, VA, WI.

For Tax Filing clients, Ceridian Tax Service will compute any additional amounts due and make deposits on your behalf. They will charge the additional amount to your 4th Quarter Tax Statement and draft your bank account in February 2012. Non-Tax Filing clients will have additional deposits due IRS either with Form 940 or via EFTPS. Some States are also imposing an unemployment compensation tax assessment (special invoice or additional percentage due on UC return) to help pay interest owed on the federal loans.

**ACT 32 PA Employers:**

Through November, we will continue to do as much employee coding as possible to lessen your burden on the first pay of January. It is imperative you cooperate with your service representative as there is still effort required on your part. Act 32 withholding rules are mandatory with the first January payroll for all PA Counties. You should plan on spending additional time preparing your first January payroll for processing. Watch our website for the Act 32 Primer.

**Sending us personally identifiable info:**

In order to protect your employees’ confidential information, please do not send us employee information via “open” email containing SS#’s, bank accounts, etc. Please use http://proxushr.myfileguardian.com. Signing up and sending a document is easy as well as secure. Data is encrypted for the protection of you and your employees.

# GENERAL INFORMATION

## <u>1099'S:</u>

We will produce **1099MISC** for any individual on your payroll that has been paid as an Independent Contractor providing the earnings were <u>over $600</u>. However, if you would like us to produce 1099MISC for other individuals, we would be happy to accommodate you. Simply notify us **<u>BEFORE</u>** your final payroll process of the year and we will add these records to your file for year-end. PC Connection & On-Line clients can add these contractors to the payroll master file being certain to code their status as 1099 with EIN or SS#. Items needed to produce 1099's are Name, Address, SS# or EIN, and the dollar amount for the year. The Earnings Code for 1099 MISC wages is $95. Enter as Manual Adjustments if they have already been paid.

We provide all the necessary forms for 1099's including the 1096 but the filing to IRS/States remains your responsibility unless you have 50 or more forms. In that case, Proxus will file to IRS for you. This applies to Tax Service clients as well as Non-Tax clients. Notify us if you have 50+ forms but do not want us to file for you.

If you have **1099R** wages (distributions from retirement plans) please contact Karen Andrews for special instructions. We will provide all the necessary forms but the filing remains your responsibility.

### <u>Fees for Year-End W-2 Processing:</u>

The fees for W-2 processing will be included on an invoice with your first payroll processed after the W-2's are produced. If you are set up for Direct Debit of fees, the W-2 processing will be included. Seasonal Clients or companies who closed their business during 2011 will be invoiced prior to W-2 processing. Payment must be received by December 15.

### <u>W-2's for Tax Service Clients:</u>

As in prior years, Tax Service clients will receive 2 sets of W-2's; one set for the employee and an employer file copy for you to keep. Federal W3 and employee wage/tax listings for each State and Local will be provided. Our Tax Service will file all Federal, State & Local W-2's on your behalf along with the Annual Reconciliations and IRS Form 940 - Federal Unemployment. **The yearly fee for W2 Filing and Annual Reconciliations will be billed in April.** A 2011 CD will be sent in February for archive purposes.

**<u>Non Tax Service clients</u>** will receive several sets of W-2's - employee copies as well as State, Local & Employer copies. A Federal W-3 will be included as well as employee wage/tax listing for each State and Local. Instructions for filing will be included in your package. Please note that Proxus does not support electronic W-2 Filing to State or Local agencies. Paper copies will be provided. A 2011 CD will be sent in February for archive purposes.

## STATE MINIMUM WAGE RATES
## Effective 1/01/2012

| | | |
|---|---|---|
| **Federal** | **$7.25** | **(effective since 7/24/09)** |
| **Arizona** | **$7.65** | |
| **California** | **$8.00** | |
| **Connecticut** | **$8.25** | |
| **Colorado **** | **$7.36** | ($7.64 2012 proposed rate – not yet passed) |
| **Delaware** | **$7.25** | |
| **Florida** | **$7.67** | |
| **Hawaii** | **$7.25** | |
| **Illinois** | **$8.25** | |
| **Maine** | **$7.50** | |
| **Maryland** | **$7.25** | |
| **Massachusetts** | **$8.00** | |
| **Michigan** | **$7.40** | |
| **Missouri** | **$7.25** | |
| **New Hampshire** | **$7.25** | |
| **New Jersey** | **$7.25** | |
| **New York** | **$7.25** | |
| **North Carolina** | **$7.25** | |
| **Ohio** | **$7.70** | |
| **Oregon** | **$8.80** | |
| **Pennsylvania** | **$7.25** | |
| **Rhode Island** | **$7.40** | |
| **Texas** | **$7.25** | |
| **Vermont** | **$8.15** | |
| **Virginia** | **$7.25** | |
| **Washington** | **$9.04** | |

Employers in States that have a minimum wage higher than the Federal rate ($7.25) must use the higher rate.

Be sure to stay current with State wage & hour laws where you have employees as minimum wage rates can change at any time.

## COMMONLY USED FRINGE BENEFIT CODES

### Decide first if you will deduct the applicable taxes from the employee's current paycheck or if your company will cover the taxes.

| Earnings Code | Description | Comments |
|---|---|---|
| **51** | **Fully Taxable Fringe Benefits** | **Will be considered taxable for All categories...Fed, State, Local** |
| **55** | **Personal Use of Company Vehicle** | **Not taxable for PA State or Locals. Is taxable for FW, Fica/Med & Phila.** |
| **57** | **Taxable Moving Expense** | **Fully Taxable** |
| **5B** | **Non-Taxable Moving Expense** | **Be sure to key a 5B, not 58** |
| **59** | **Group Term Life Insurance over $50k** | **Federal Withholding not required but is taxable. Taxable for Fica/Med & Phila. Not taxed for Pa or Pa locals.** |
| **5E** | **PS58 Costs** | **Split Dollar Life – reported on 1099** |
| **85 *** (see note)** | **S-Corp Health Ins premiums – Fica Taxable** | **Not taxable for PA or PA locals. *** <u>Only use this code if your CPA wants Fica/Medicare tax applied.</u>** |
| **86 (most common)** | **S-Corp Health Ins premiums – <u>Not</u> Fica taxable** | **Not taxable for Fica/Medicare, PA or PA locals. Only taxable for FW.** |
| **90** | **Short Term Disability (6 months or less)** | **Use S1 for Fica, S2 for Medicare and S3 for FWT** |
| **91** | **Long Term Disability (over 6 months)** | **Use S3 for FWT. There is no SS or Medicare.** |
| **95** | **1099Misc Payments** | **Use "BW" for any FWT** |
| **60** | **Retirement/Pension Distributions from 401k** | **Reported on 1099R – use "BU" for the FWT** |

**PC Connection and On-Line Clients: If you are at all unsure about the entry of Fringe Benefits, please call us so we can assist you. Correct taxation on these adjustments is critical at year-end.**