



The following information concerns employees and payroll taxes for 2019. Call us if you have any questions.

**EMPLOYEE HEALTH CARE AND SICK LEAVE:**

- Insurance companies and/or employers are required to provide employees a form 1095-B or 1095-C reporting health insurance coverage. Small employers that have a self-funded insurance plan must provide their employees with a form 1095-B. Large employers are required to provide a form 1095-C (certain sections only for some employers). Since 2018 is the final year for the individual health care mandate (as passed by the Tax Cuts and Jobs Act), it is unknown whether insurance companies and/or employers will be required to file forms 1095 for tax year 2019 (due in 2020). Please note that while the individual health care mandate has expired, all other employer “Obamacare” requirements are still in effect. *See “Employer Healthcare Responsibilities” later.*
- Effective 7/1/15, all employers are required to provide paid sick leave to California employees who work at least 30 days from the commencement of employment (certain exclusions apply).

**EMPLOYEE WITHHOLDING:** Limitations on employee payroll deductions are:

*FICA (Social Security) - 6.2%* to a maximum wage of \$132,900.00 (maximum withholding of \$8,239.80 per employee).

*FICA (Medicare) - 1.45%* on all wages (no maximum). *Please see the reverse for information on the Additional Medicare Tax of 0.9%.*

*CA SDI - 1.0%* to a maximum wage of \$118,371 (maximum withholding of \$1,183.71 per employee).

**EMPLOYER EXPENSES:** The employer payroll tax limits are:

*FICA (Social Security) - 6.2%* to a maximum wage of \$132,900.00 per employee (maximum tax of \$8,239.80 per employee).

*FICA (Medicare) - 1.45%* on all wages (no maximum).

*FUTA - 0.6%* to a maximum wage of \$7,000.00 per employee (maximum \$42 per employee). California has paid off its federal UI loan, so there is no required FUTA credit reduction for 2018 (an additional percentage amount had been required per employee for the past several years).

*CA SUI & ETT - Your employer rates received in December* to a maximum wage of \$7,000.00 per employee.

**MINIMUM WAGE:** Effective 1/1/19, the California minimum wage is \$11.00 per hour for employers with 25 employees or less and \$12.00 per hour with 26 employees or more. The minimum wage will increase annually until it reaches \$15.00 per hour in 2022 (2023 for employers with 25 employees or less).

**NEW EMPLOYEES:** All new employees must complete forms W-4, I-9 and DE 34. Forms W-4 and I-9 should be retained by the employer. Form DE 34 must be filed with the Employment Development Department within 20 days of the new hire. California only requires employers to submit a copy of form DE 4 when an employee claims 10 exemptions or more *or* if the employee claims exempt from federal or state income tax withholding and usual wages will exceed \$200 per week. The IRS has no such requirement for form W-4.

**W-2's :** Any employee non-cash taxable fringe benefits must be included on your employee’s W-2. This includes gifts, bonuses, certain awards, personal use of a company-owned vehicle, and health insurance for S-corporation shareholders owning at least 2% of the stock.

**F.U.T.A. DEPOSITS:** F.U.T.A. deposits are only required when the annual cumulative liability reaches \$500.

**ELECTRONIC DEPOSITS:** Employers are *required* to deposit all federal payroll taxes electronically (telephone or internet) using the Electronic Federal Tax Payment System (EFTPS). Employers can enroll online at [www.eftps.gov](http://www.eftps.gov) or by calling (800) 555-4477. Effective 1/1/18, all California employers, regardless of the number of employees, must *electronically* submit their employment tax returns, wage reports and payroll tax deposits online using the EDD's E-Services for Business. Go to [http://www.edd.ca.gov/Payroll\\_Taxes/More\\_e-Services\\_for\\_Business\\_Information.htm](http://www.edd.ca.gov/Payroll_Taxes/More_e-Services_for_Business_Information.htm) for more information.

**EMPLOYERS HEALTHCARE RESPONSIBILITIES:** Under the Affordable Care Act, employers with 50 or more full-time employees will be liable for an "assessable payment" (basically a non-deductible excise tax) for not offering basic health insurance coverage to its employees. For this purpose, a full-time employee is an employee who is employed on average at least 30 hours per week. Please note that the recently passed Tax Cuts and Jobs Act did not affect employers' health care requirements. Contact our office for additional details.

**EMPLOYEE VS INDEPENDENT CONTRACTOR:** As a reminder, the misclassification of employees as independent contractors can create major problems. Additionally, a recently passed California Supreme Court decision has further increased an employer's burden to establish the proper classification. On April 30, 2018 California adopted the "ABC Test" for independent contractors. Below are the following three factors that an employer must establish in order to satisfy the additional burden of classifying any person as an independent contractor:

- The worker is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact; and
- The worker performs work that is outside the usual course of the hiring entity's business; and
- The worker is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed.

**MEDICARE SURTAX:** As a result of the Patient Protection and Affordable Care Act of 2010, a new Medicare Surtax took effect in 2013. There were no changes to the Medicare surtax resulting from the Tax Cuts and Jobs Act. An additional 0.9% Medicare tax is applied to an individual's wages (before pre-tax deductions) and self-employment income that exceeds certain thresholds based on the individual's filing status. The thresholds are:

- \$250,000 for married filing joint
- \$200,000 for single, head of household and surviving spouse
- \$125,000 for married filing separate

As an employer, you are responsible for withholding the additional Medicare surtax once your employee's wages or compensation exceeds \$200,000 (neither employees nor employers can "opt-out"). The additional tax is calculated only on the portion of the Medicare wages in excess of the \$200,000 threshold (see below for an example). You are responsible for withholding the additional tax regardless of the employee's filing status. If an employee starts mid-year or holds multiple jobs, you must begin withholding the additional tax once their wages from your company exceed the thresholds, regardless of how much they earned or will earn from previous or concurrent jobs.

Under/overwithheld tax will be calculated when the employee files his or her annual income tax return. An employee cannot request additional Medicare tax to be withheld from their wages, however, they can increase their federal income tax withholding, which can then be applied to the under-withheld Medicare.

There is NO separate box on the employee's W-2 for the additional Medicare surtax. Both the standard Medicare and the Medicare surtax are combined and included in box 6 of the employee's W-2.

Example:

Employee's annual wages = \$275,000

Standard Medicare tax = \$275,000 x 1.45% = \$3,987.50

Additional Medicare tax = \$75,000 (\$275,000 – \$200,000) x 0.9% = \$675.00

Total Medicare tax to be reported in box 6 of the W-2 = \$4,662.50 (\$3,987.50 + \$675.00)