

Payroll & 1099 Updates for Nonprofit Organizations

Presented by:

Jenny Gathright and Meena Mohan



Work Opportunity Tax Credit

- Amended Tax Relief and Health Care Act of 2006
 - Eliminated Welfare to Work Tax Credit by merging it into WOTC
 - Streamlined WOTC making it easier for employers to participate
- Work Opportunity Tax Credit of 2007 extended the WOTC Program through August 31, 2011.
- February 17, 2009 the American Recovery & Reinvestment Act of 2009:
 - Introduced 2 new target groups
 - Unemployed Veterans and Disconnected Youth
 - Two target groups must begin work in 2009 or 2010



Work Opportunity Tax Credit

12 Groups of Job Seekers that Qualify for the WOTC

1. Long-term recipient of Temporary Assistance for Needy Families *
2. Other TANF recipient*
3. Veteran*
4. 18-39 year-old benefit recipient of Supplemental Nutrition Assistance Program*
5. 18-39 year-old designated community resident*

*The individual need not receive the assistance for the entire period if the family received it for the entire period and the individual was on the grant and thus received assistance for at least one day of the specified period.



Work Opportunity Tax Credit

12 Groups of Job Seekers that Qualify for the WOTC

6. 16-17 year-old summer youth
7. Vocational rehabilitation referral
8. Ex-felon
9. SSI recipient
10. Hurricane Katrina employee
11. Unemployed veteran
12. Disconnected youth



Work Opportunity Tax Credit

- \$2,400 generally for each new adult hire
- \$1,200 for each summer youth hire
- \$4,800 *for each new disabled veteran hire and*
- ***\$9,000 for each new long-term Temporary Assistance for Needy Families (TANF) recipient hired over a 2-yr. period***
 - First year is 40% of qualified wages
 - Second year is 50% of qualified wages
 - Qualified wages are capped at \$10,000 each year
 - Must be employed at least 120 hours



Work Opportunity Tax Credit

- Hire employees from certain targeted groups who have consistently faced significant barriers to employment
- Request certification by the State Workforce Commission
 - Complete page 1 of IRS Form 8850, *Pre-Screening Notice and Certification Request for the Work Opportunity Credit* by the date of the job offer and page 2 after the individual is hired
 - Complete ETA Form 9061, *Individual Characteristics Form* or 9062, *Conditional Certification Form*
 - Mail the signed IRS 8850 and ETA forms to the state workforce agency WOTC Coordinator within 28 days after the new hire begins work
- Federal tax credit is used to reduce federal tax liability of private-for-profit employers



The HIRE Act

- Enacted March 18th, 2010, the Hiring Incentives to Restore Employment Act (HIRE), provides two tax benefits for 2010.
 1. Employers are exempt from the 6.2% of social security tax on wages paid to qualifying employees, effective for wages paid between March 19th, 2010 through December 31st, 2010
 2. Additionally, for each qualified employee retained for at least 52 consecutive weeks, businesses will also be eligible for a general business tax credit of up to \$1,000
 - must pay in the second 26 week period at least 80% of the pay, paid in the first 26 week period
 - The credit is lesser of \$1,000 or 6.2% of the FIT wages paid in the 52 weeks



The HIRE Act

- Qualified Employee

- Begin employment after February 3rd, 2010 and before January 1, 2011
- Cannot have been employed for more than 40 hours, during a 60 day period leading up to the day they begin work for the qualified employer.
 - Must be certified by affidavit (Form W-11)
- Not employed to replace another employee
 - Unless the employee being replaced left voluntarily or was terminated for cause
- Are not family member of or related in certain other ways to the employer
- Cannot own 50% or more of the business directly/indirectly



The HIRE Act

- Claim the Payroll Tax Holiday of 6.2% on Form 941
 - Can reduce Federal Tax Deposit throughout the quarter or can wait to claim the credit on Form 941
 - Form W-2 will be modified to include a new box 12 code of CC to report exempt wages and tips for qualified employees under HIRE ACT
 - Form W-3 will be modified to sum up the box 12 CC totals
 - Available to Businesses, Agricultural employers, Tax-exempt Organizations, Tribal Government, Public Colleges and Universities newly-hired employees
 - Not available to Household, Federal, State and Local Government newly-hired employees



The HIRE Act

- Claim the Business Tax Retention Credit of \$1,000
 - Non-refundable business credit
 - Claim it on the 2011 Federal Tax Return
 - Cannot be carried back to offset prior year tax liability
 - Can be carried forward
 - Cannot be used to offset AMT tax liability



The HIRE Act

- An eligible employer can claim for the same employee
 - WOTC and the new hire retention credit or
 - Payroll tax exemption and the new hire retention credit
- An eligible employer cannot claim for the same employee
 - WOTC, Payroll tax exemption and the new hire retention credit
 - WOTC and payroll tax exemption



Affordable Care and Reconciliation Acts of 2010

- Patient Protection and Affordable Care Act
 - Senate version, signed into law March 23rd, 2010
- Health Care and Education Reconciliation Act of 2010
 - House version, signed into law March 30th, 2010

Several provisions from this legislation will impact 2010 and 2011 activities.



Small Business & Not-for-Profit Entities Health Care Credit

- Small business tax credit (Notice 2010-44)
 - Available to those offering health coverage
 - ER must contribute at least 50% of the premiums paid for single EE only coverage
 - Applies to those organizations with
 - No more than 25 full-time employees (FTE) and
 - average annual wages no more than \$50,000



Small Business & Not-for-Profit Entities Health Care Credit

- Tax credit – the lesser of
 - Actual insurance paid by the employer or
 - What ER would have paid had the EE enrolled in coverage with a small benchmark premium (Rev-Rul 2010-13)
 - Qualified premiums are those paid in a uniform percentage for all employees
 - Transition rules apply for lack of uniformity in 2010

(Note: A transitional rule for tax years beginning in 2010 allows for payment of non-uniform percentage of premiums)



Small Business and Not-for-Profit Entities Health Care Credit

- Multiplied by the percentage below
 - 2010-2013 - 35% for small business
 - 2010-2013 - 25% for not for profit entities
 - 2014 and beyond – 50% for small business*
 - 2014 and beyond – 35% for not for profit entities*
- Deduction for health insurance is reduced by the credit
- Allowed for AMT



Revenue Ruling 2010-13

Average Premiums – Selected States

State	Individual	Family
Alaska	\$6,204	\$13,723
Massachusetts	\$5,700	\$14,138
New York	\$5,442	\$12,867
Texas	\$5,140	\$11,972
Pennsylvania	\$5,039	\$12,471
Oklahoma	\$4,838	\$11,002
Maryland	\$4,837	\$11,939
Louisiana	\$4,829	\$11,074
California	\$4,628	\$10,957
Nevada	\$4,553	\$10,297
Hawaii	\$4,228	\$10,508
Idaho	\$4,215	\$9,365



Small Business and Not-for-Profit Entities Health Care Credit

<p>Form 8941 Credit for Small Employer Health Insurance Premiums OMB No. 1545-0044</p> <p>Department of the Treasury Internal Revenue Service</p> <p>▶ See separate instructions. ▶ Attach to your tax return.</p> <p>2010 Attachment Sequence No. 63</p> <p>Name(s) shown on return</p>	<table border="1"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 20%;">Identifying number</th> </tr> </thead> <tbody> <tr><td>1 Enter the number of individuals you employed during the tax year who are considered employees for purposes of this credit (see instructions)</td><td>1</td></tr> <tr><td>2 Enter the number of full-time equivalent employees you had for the tax year (see instructions). If you entered 25 or more, skip lines 3 through 11 and enter -0- on line 12</td><td>2</td></tr> <tr><td>3 Average annual wages you paid for the tax year (see instructions). 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Date as of 09/07/2010



Small Business and Not-for-Profit Entities Health Care Credit

- Eligible employees include
 - Part-time and leased employees
- Ineligible employees include
 - Seasonal, Sole-Proprietors, Partners, 2% S Shareholders, 5% Company owners and those related to such persons
- Definition of FTE:
 - Total number of hours of service by eligible employees/2080 (round to the nearest whole number)



Small Business and Not-for-Profit Entities Health Care Credit

- Three methods to determine hours worked:
 - Actual hours worked
 - Days-worked equivalency
 - Credits 8 hours for each day employee works at least 1 hour
 - Weeks worked equivalency
 - Credits 40 hours for each day employee works at least 1 hour
- Average annual wages
 - Total wages/FTE



Small Business and Not-for-Profit Entities Health Care Credit

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:

1 Determine the total number of your employees (not counting owners or family members):

Full-time employees: _____
(enter the number of employees who work at least 40 hours per week)

+

Full-time equivalent of part-time employees: _____
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

= total employees

If the total number of employees is fewer than 25 **GO TO STEP 2**

2 Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees: _____

÷

Divide it by the number of employees from STEP 1: _____
(total wages ÷ number of employees)

= average wages

If the result is less than \$50,000, **AND**

3 You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

» you may be able to claim the **Small Business Health Care Tax Credit**.
Find out more information at **IRS.gov**



Small Business and Not-for-Profit Entities

- Credit Phase-out is the sum of
 - The credit x (# of FTE – 10)/15 and
 - The credit x (average annual wage - \$25,000)/\$25,000
 - Example: Tony Tigers had 15 FTE with annual wage of \$40,000 and his credits before phase out is \$20,000
 - After phase out the credit was
 - » $\$20,000 \times (15-10)/15 = \$6,667$
 - » $\$20,000 \times (40000 - 25000)/25000 = \$12,000$
 - » Total reduction = \$ 18,667
 - » New Credit allowed = \$1,333
- Any unused credit is carried forward



Small Business and Not-for-Profit Entities

- For profit business will claim the credit on their federal tax return
- Not for profit will claim the credit on a revised Form 990T



W-2 Reporting for 2011

- Insurance benefits to be reported on W-2s
 - This provision was expected to be a requirement of reporting for tax years after 2010, however the IRS has since announced its decision to defer the requirement .
 - Reporting for 2011 will be optional
 - The 2011 Form W-2 has been updated to allow reporting of these benefits.
 - Report in Box 12, using Code DD
 - The reporting is for informational purposes only, and the reported benefits amounts are not taxable.



W-2 Reporting for 2011

22222		Void <input type="checkbox"/>	a Employee's social security number		For Official Use Only ▶ OMB No. 1545-0008			
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld			
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld			
			5 Medicare wages and tips		6 Medicare tax withheld			
			7 Social security tips		8 Allocated tips			
d Control number			9		10 Dependent care benefits			
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		
f Employee's address and ZIP code			13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		12a See instructions for box 12	
			13 Third-party sick pay <input type="checkbox"/>		12b		e a c c	
			14 Other		12c		e a c c	
					12d		e a c c	
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		
						19 Local income tax		
						20 Locality name		

Draft as of 10/12/2010

Form **W-2** Wage and Tax Statement **2011**

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page



Continuing Extension Act of 2010

- Act reinstated the COBRA subsidy through May 31st, 2010
 - It was originally set to expire at the end of March 2010
- The COBRA subsidy allows for employers to recover up to 65% of the premiums associated with COBRA continuation health coverage.
 - This subsidy is filed through the quarterly Form 941 or annual Form 944
 - Consider filing a 941-X, if your organization missed obtaining the subsidy for the extend period



Employee Classification

- Independent Contractors
 - Services offered to the public
 - General rule:
 - If the person or entity for whom the services are being performed, has control over only the results of the work, and not the means and methods of accomplishing the result, then the person performing the work is considered a contractor.



Employee Classification

- Common-Law Employees
 - Generally, under common-law rules, if you control the details of how work or services are performed (i.e. what will be done and how it will be done), an employment relationship exists.
 - Degree of Control and Independence
 - Evidence of control and independence is evaluated in three areas
 1. Behavioral
 2. Financial
 3. Relationship



Employee Classification

- What to watch for
 - An evaluation of your organization's employment relationships is recommended if the following characteristics apply to contractors currently being used.
 - Lack of written contracts
 - Lack of invoices
 - Limited business investment by the contractor
 - Lack of distinction between contract work and employed work



Employee Classification

- Volunteers
 - An evaluation of your organization's volunteering relationships and practices is recommended to avoid any unintended employment.
 - If employment relationships do exist, the same potential to owe for taxes and penalties will exist as with other misclassified workers



Employee Classification

- Volunteers
 - Those who work without intending to be compensated.
 - Does the person receive benefits from the organization?
 - Is the activity being performed less than full-time?
 - Are the services being performed typically considered volunteer work?
 - Volunteering at a employer-sponsored event
 - Must be compensated for volunteer work occurring during normal working hours
 - Must be compensated for time spent performing work similar to their normal duties



Employee Classification

- Volunteers
 - A volunteer may receive compensation for occasional or sporadic work and retain the volunteer status if;
 1. The action was not under taken to avoid minimum wage provisions or overtime protection
 2. The volunteer work is for a civic, charitable, or humanitarian reason without the expectation of compensation
 3. Services were offered freely, without compulsion
 4. The volunteer is not providing the same service and volunteering for the same organization that employs them.



1099-K

Merchant Card and Third-Party Payments

- IRS regulation 139255-08
- Issued December 7th, 2009
- Starting for 2011, the IRS will require credit card processors to issue a 1099-K to qualifying merchants. The form 1099-K will report the gross amount of a merchant's transactions that were paid with a credit card. The processor will file the form with both the IRS and the merchant.
- Reporting won't be necessary unless there is
 - more than \$20,000 worth of transactions, and
 - more than 200 transactions
- The 1099-K will report gross receipts; returns will not be included.



1099-MISC

Starting January 1st, 2012

Current

1. Issued to individuals and partnerships for payments > \$600
2. For services purchased
3. \$50 penalty per 1099 for reporting errors
4. \$250K annual cap on penalties

2012

1. Issued to individuals, partnerships, and **corporations** for payments > \$600
2. For services and **tangible goods** purchased
3. **\$100 penalty** per 1099 for reporting errors (double)
4. **\$1.5 million** annual cap on penalties (six fold increase)



1099-MISC

- Request Form W-9 from all vendors
- Tax exempt organizations are exempt from receiving 1099, however they are required to issue 1099s to their vendors
- Credit card payments are exempted from 1099-MISC reporting

