

Asher & Company, Ltd

Payroll Tax Rates & Other Matters

Effective: January 1, 2009

Payroll Taxes:

Income Tax Withholding

There are six basic tax brackets of 10%, 15%, 25%, 28%, 33%, and 35%. The 2009 Withholding Table (Circular E) issued by the Internal Revenue Service reflects these rates.

Social Security Employee Tax Table

There are two separate wage bases for the OASDI and Medicare (HI) portions of FICA. Social Security requires a withholding of 6.2% OASDI tax. The related wage base is \$106,800. For 2009, Medicare requires a withholding of 1.45% which must be withheld from all wages paid. Employers also must pay Social Security and Medicare taxes on covered employees in the same amount as that withheld.

Federal Unemployment Tax

The wage base remains at \$7,000. Effective tax rate for 2009 will be .8% and deposits should be made at that rate. Employers are required to make quarterly deposits for unemployment taxes only if the accumulated tax exceeds \$500.

Pennsylvania Income Tax

The Pennsylvania state withholding rate will be 3.07% for 2009.

Pennsylvania Unemployment Tax

Wages subject to unemployment contributions remain at \$8,000 for 2009. Employer rates vary based on experience and in 2009 their rate will be affected by a 5.8% surcharge on the contribution rate and an additional .25% tax. In 2009, employees will also be subject to a withholding tax at the rate of .06% (60 cents per \$1,000) on all wages.

New Jersey Income Tax

The New Jersey State withholding rates for 2009 range from 1.4% to 8.97% on graduated levels of income for 2009.

New Jersey Family Paid Leave Insurance

New for 2009, New Jersey has instituted a withholding rate of .09% for the New Jersey Family Paid Leave Insurance. The related wage base is \$28,900.

New Jersey Unemployment Tax

Wages subject to unemployment contributions will increase from \$27,700 to \$28,900 for 2009. Employer rates vary based on experience. The withholding rate for employees will be .925% for a maximum withheld amount of \$267.32.

City of Philadelphia Wage Tax

For 2009 the Philadelphia wage tax rate will be 3.93% for residents and 3.50% for non-residents.

Other Matters:

Retirement Earnings Test for Social Security Recipients

Employees age 62 through 64 can earn a maximum of \$14,160 per year with no reduction in benefits. In 2009 maximum earnings in the year an employee turns 65 will increase to \$37,680. However, there is no limit on earnings beginning in the month an employee attains age 65.

401(k) Plan Limitation

The annual employee elective deferral limit is \$16,500 for 2009. For employees 50-years-old and above there is an additional permitted deferral of \$5,500.

Forms W-4, W-9, and I-9

Remind all employees to complete Form W-4 and claim all the allowances to which they are entitled. Be sure to receive Form W-9 for all commissions, interest, rents, etc. paid to individuals. Form I-9 (Employment Eligibility Verification) and the New Hire form are mandatory for all employees and should be completed on the first day of employment. These can be obtained from your payroll service.

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Telephone Tax Refunds for Businesses and Tax-Exempt Organizations

What is the telephone tax refund?

The telephone tax refund is a one-time payment available on your 2006 federal income tax return, designed to refund previously collected federal excise taxes on long-distance or bundled long-distance services. It is available to anyone who paid such taxes on landline, wireless, internet long-distance plans or Voice over Internet Protocol (VoIP) services.

Who is eligible to request the telephone tax refund?

In general, any individual, sole proprietor, corporation, partnership, trust or nonprofit organization that paid the tax for long-distance or bundled long-distance services billed after Feb. 28, 2003 and before Aug. 1, 2006 is eligible to request the refund. To request the refund, Form 8913, Credit for Telephone Excise Tax Paid, must be attached to your 2006 tax return.

There are two methods that can be used to claim the telephone tax refund or credit for businesses:

The Actual Method- This method allows you to use the **actual** amount of federal excise tax on long-distance or bundled long-distance services.

You will need your actual phone bills for the 41 month period. You should schedule out the amounts billed for each month of long-distance services and bundled long-distance services, along with the amount of excise tax related to these billings. The 41 month period is from March 1, 2003 through July 31, 2006. This information should be provided to your accountant to claim this credit on your 2006 return.

The Estimation Method- This method allows you to use a **formula** in figuring out your credit. This method allows you to estimate your excise tax refund based on analyzing two months bills. You will need your monthly bills for April, 2006 and September, 2006, as well as the number of employees that you reported on your 2006 2nd quarter form 941 and the total amount of telephone expenses paid during the 41 month period March 1, 2003 through July 31, 2006. This method compares the amounts billed during a month with the tax and a month without the tax and applies the percentage difference to the total amount of telephone services billed during the 41 month period. There is a cap of 1% of phone services for companies with more than 250 employees and a cap of 2% of phone services for companies with 250 or less employees. In order to use this method, please complete the table on the reverse side of this page and provide it to your accountant to claim the credit on your 2006 return.

What about individuals?

Individuals can either use the actual method or the Standard Refund Amounts shown below:

Are there special rules for sole proprietors?

Sole proprietors with gross Schedule C income of \$25,000 or less can claim a refund using either the standard amounts for individuals shown below or the actual tax paid method described above.

Standard Refund Amounts for Individuals:

- one exemption, the standard refund amount is \$30
- two exemptions, the standard refund amount is \$40
- three exemptions, the standard refund amount is \$50
- four exemptions or more, the standard refund amount is \$60

There is an Estimation Method Table on the back of this sheet -- you can also download the Excel version found in the News section of www.asherco.com.

Those with more than **\$25,000** in gross Schedule C income have three options-

1. they can use the standard amounts for both personal and business expenses,
2. they can use the above formula for business expenses and the actual for personal expenses, or
3. they can use the actual amount of excise tax paid for both business and personal expenses

Estimation Method Table:

Steps to follow in figuring out your allowable excise tax rate:

Outlined cells require input	Example:	Actual:
Enter the total amount you paid for telephone service (including all fees and taxes) billed in April 2006.	1. \$ 1,000.00	
Enter the total federal excise tax included on line 1.	2. \$ 28.00	
Divide line 2 by line 1. Carry the result to at least four decimal places	3. 2.8000%	
Enter the total amount you paid for telephone service (including all fees and taxes) billed in September 2006.	4. \$ 1,100.00	
Enter the total federal excise tax included on line 4.	5. \$ 16.50	
Divide line 5 by line 4. Carry the result to at least four decimal places	6. 1.5000%	
Subtract line 6 from line 3.	7. 1.3000%	
Enter the number of employees from line 1 of your second quarter 2006 Form 941 (but do not count any household employees, employees in nonpay status, pensioners, or active members of the Armed Forces). If you did not file Form 941, enter -0-.	8. 100.00	
If line 8 is 250 or less, enter 0.02. Otherwise, enter 0.01	9. 2.0000%	
Enter the smaller of line 7 or line 9.	10. 1.3000%	
Enter the total amount paid for telephone service for the 41 month period March, 1, 2003 through July 31, 2006. (You may prorate the amounts paid during partial years).....	11. \$ 41,000.00	
Multiply line 10. and line 11. for amount of refund due.....	12. \$ 533.00	