

W-2 Guide (calendar year 2011)

For preparing W-2s and other year-end forms and returns



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For federal payroll tax deposit requirements, please see IRS Publication 15 (Circular E), “Employer’s Tax Guide,” and Wisconsin Department of Revenue Publication W-166, “Wisconsin Employer’s Withholding Tax Guide,” or the information provided by your state taxing authority.

This W-2 Guide is designed primarily for businesses that prepare their own 2011 W-2s and other year-end forms and returns, and is current as of November 10, 2011. The online version will be updated as information becomes available (such as standard mileage rates for 2012 on page 3). Visit our website at schencksc.com for the most current version of this guide.

Schenck SC is a full-service CPA and consulting firm. This material is designed to provide you with highlights of recent tax, financial, and business issues. Because the information presented is general in nature, and is subject to change, we urge you to contact us for personal advice before you act. We are not responsible for errors, misinterpretations, or omissions related to this information. To ensure compliance with requirements imposed by the IRS, if these materials contain advice concerning any federal tax issue or submission, please be advised that it is not intended or written to be used, and that it cannot be used, for the purpose of avoiding federal tax penalties unless otherwise expressly indicated.

Payroll Tax Bases and Rates

FICA & self-employment tax bases and rates

	2011	2012
Wage & self-employment income bases:		
• Medicare	Unlimited	Unlimited
• Social Security	\$106,800	\$110,100
Maximum withholding:		
• Medicare	Unlimited	Unlimited
• Social Security	\$4,485.60	\$6,826.20
Rates for employers & employees:		
• Medicare	1.45%	1.45%
• Social Security for employers	6.20%	6.20% ²
• Social Security for employees	4.20%	4.20% ²
Rates for self-employed:		
• Medicare	2.90%	2.90%
• Social Security	10.40%	12.40% ²
• Combined FICA rate ¹	13.30% ¹	15.30% ²

¹ The effective rate for self-employed taxpayers will vary because the self-employment (SE) tax calculation reduces net earnings from self-employment. In addition, half of the SE tax is available as an income tax deduction.

² President Obama signed the Temporary Payroll Tax Cut Continuation Act of 2011 on December 23, 2011. The tax cut lowers the Social Security withholding for employees to 4.2%, which is what occurred in calendar year 2011. The temporary act is for the period January 1 – February 29, 2012. The 4.2% employee Social Security withholding rate may be used on the first \$110,100 of wages paid through February 29, 2012.

FUTA & SUTA (unemployment) tax bases and rates

	2011 Jan. to June	2011 Jul. to Dec.	2012
Federal wage base	\$7,000	\$7,000	\$7,000
Federal rate (net)	.8%	.6%	.6%
Wisconsin wage base	\$13,000	\$13,000	\$13,000
Wisconsin rate	Determined on an individual employer basis		

Taxability of Certain Employee Benefits

“Yes” indicates the benefits listed below are subject to the following:

	Income tax	Withholding	FICA	FUTA	SUTA (WI)
401(k) deferrals	No	No	Yes	Yes	Yes
Moving expenses:					
• Nonqualified moving expenses	Yes	Yes	Yes	Yes	Yes
• Qualified moving expenses	No	No	No	No	No
Group term life insurance over \$50,000 ¹	Yes	Optional	Yes	No	No
PS 58 costs	Yes	Yes	No	No	No
S corporation >2% shareholders' health insurance premiums	Yes	Yes	No	No	No
Whole Life Insurance – employer-funded:					
• Employer as beneficiary	No	No	No	No	No
• Employee designates beneficiary	Yes	Yes	No	No	No
Personal use of company auto	Yes	Employer may elect to not withhold	Yes	Yes	Yes
Reimbursed employee business expenses:					
• Nonaccountable plan	Yes	Yes	Yes	Yes	Yes
• Accountable plan	No	No	No	No	No
Qualified cafeteria plan exclusions	No	No	No	No	No
Third-party sick pay – employer-funded ²	Yes	At employee's election	Yes ²	Yes ²	Yes ²
Contributions to Health Savings Accounts (HSAs):					
• Employer	No ³	No ³	No	No	No
• Employee pre-tax contributions	No ³	No ³	No	No	No

¹ The general guidelines shown above may not be applicable for all situations. Please call us for additional information.

² Exempt, effective the first of the month following six full calendar months after the employee last worked.

³ Effective for taxable years beginning on or after January 1, 2011, Wisconsin treatment of HSA's will be the same as the federal.

Other Quick Reference Information

Employee retirement plan deferral limits

	2011	2012
401(k) and SEP plans	\$16,500	\$17,000
403(b) – tax-sheltered annuity plans	\$16,500	\$17,000
457 – eligible deferred compensation plans of state and local governments and tax-exempt organizations. These limits apply to employer contributions upon vesting and to employee salary deferrals. Higher limits may apply in the three taxable years before attainment of normal retirement age under the 457 plan.	\$16,500	\$17,000
408(p) SIMPLE	\$11,500	\$11,500
Catch-up contributions for participants age 50 or older by year-end in 401(k), 403(b), 457 plans of state and local governments, and SEP plans	\$ 5,500	\$ 5,500
Catch-up contributions for participants age 50 or older by year-end in SIMPLEs	\$ 2,500	\$ 2,500

Health Savings Account (HSA) requirements and other limits

	2011	2012
Health plan must have minimum annual deductible of:		
• Self only	\$ 1,200	\$ 1,200
• Family	\$ 2,400	\$ 2,400
Plan's maximum out-of-pocket expenses:		
• Self only	\$ 5,950	\$ 6,050
• Family	\$11,900	\$12,100
Maximum annual contribution:		
• Self only	\$ 3,050	\$ 3,100
• Family	\$ 6,150	\$ 6,250
Catch-up:		
• Additional contribution (participants age 55 or older by year-end)	\$ 1,000	\$ 1,000

Annual earned income limits for Social Security recipients

	2011	2012
Under full retirement age (One dollar in benefits will be withheld for every \$2 in earnings above the limit.)	\$14,160 per year (\$1,180 per month)	\$14,640 per year (\$1,220 per month)
In the year of attaining full retirement age (Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every \$3 in earnings above the limit.)	\$37,680 per year (\$3,140 per month)	\$38,880 per year (\$3,240 per month)
There is no limit on earnings beginning the month of attaining full retirement age (66 years for retirees born in 1943 - 1954).		

Standard mileage rates

	2011	2012
Business	51.0¢ per mile (Jan. 1 - Jun. 30) 55.5¢ per mile (Jul. 1 - Dec. 31)	55.5¢ per mile
Charitable	14.0¢ per mile	14.0¢ per mile
Medical and moving	19.0¢ per mile (Jan. 1 - Jun. 30) 23.5¢ per mile (Jul. 1 - Dec. 31)	23.0¢ per mile

Employment of family members by sole proprietor

	Income tax	Withholding	FICA	FUTA	SUTA (WI)
Spouse employed by spouse	Yes	Yes	Yes	No	No
Child employed by parent - under age 18	Yes	Yes	No	No	No
Child employed by parent - age 18 to 20	Yes	Yes	Yes	No	Yes
Child employed by parent - 21 and older	Yes	Yes	Yes	Yes	Yes

Highlights for 2011 and 2012

Employer-provided cell phones could be exempt from wages

On September 14, the IRS issued a notice stating when an employer provides an employee with a cell phone primarily for “noncompensatory business reasons,” this cell phone usage will be treated as a nontaxable working condition fringe benefit without any substantiation. The IRS will treat the value of any personal usage of the cell phone as a nontaxable de minimis fringe benefit. This guidance applies to the use of any employer-provided cell phone occurring after December 31, 2009.

If the employer-provided cell phones are provided primarily as compensation and not for a business purpose, the personal usage will remain as taxable compensation. An example would be when cell phones are provided to employees to promote morale or goodwill, to attract a prospective employee, or as a means of furnishing additional compensation to an employee.

The IRS issued a memo to all field examiners indicating they should approach the business usage of personal cell phones in a similar manner. The employers should have substantial business reasons, other than providing compensation to employees, for requiring the employees’ use of personal cell phones in connection with the employer’s trade or business. The employee must maintain a type of cell phone coverage that is reasonably related to the needs of the employer’s business and the reimbursement must be reasonably calculated so as not to exceed expenses the employee actually incurred in maintaining the cell phone and cannot be substituted for a portion of the employee’s wage.

Health Savings Accounts – Wisconsin law changed to match federal

2011 Wisconsin Act 1 adopted the federal tax treatment of health savings accounts (HSAs) for Wisconsin for taxable years beginning on or after January 1, 2011. Therefore, HSA deductions from employees are pre-tax deductions and employers’ contributions to HSA will not need to be added to employees’ Wisconsin income. The reporting on Form W-2 Box 12 Code W has not changed.

The cost of employer-provided health insurance on Form W-2 – reporting for 2011 is optional.

Employers with 250 or more W-2s in 2011, will be required to report the cost of employer-provided health insurance on Form W-2 Box 12 Code DD for tax year 2012 (reported in January 2013). The amount to report is the total cost to provide the employee with health insurance (i.e. the invoice cost). It is the cost of the health insurance; do not include the cost of long-term care, or a separate dental or vision plan. If the dental or vision coverage is included in the health insurance premiums, report the entire amount.

For self-insured plans, the IRS notice states if the self-insured group health plan is subject to federal continuation coverage requirements, employers must report the cost of the coverage on Form W-2, but did not include guidance on how to calculate the cost of the coverage. The American Payroll Association has asked the IRS for guidance on this calculation.

For terminated employees, the reporting of COBRA coverage under an employer-provided health plan is optional, but needs to be administrated consistently for all terminated employees. If a terminated employee requests their Form W-2 early, the employer-provided health insurance costs do not need to be included. For former employees that would normally not receive a Form W-2 (i.e. retired employee) but is still covered by health insurance, you do not need to issue Form W-2 just to report the employer-provided health insurance.

Employers with fewer than 250 W-2 forms in 2011 can optionally report for 2012. Any further guidance from the IRS will not be in effect until the beginning of the calendar year that begins 6 months after any new requirements have been published.

Form W-3 added Kind of Employer Section

To assist the IRS with other requirements based on the type of employer, the IRS has added to Form W-3 check boxes for employers that are: 501c non-govt, State/local non-501c, State/local 501c, Federal govt. and None apply. You will need to indicate the appropriate kind of employer. This additional information will assist the IRS with what business returns an entity should be filing.

FUTA surtax expired June 30

The Federal Unemployment surtax expired on June 30, reducing the net tax rate from 0.8% to 0.6%. The FUTA tax rate consists of an unemployment tax of 6.0% plus a surtax of 0.2% less credit of 5.4% making a net rate of 0.8%, but with the surtax expiring, the net rate beginning July 1 is 0.6%. Form 940 will have two taxation lines (lines 7b & 7c) splitting the year, for taxable wages paid from January 1 to June 30 and for taxable wages paid from July 1 to December 31 to assist employers in calculating the correct amount of FUTA tax. It would take another act of the U.S. Congress to reinstate the surtax.

WI (plus other states) will possibly have a FUTA credit reduction for 2011

Without an act from the U.S. Congress, Wisconsin, among other states, could have a FUTA credit reduction for 2011. Wisconsin employers would have their 5.4% FUTA credit reduced by 0.3% because of outstanding federal loans to pay unemployment benefits. States have until November 10 each year to pay outstanding loan balances.

SSA Makes Improvements to W-2 Online

The Social Security Administration has announced the following improvements to W-2 Online:

- In early December, Form W-2 Online filing will expand from 20 Forms W-2 in a batch to 50 Forms W-2.
- Beginning with the 2011 tax year, employers may submit both current year and prior year W-2 forms electronically.
- Beginning with the 2012 tax year, employee data submitted from the previous tax year will be accessible through W-2 Online.
- W-2 Online may now be used by employers in American Samoa, Guam and the Virgin Islands. The SSA is working on making W-2 Online available to employers in Puerto Rico and the Northern Mariana Islands.

American Jobs Act of 2011

(Note: Legislation is still pending at press time.)

On September 8, President Obama announced his administration's latest attempt to assist the struggling economy to move forward. The bill would extend and expand the temporary reduction in the employee share of Social Security tax, while also reducing the employer share of Social Security tax on some wages and eliminating it altogether on others. Below is a recap of the proposed legislation:

- **Social Security tax rate reduction:** For employees and employers, the Social Security tax rate would be reduced to 3.1% for calendar year 2012. The employer reduction would apply to the first \$5 million of wages paid by all employers other than federal, state, and local government employers (except for public colleges and universities), and employers of household workers. The rate reductions would apply to self-employed individuals; along with the employees and employers of the Railroad Retirement Tax Act.
- **Tax credit for increased payroll:** For the last quarter of 2011 and all of the calendar year of 2012, employers would receive a "payroll increase credit" for the employer share of Social Security tax paid on increases in wages paid from the same period of the prior year. The credit would be available on up to \$12.5 million of an employer's increased wages paid in the fourth quarter of 2011 and up to \$50 million of an employer's increased wages paid in calendar year 2012 for the same group of employers eligible for the Social Security tax rate reduction. The employer would receive a credit of only 3.1% on the difference between wages paid in 2012 versus 2011 up to the \$5 million limit on which the Social Security tax rate reduction applies, to prevent an employer from getting both the Social Security rate reduction and payroll increase credit on the same wages.
- **Withholding on payments to government contractors delayed again:** The effective date of the requirement that government entities withhold 3% from payments to contractors providing property or services would be further delayed to payments made after December 2013.
- **Tax credits for hiring veterans:** When hiring veterans who have been unemployed for at least six months with a service-connected disability, the current credit would increase from \$4,800 to \$9,600. Two additional tax credits were created for hiring unemployed veterans: \$2,400 if the veteran was unemployed for at least four weeks; and \$5,600 if the veteran was unemployed for at least six months. The Treasury Secretary would provide methods for certifying a veteran's unemployed status.
- **Tax credit for hiring the long-term unemployed:** Employers would receive a tax credit of \$4,000 for hiring individuals who have been unemployed at least six months. The Treasury Secretary would provide methods for certifying an individual's unemployed status.

Other reforms would increase revenue, make UI changes

Soon after announcing the American Jobs Act, President Obama outlined his administration's proposals for other economic reforms designed to increase revenue and reduce the federal government's deficit. Among the proposed items are:

- **Reinstate the FUTA surtax and make it permanent:** The proposal would retroactively reinstate the 0.2% FUTA surtax that expired on June 30 and extend it permanently. This would make the total FUTA tax rate 6.2%, rather than 6.0%.
- **Relieve states of FUA loan interest payments and FUTA credit reduction:** The proposal would relieve states from making interest payments for two years on loans taken from the Federal Unemployment Account (FUA) to pay unemployment insurance (UI) benefits. The proposal would suspend the FUTA credit reduction for two years for states that have been unable to repay their FUA loans, thus allowing employers in those states to take full credit for the state UI taxes they pay when calculating their FUTA tax liability.
- **Increase the FUTA taxable wage base:** The proposal would increase the FUTA taxable wage base from \$7,000 to \$15,000 in 2014 and index it thereafter for inflation. At the same time, the FUTA tax rate would be reduced so that employers would pay about the same amount of FUTA tax they paid before the wage base increase. Some states would be required to increase their state UI wage base to at least the new federal wage base to stay in compliance with federal law.
- **Allow IRS to set worker classification rules:** The proposal would allow the IRS to issue general guidance about the proper classification of workers as employees or independent contractors and require prospective reclassification of workers who are currently misclassified that can't be reclassified under the special provisions of Section 530 of the Revenue Act of 1978. Misclassification penalties would be waived for smaller employers with misclassified workers if they consistently filed the required information returns and agree to properly classify the workers as employees going forward.

Taxable and Non-Taxable Fringe Benefits

You are required to report on Form W-2 (boxes 1, 16 and, if applicable, boxes 3 and 5) all fringe benefits not specifically excluded from income by current tax law. Generally, the taxable amount is the fair market value of the benefit.

Taxable fringe benefits and withholding

Fringe benefits are generally taxable and are subject to withholding when received. You may elect to treat certain non-cash taxable fringe benefits as paid on a pay period, quarterly, semi-annual, annual or other basis (but no less frequently than annually). Some examples of taxable fringe benefits are employee business expense reimbursements (or advances) NOT made under an accountable plan, accident and health insurance premiums paid by an S corporation on behalf of a more than 2% shareholder/employee (including certain family employees), and the value of personal use of employer-provided vehicles (see page 9).

If supplemental cash payments and non-cash fringe benefits do not aggregate to more than \$1 million during the year for any individual, you may compute withholding by either (1) adding the value of the non-cash fringe benefits to the regular wages for a payroll period and calculating withholding taxes on the total under the general deposit rules or (2) withholding federal income tax on the value of the benefit at 25%. Regardless of which method you use, if and when the value of all cash and non-cash supplemental benefits paid to any individual during the year exceeds \$1 million, a 35% federal withholding rate applies to the excess. For Wisconsin purposes, the alternative withholding rate is based on a tiered schedule, up to 7.75%.

Special accounting period rule

Unless you elect to use the special accounting period rule, you must treat benefits provided in a calendar year as received by December 31. The special accounting period rule allows you to treat the value of certain non-cash fringe benefits actually provided during November and December (or any shorter period at year-end) as paid in the following year. You can defer only the benefits provided during these two months. This rule is not available for (1) group term life, (2) nonqualified moving expenses or (3) transferring real property or investment personal property.

No formal notice to the IRS is required to elect the special accounting period rule, but you must notify affected employees that you used the rule and for which period you used it. You must provide notice directly to the employees at or near the time you provide Form W-2. Additionally, if you use the rule for a particular fringe benefit, you must use it with respect to all employees who receive that benefit, and your employees must use it as well.

Employers benefit from using the special accounting period rule because they can complete their fringe benefit work up to two months ahead of schedule, leaving more time to concentrate on other pressing year-end work. Employees benefit because any additional withholding doesn't reduce their take-home pay during the holidays.

Nontaxable fringe benefits

Employee business expense reimbursements (or advances) made under an accountable plan are nontaxable fringe benefits and are, therefore, excludable from wages.

Generally, the other employee fringe benefits you can exclude from taxable wages on Form W-2 are the following:

1. No-additional-cost services
2. Qualified employee discounts
3. Working condition fringe benefits
4. De minimis fringe benefits
5. On-premises athletic facilities
6. Qualified transportation fringes
7. Qualified moving expenses
8. Employer-operated eating facilities
9. Any other employee benefit specifically excluded from income by a provision of the Internal Revenue Code

These items have specific, technical definitions. Please call us for information when you review employee fringe benefits that appear to be excludable from compensation reported on Form W-2.

Group Term Life Insurance

Group term life insurance rates

The table below provides rates for the cost of excess group term life insurance coverage (Reg. Sec. 1.79-3(d)(2)). Group term life insurance rates are for excess insurance reported on Form W-2 (see box 12 code C on page 15).

Uniform Premiums for \$1,000 of Group term Life Insurance Protection

5-year age bracket	Cost per \$1,000 of protection for 1-month period
Under 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and over	\$2.06

For purposes of this table, the age of the employee is the person's attained age on the last day of his or her taxable year. For discriminatory plans, key employees are taxed on the value of all coverage, including the first \$50,000.

Dependent group term life insurance

Any employer may provide non-taxable dependent group term life insurance to spouses or dependents of employees up to \$2,000. If the coverage is over \$2,000, the entire amount is taxable to the employee. To calculate the benefit, follow the method shown in the examples below, using the spouse and/or dependent age in the table above. If an employee pays for a portion of the coverage with after-tax dollars, deduct this amount from the computed add-on.

Examples of calculations to determine taxable income

Example 1

You provide an employee (age 35 at December 31) with group term life insurance coverage based on two (2) times the employee's annual salary, which was \$30,000 at the beginning of the year and increased to \$32,000 on October 1.

You calculate the taxable income for this coverage as follows:

\$ 10,000	(\$30,000 x 2 - \$50,000)	\$ 14,000	(\$32,000 x 2 - \$50,000)
÷ 1,000		÷ 1,000	
<u>10</u>	units of coverage	<u>14</u>	units of coverage
x .09	cost per \$1,000	x .09	cost per \$1,000
<u>.90</u>	taxable income per month	<u>1.26</u>	taxable income per month
x 9	months	x 3	months
<u>\$ 8.10</u>		<u>\$ 3.78</u>	
	\$ 8.10		Taxable income for January 1 to September 30
	3.78		Taxable income for October 1 to December 31
	<u>\$ 11.88</u>		

Example 2

You provide an employee (age 58 at December 31) with \$100,000 of group term life insurance coverage for the entire year.

The employee pays for some of the premium using an after-tax payroll deduction of \$10.50 per month.

\$ 100,000	total annual coverage
- 50,000	excludable portion
<u>50,000</u>	portion of coverage subject to tax
÷ 1,000	premiums are based on \$1,000 units
<u>50</u>	units of coverage
x .43	cost per \$1,000 for person age 58
<u>21.50</u>	value of benefit per month
- 10.50	employee after-tax deduction
<u>11.00</u>	taxable income per month
x 12	number of months you provided coverage
<u>\$ 132.00</u>	total taxable income

Personal Use of Employer-Provided Vehicles

The value of personal use of vehicles you provide to your employees is generally taxable as compensation. Report it on Form W-2 (boxes 1, 3, 5 and 16), net of any amount the employee paid you for the value of personal use. You must also report this value on Form W-2, box 14, or on a separate statement you give to the employee.

Special valuation rules

You may not use a special valuation rule (see “How to value personal use” below) for valuing an employee’s personal use of a company vehicle unless at least one of the following conditions applies with respect to that employee:

1. You treat the value of the benefit as wages for reporting purposes on timely-filed returns, including extensions, for the year in which you provided the benefit.
2. Your employee includes the value of the benefit in income on timely-filed returns, including extensions, for the year in which you provided the benefit.
3. Your employee is not a control employee.
4. You demonstrate a good faith effort to treat the benefit correctly for reporting purposes.

Notice to employees – election not to withhold income taxes

You may elect not to withhold federal or Wisconsin income tax on the value of the employee’s personal use of a company vehicle. You must notify the employee in writing of your election not to withhold, and include the value of the benefit on Form W-2. You are required to provide this notice to the employee by January 31 of the year to which the election is to apply, or if later, within 30 days after the date you first provided the vehicle to the employee.

How to value personal use

Determine the value of personal use according to either the general valuation rule or one of the special valuation rules provided by the IRS. The special valuation rules are (1) the annual lease value rule (see the table below), (2) the cents-per-mile rule, and (3) the commuting rule. Restrictions apply to the use of these three rules. Special rules apply to use of the ALV rule for fleets of 20 or more vehicles – contact us for more information.

ALV (annual lease value) table

Fair Market Value	ALV	Fair Market Value	ALV	Fair Market Value	ALV
\$0 - 999	\$600	\$16,000 - 16,999	\$4,600	\$38,000 - 39,999	\$10,250
1,000 - 1,999	850	17,000 - 17,999	4,850	40,000 - 41,999	10,750
2,000 - 2,999	1,100	18,000 - 18,999	5,100	42,000 - 43,999	11,250
3,000 - 3,999	1,350	19,000 - 19,999	5,350	44,000 - 45,999	11,750
4,000 - 4,999	1,600	20,000 - 20,999	5,600	46,000 - 47,999	12,250
5,000 - 5,999	1,850	21,000 - 21,999	5,850	48,000 - 49,999	12,750
6,000 - 6,999	2,100	22,000 - 22,999	6,100	50,000 - 51,999	13,250
7,000 - 7,999	2,350	23,000 - 23,999	6,350	52,000 - 53,999	13,750
8,000 - 8,999	2,600	24,000 - 24,999	6,600	54,000 - 55,999	14,250
9,000 - 9,999	2,850	25,000 - 25,999	6,850	56,000 - 57,999	14,750
10,000 - 10,999	3,100	26,000 - 27,999	7,250	58,000 - 59,999	15,250
11,000 - 11,999	3,350	28,000 - 29,999	7,750	For automobiles with a FMV of more than \$59,999 the annual lease value equals (.25 x the FMV of the automobile) + \$500.	
12,000 - 12,999	3,600	30,000 - 31,999	8,250		
13,000 - 13,999	3,850	32,000 - 33,999	8,750		
14,000 - 14,999	4,100	34,000 - 35,999	9,250		
15,000 - 15,999	4,350	36,000 - 37,999	9,750		

The ALV table is based on a 4-year lease term. ALV values for any given vehicle will generally stay the same from the first day of use through December 31 of the fourth full year after that date. ALV amounts include maintenance and insurance, but not fuel. Value fuel at fair market value (FMV) or at 5.5 cents per mile for travel in the U.S., Canada and Mexico.

Cents-per-mile valuation rule: The rates include fuel, maintenance, depreciation and insurance.

Rates for the cents-per-mile valuation rule:		
Maximum fair market value of vehicle eligible to use this rule for 2011:	January 1, 2011	51.0 cents per mile
• \$15,300 for passenger automobiles	Starting July 1, 2011	55.5 cents per mile
• \$16,200 for trucks and vans	Starting Jan. 2012	To be announced
Rates for the cents-per-mile valuation rule:		
Maximum fair market value of vehicle eligible to use this rule for 2012:	January 1, 2012	55.5 cents per mile
• \$15,900 for passenger automobiles		
• \$16,700 for trucks and vans		

Commuting valuation rule:

The rate is \$1.50 per one way commute or \$3.00 per day.

Tips and Nonqualified Deferred Compensation

Tips

Taxable (not allocated) tips. Report taxable tips on Form W-2, in boxes 1, 5, 7 and 16. Show the amount of tips subject to Social Security tax in box 7 and Medicare tax in box 5, even if you did not have enough employee funds to withhold taxes on the tips.

Employees are required to report cash tips to you on or before the 10th of the month after the month they receive them. The report should include tips received on charge receipts as well as tips received directly from customers. No report is required for months when tips are less than \$20. Employees may report tips on Form 4070, "Employee's Report of Tips to Employer," or on a similar statement. They are required to keep a daily record of tips received, and may use Form 4070-A, "Employee's Daily Record of Tips," for this purpose.

Allocated tips

If you are a large food or beverage establishment required to allocate tips, report allocated tips in box 8 of Form W-2. Do not include this amount in boxes 1, 3, 5, 7 or 16. (Base withholding only on wages and reported tips. Do not withhold income or Social Security tax from allocated tips.) You are also required to file Form 8027, "Employer's Annual Information Return of Tip Income and Allocated Tips."

Large food or beverage establishments are businesses that employ more than 10 employees based on the preceding calendar year (excluding owners of 50% or more in value of the stock of a corporation that runs the establishment) on a typical business day, where consumption occurs on the premises and where tipping is customary. The allocation rules apply only if the total amount of tips the employees report during any payroll period is less than 8% of the establishment's total sales during that period, excluding carryout sales, sales tax, and sales on which there was a mandatory service charge of 10% or more.

If this condition exists, you must allocate 8% of total sales, less reported tips, among the tipped employees. You may petition the IRS to reduce the percentage of gross receipts from 8% (but not below 2%) to the percentage determined to be the best estimate of the actual percentage of gross receipts constituting tips.

Because the allocation and reporting requirements are complex in this area, we suggest that you contact us if you qualify as a large food or beverage establishment.

Nonqualified deferred compensation

Distributions from a nonqualified or non-governmental Section 457(b) plan are subject to federal income tax withholding and are reportable in boxes 1 and 11 of Form W-2. An amount deferred under a nonqualified deferred compensation plan is subject to Social Security and Medicare taxes, and is reportable in boxes 3 and 5 of Form W-2, generally at the later of when services are performed or when there is no substantial risk of forfeiture.

Unless certain requirements are satisfied, all compensation considered deferred under a plan for the taxable year and all preceding taxable years (after 2004) is subject to (1) income tax, (2) a 20% penalty, and (3) interest (to the extent the compensation is not subject to a substantial risk of forfeiture and was not previously included in taxable income). However, if the plan was materially modified after October 3, 2004 by adding a benefit, right, or feature, then amounts deferred under the plan in taxable years prior to January 1, 2005 would also be subject to potential income taxes.

State withholding and reporting requirements (boxes 16 and 17) vary. For Wisconsin, taxation of nonqualified deferred compensation depends on the recipient's state of residence and provisions in the plan document.

Reporting and withholding requirements for nonqualified deferred compensation plans are complex. Please contact us for more information.

Health Savings Accounts (HSAs)

Definition of Health Savings Account (HSA)

An HSA is a tax-favored IRA-type of trust account that eligible individuals covered by certain high-deductible health plans (HDHPs) can establish. Owners can use their HSAs to pay for medical expenses not covered by other insurance or reimbursed. The medical expenses can be for themselves, their spouses, and their dependents. Employers can make contributions to employee HSA accounts on behalf of their employees.

Definition of high-deductible health plans

High-deductible health plans are plans that meet required statutory limits (adjusted annually for inflation) for deductibles and out-of-pocket expenses. However, in the case of a plan using a network of providers, these statutory limits may be exceeded for services provided outside the network.

For HSA eligibility purposes, out-of-pocket medical costs do not include health insurance premiums. The plan is not required to impose any deductible for preventive care.

Contribution limits and catch-up contributions to HSAs

Maximum contributions can be made by or on behalf of an eligible individual. Catch-up contributions allow individuals who are at least age 55 by the end of the year to make an additional contribution for that year. These amounts are adjusted annually for inflation. See page 3 for the statutory current and catch-up contribution limits. HSAs belong to the individuals for whose benefit the accounts are established. Whether the individuals themselves or their employers contribute to their HSAs, the HSAs are portable and are the individual's if employment is terminated.

An individual with HDHP coverage can make contributions (subject to statutory limits — see page 3) and get an “above-the-line” tax deduction. Alternatively, an employer could have a cafeteria plan that allows employees to make pre-tax HSA contributions. Investment earnings on HSA funds generally are tax-free and ultimately HSA funds can escape taxation entirely if they are withdrawn for qualified medical expenses.

Federal and Wisconsin reporting

Employer contributions to an eligible HSA are excludible from the employee's income. The contributions must be within the statutory limits (see page 3). Employee contributions made pre-tax through a Section 125 cafeteria plan are included as employer contributions. The total must be reported on Form W-2 in box 12, code W.

Greater than 2% S Corporation Shareholders

When an S Corporation makes contributions to a more-than-2% shareholder-employee's HSA, the contributions are included in the shareholder's Form W-2, Box 1, “Federal Wages” and Box 16 “State Wages”. The contributions are exempt from FICA, FUTA and SUTA as long as they are considered to be from an employer-provided health plan. Additionally, the employer may want to identify the HSA contributions that were added to taxable wages in Box 14, “Other”, labeled as HSA contributions.

Partners in a Partnership

A partnership can make HSA contributions on behalf of individual partners who are eligible to make HSA contributions. Such contributions can be treated as either (1) a guaranteed payment to the partner or (2) a cash distribution to the partner.

Imputed Income for Adult Children

Mandatory health insurance coverage of adult children who turned 27 in 2011 could result in imputed income for Wisconsin parents.

History

Beginning January 1, 2010, employers in Wisconsin with fully insured plans as well as self-insured plans of government entities were required under certain circumstances to provide health coverage for adult children until age 27 if their parents request it. Federal health care reform passed in March 2010 also now requires all health plans and health insurance issuers to provide coverage for adult children until age 26. The federal requirement applies to plan years beginning on or after September 23, 2010.

Typically only a taxpayer, spouse, and their income tax dependents can receive health insurance coverage tax free. Adult children generally do not qualify as income tax dependents of their parents. Therefore, including an adult child on a health insurance plan would result in imputed taxable income to the parent. Congress realized this, and (as part of the health care reform laws) passed a new tax law that makes the value of health insurance coverage of an adult child who is under age 27 at the end of the tax year exempt from taxation. Thus, starting March 30, 2010, no federal taxable income is imputed for parents covering their adult children who have not attained age 27 by the end of the tax year. For tax year 2010, Wisconsin did not match the federal exclusion from taxation.

In October 2011, Wisconsin legislators passed a bill to match the federal exclusion from taxation for adult children who have not attained age 27 by the end of the tax year. On November 4, the Governor signed the bill into law.

Imputed Income

When the Governor signed the bill into law, Wisconsin mandated coverage of adult children until age 27 and the federal and Wisconsin income exclusion for children under age 27 by the end of the tax year, the value of health insurance benefits provided may be taxable for the children that turned age 27 during 2011. This imputed income is avoidable if the individual is an income tax dependent (which will not normally be the case as the adult child is too old) or is a health care dependent for 2011.

What makes health care dependency different? Still contained in federal tax law is a provision that allows parents to avoid imputed income on health coverage of an adult child if the child can be considered a health care dependent. The differences between being a health care dependent and an income tax dependent are very subtle. For a chart that details the rules for each, go to <http://www.schencksc.com/healthcaredependents>. The key to being a health care dependent is that the parent must provide at least 50% of the child's support for a tax year. If the parent provides at least 50%, then the adult child is a health care dependent and the parent has no imputed income. If the parent does not provide at least 50% of the support, then the child turning 27 in 2011 is not a health care dependent and the parent will have imputed taxable income for covering the adult child.

Any imputed income for adult children who became age 27 during 2011 is federal and Wisconsin income taxable, but employers are not required to withhold taxes.

Any imputed income for other immediate family members (examples — son-in-law, daughter-in-law, grandchildren, etc.) are federal and Wisconsin income taxable, but employers are not required to withhold taxes.

Any imputed income is not subject to FICA, FUTA or SUTA.

The above also applies to any medical flexible spending account reimbursement for adult children who turned age 27 in 2011 did not qualify as an income tax dependent or a health care dependent.

Third-party Sick Pay

If the third-party payer of sick pay does not transfer liability for FICA to you, do not report it on Forms W-2 and W-3. However, if the third-party payer transfers it and properly notifies you, you must assume liability for the employer's share of FICA and report the related amounts for the year on Forms W-2 and W-3 (as well as on Form 941).

To determine the taxable portion of third-party payments, you must first consider the percent of the premiums you (the employer) pay as an employee benefit. If you pay the entire premium for your employees, any payments they receive from the plan will be 100% taxable. If you pay 75% of the premium, 75% of the payments will be taxable. If you pay none of the premium, the payments they receive will be entirely tax-free, as long as they pay with after-tax dollars. Of course, your employees need to pay the entire premium on the policy to achieve this.

Caution: If you offer this benefit as part of a Section 125 plan, any premiums your employees pay on a pre-tax basis are deemed to be paid by you — making 100% of any payments they receive fully taxable. As a tax planning tip for your employees, you may want to discuss the benefit of having them pay 100% of the premium with after-tax dollars. Under this arrangement, they will not pay tax on any benefits they receive from the disability policy.

Employment taxes

The third-party payer will withhold the employee's share of FICA taxes from the payments to the employee for six full calendar months after the last calendar month in which the employee worked. The payer will also withhold federal and state income taxes if requested by the employee. The employee should complete Form W-4S, "Request for Federal Income Tax Withholding from Sick Pay," and provide it to the third-party payer.

If the third-party payer has transferred liability to you, you should receive notice of the amount of FICA withheld on or before the date the taxes on the sick pay would be required to be deposited. Include your employer FICA payment on the sick pay with your next Form 941 deposit.

By January 15, you should receive a statement from the third-party payer showing the name, Social Security number, the amount of sick pay benefits paid during the previous calendar year and the amount of any payroll taxes withheld on those benefit payments. Use this information to determine if you have all appropriate sick pay recorded in your payroll program prior to issuing Forms W-2 for the year.

Form 941 reporting

Include taxable payments made by a third-party that transfers liability to you on your quarterly Form 941. Include the taxable portion of the payments in the totals for lines 2, 5a, and 5c. Do not report non-taxable payments on Form 941.

Enter a subtraction adjustment on line 8 of Form 941. This is for the employee portion of FICA that the third-party payer withheld and deposited under its federal identification number. By subtracting it on line 8, your total Form 941 liability should then match the amount of deposits you made for the quarter.

Although you will need to report any federal income taxes withheld by the third-party on your employee Forms W-2, do not report this amount on your Form 941 because the third-party payer deposited and reported the withholding under its federal identification number.

Form W-2 reporting

Report taxable third-party sick pay in Form W-2 boxes 1, 3, 5 and 16. Include Social Security taxes withheld in box 4, and Medicare taxes withheld in box 6. Report any federal or state income taxes withheld by the third party in boxes 2 and/or 17 (this will be a reconciling item when you compare Form W-3 to your Forms 941). You must also check the "Third-party sick pay" box in section 13 and report any non-taxable portion in box 12 using code "J." You may report the amount of taxable benefits received in box 14, labeled as "Sick Pay" or you may report third-party sick payments on a separate Form W-2.

Form W-3 reporting

Form W-3, box 2 will include the total federal income tax you and the third-party sick pay provider withheld (this amount will not match the total amount reported on your four quarterly Forms 941 for that year). Also, report the amount of federal income tax withheld and paid by the third-party sick pay provider in box 14 of Form W-3. This will provide the necessary explanation to the IRS as to why the total amount reported on your employee Forms W-2 (box 2) and Form W-3 (box 2) does not agree with your quarterly Forms 941 (line 3). Remember that the third-party payer has recorded income tax withheld on its Form 941. For "Kind of Payer" on Form W-3, check both the "941" (or "943" or "944," if applicable) box and the "Third-party sick pay" box.

FUTA and Wisconsin unemployment taxes

You are required to consider third-party sick payments in your calculation of FUTA and Wisconsin unemployment taxes for the first six calendar months of payments after the last calendar month in which the employee worked. You must include these payments in the employee wage detail you submit to the DWD (Department of Workforce Development) with your Wisconsin unemployment compensation quarterly report.

IRS Publication 15-A, "Employer's Supplemental Tax Guide," addresses the reporting requirements. If you have questions regarding sick pay, please contact us.

W-2 Filing Requirements; General Information; W-2 Preparation

If you file 50 or more Wisconsin copies of Form W-2, you must file electronically with the Wisconsin Department of Revenue (WDOR). If you file 250 or more federal copies of Form W-2, you must file electronically with the Social Security Administration (SSA). You will need to register with the SSA prior to filing Form W-2 electronically, but no registration is needed for the WDOR. See page 23 for electronic filing addresses.

An image of Form W-2 is on page 17 for your reference. Treat the copies as follows:

- **Copy A:** Send Copy A to the Social Security Administration with Form W-3 by February 29 if you file on paper.
 - Send in whole sheets of Form W-2, Copy A; do not separate or fold. Do not staple or tape to Form W-3. If possible, file W-2s in alphabetical order by last name or numerically by SSN.
 - In box c of Form W-3, indicate the number of completed W-2 statements enclosed with Form W-3. Do not count void Forms W-2.
 - Amounts reported on related employment tax forms (W-2, 941, 943 or 944) should agree with the amounts reported on Form W-3. If there are differences, determine the reasons are valid because the government may contact you. Retain your reconciliation for future reference.
- **Copy 1:** Send Copy 1 to the Wisconsin Department of Revenue (WDOR) by January 31 if you file on paper. Include an adding machine tape or other listing of amounts withheld. The reconciliation to be included with Copy 1 varies, based on your situation:
 - All forms WT-7 are required to be filed electronically unless you have received a hardship waiver from the WDOR. Send Form WT2 or a cover letter saying that Form WT-7 was filed electronically. Include the business name, Wisconsin Tax Number, Federal Employer Identification Number (FEIN), total number of Forms W-2, and total amount of tax withheld.
 - If the hardship waiver has been granted (by filing Form eft-102f), you can file a paper Form WT-7. The WDOR encourages employers to use either the pre-printed Form WT-7 or the electronic fill-in form since the WDOR uses electronic processing for Form WT-7.
- **Copies B, C and 2:** Give Copies B, C, and 2 to each employee by January 31.
- **Copy D:** Retain Copy D in your files along with your copy of Form W-3.

You must base Form W-2 entries on taxable compensation paid this calendar year, regardless of your fiscal year-end.

If an employee terminates employment before the end of the year, you may give copies of Form W-2 any time after employment ends, but no later than January 31 of the year following the year you paid the compensation. If a terminated employee asks for Form W-2, you are required to give the person the completed form within 30 days of the request or the final wage payment, whichever is later.

Note: There are special filing requirements for employers ceasing business.

General information

Make all entries on Form W-2 using dark black ink in 12-point Courier font. Do not use script type, inverted font, italics or dual case alpha characters. Make all dollar entries without the dollar sign and comma, but with the decimal point (00000.00). Show the cents portion of the money amounts. It is important that entries in the boxes do not cross one or more of the vertical or horizontal lines that separate the boxes. If a box does not apply, leave it blank.

Corrections are not allowed on Forms W-2 filed with the Social Security Administration. If you make an error, do not erase, white out, or strike over the entry. Check the "void" box and prepare a new form. Be careful not to include any amounts shown on "void" forms in the totals you enter on Form W-3.

Correcting Form W-2

How to correct Form W-2 depends on your filing method (paper or electronic). Please contact us to discuss your options.

W-2 preparation

- Box a: Enter the number shown on the employee's Social Security card.
- Box b: Show the number assigned to you by the IRS. It should agree with your Form 941, 943 or 944.
- Box c: This should be the same name and address as shown on your Form 941, 943 or 944.
- Box d: Use this box for any internal coding you may have. This is an optional box.
- Box e: Enter the name as shown on the employee's Social Security card (first, middle initial, last). If the name doesn't fit, show first initial, middle initial, and last name and ignore the vertical line. If the name has changed, have the employee get a corrected card from any SSA office. Use the name on the original card until you see the corrected one. Do not show titles or academic degrees such as Mr., M.D. or Esq. at the beginning or end of the employee's name. Include Jr., Sr., etc. only if the suffix appears on the employee's Social Security card. Use the suffix entry field.
- Box f: Enter the employee's address and ZIP code.
- Boxes 1, 16: Include wages (excluding elective deferrals), tips and all taxable benefits in boxes 1 and 16.
- Box 2: Report the amount of federal income tax withheld in box 2.
- Boxes 3, 4, 7: Report total wages and tips subject to the Social Security portion of FICA in boxes 3 and 7, respectively. The total of boxes 3 and 7 should not be more than \$106,800. Use box 4 to report the related withholding, which should not exceed \$4,485.60.
- Boxes 5, 6: Report total wages, tips and other items subject to the Medicare portion of FICA in box 5. Use box 6 to report the related withholding.
- Box 8: Large food or beverage establishments: Show in box 8 the amount of tips allocated to employees. This amount is for informational purposes only. Do not include it in boxes 1, 3, 5, 7 or 16. See page 10 for more information.
- Box 9: Do not enter an amount in box 9.
- Box 10: Report in box 10 the total amount of dependent care benefits under Section 129 or Section 125 that you paid to or incurred for the employee. Also add any amount in excess of the \$5,000 exclusion to wages shown in boxes 1, 3, 5 and 16.
- Box 11: Report the total amount from a nonqualified deferred compensation plan or a non-governmental Section 457(b) plan that was distributed or became taxable (see page 10). Any amount included in box 11 should generally be included in boxes 1 and 16. Do not report in box 11 deferrals that are included in boxes 3 and/or 5 and that are for current year services. You must report distributions from governmental Sec. 457(b) plans on Form 1099-R.
- Box 12: Use the codes listed below in box 12. Report the letter code (capitalized) and amounts in the box for up to four items per W-2. If there are additional items, report them on a separate W-2.
- A. Use code A to identify the amount of Social Security or RRTA tax on the employee's tips that you could not collect because the employee did not have enough funds from which to deduct it. (Do not include this amount in box 4.)
 - B. Use code B to identify the amount of Medicare or RRTA tax on the employee's tips that you could not collect because the employee did not have enough funds from which to deduct it. (Do not include this amount in box 6.)
 - C. Use code C to identify the taxable amount of group term life insurance over \$50,000 included in boxes 1, 3 (up to the Social Security wage base), 5, and 16 (see table, page 7).
 - D-H. Use one of these codes to identify deferred compensation under the following arrangements:
 - D. Section 401(k) elective deferrals (includes SIMPLE 401(k) arrangements)
 - E. Section 403(b) elective deferrals
 - F. Section 408(k)(6) elective deferrals
 - G. Section 457(b) elective and non-elective contributions or Section 457(f) amounts subject to a substantial risk of forfeiture

- H. Section 501(c)(18)(D) elective deferrals (include in box 1 as wages)
- J. Use code J to identify the amount of sick pay paid by a third party that is NOT includible in income because the employee contributed to the sick pay plan.
- K. Use code K to identify the 20% excise tax on excess “golden parachute” payments made to certain key corporate employees. (Also include the excise tax as income tax withheld in box 2 if the excess payments are considered wages.)
- L. Use code L only if you reimbursed your employee for employee business expenses using a per diem or mileage allowance and the amount that you reimbursed exceeds the amount treated as substantiated under IRS rules. Report in box 12 the substantiated amount (non-taxable). Include the excess (taxable portion) in boxes 1, 3, 5 and 16. Business (non-moving) mileage rates are on page 10 under “Rates for the cents-per-mile valuation rule.” Call us for per diem rates.
- M. Use code M to identify the amount of uncollected Social Security or RRTA taxes on group term life insurance coverage in excess of \$50,000 provided to a former employee (including retirees) for the periods or months of insurance coverage during which an employment relationship no longer exists.
- N. Use code N to identify the amount of uncollected Medicare taxes on group term life insurance coverage in excess of \$50,000 provided to a former employee (including retirees) for the periods or months of insurance coverage during which an employment relationship no longer exists.
- P. Use code P to identify the amount of excludable reimbursements paid directly to an employee for qualified (deductible) moving expenses. (Do not include in boxes 1, 3, 5 or 16.)
- Q. Use code Q to identify any nontaxable combat pay if you are a military employer.
- R. Use code R to identify total employer contributions to an Archer MSA (medical savings account).
- S. Use code S to identify employee salary reduction contributions to a SIMPLE retirement account deferred under a Section 408(p) plan. However, if the SIMPLE is part of a Section 401(k) arrangement, use code D to report the amount.
- T. Use code T to identify employer-provided adoption benefits. Also include benefits from the pre-tax contributions made by the employee to a Section 125 adoption plan account.
- V. Use code V to identify the “spread” from your employee’s (or former employee’s) exercise of non-statutory stock options. (Include this amount in boxes 1, 3, 5 and 16.)
- W. Use code W to identify any employer contributions (including amounts the employee elected to contribute using a Section 125 plan) to a health savings account (HSA).
- Y. The IRS does not require any reporting under Code Y.
- Z. Use code Z to identify any income under Section 409A on a nonqualified deferred compensation plan that fails to satisfy the requirements of Section 409A. Include these amounts in box 1.
- AA. Use code AA to identify Roth 401(k) contributions (but NOT elective deferrals under code D).
- BB. Use code BB to identify Roth 403(b) contributions (but NOT elective deferrals under code E).
- DD. Use code DD to report the cost of employer-sponsored health coverage. This amount is not taxable. (Optional in 2011.)
- EE. Use code EE to report Roth contributions under Section 457(b) (but not elective deferrals under Code G).

Box 13: Check the boxes that apply. Check the **“Statutory employee”** box for an employee whose earnings are subject to Social Security and Medicare taxes but are not subject to federal income tax withholding. Do not check this box for common law employees. Statutory employees are workers who are independent contractors under the common law rules but are treated by statute as employees. Check the **“Retirement plan”** box for an employee who was an active participant (for any part of the year) in a qualified pension, profit-sharing or stock bonus plan described in Section 401(a) (including a 401(k) plan); annuity plans (Section 403(a) or 403(b)); SEP plans (408(k)); SIMPLE plans (408(p)); employee-funded retirement plan trusts (501(c)(18)); or a plan for federal, state or local government employees (other than a Section 457(b) plan). Do not check this box for contributions to a nonqualified or Section 457(b) plan. Check the **“Third-party sick pay”** box only if you are a third-party sick pay payer filing a Form W-2 for an insured’s employee or are an employer reporting sick pay payments made by a third party.

Box 14: Box 14 is for any other information you wish to report to the employee. Label each item. Some examples are union dues, health insurance premiums and educational assistance payments. You must report here, or in a separate statement to your employee, the value of the personal use of a vehicle (see page 9) provided to your employee and reported in box 1.

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		12a See instructions for box 12
f Employee's address and ZIP code			13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
			14 Other		12c	
					12d	
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

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

1099s and Other Annual Forms — General Information

You may be required to file electronically

If you file 50 or more Wisconsin copies of Form 1099, you must file electronically with the Wisconsin Department of Revenue (WDOR). If you file 250 or more federal copies of Form 1099, you must file electronically with the IRS. The thresholds apply separately to each type of Form 1099. To register for electronic filing, complete Form 4419, "Application for Filing Information Returns Electronically," at least 30 days before the due date of the returns. No registration is needed for the WDOR. See page 23 for electronic filing addresses.

Form 1099

You may be required to file Form 1099 or other annual information returns for one or more of a variety of items you paid or received during the year. Penalties for failure to file are severe. For frequently used forms and basic filing guidance, see page 19. Generally, with the exception of payments to attorneys, Form 1099 is only required to be filed to report payments to non-corporate payees.

Form 1096

Form 1096 is the summary and transmittal form required to be filed with Copy A of all Forms 1099, 1098, 3921, 3922, 5498 and W-2G. Prepare and file a separate Form 1096 with each type of form, as well as all corrected forms. Form 1096 applies to paper information returns only. Send the forms in a flat mailing envelope. Do not fold them.

Reporting payments to attorneys

You must report payments to attorneys whether or not the recipient is incorporated. Report fees totaling \$600 or more for legal services paid in the course of your trade or business on Form 1099-MISC, box 7. Report in box 14 payments to an attorney made in the course of your trade or business in connection with legal services, such as in a settlement agreement, less the attorney's fees reported by you in box 7, if identifiable.

How to report certain items

Referral commissions and split fees paid by one professional to another, or by one tradesperson to another, are considered nonemployee compensation. Report these fees on Form 1099-MISC in box 7 if the recipient is an attorney or is not incorporated.

Required format for preparing Forms 1096, 1098, 1099, 5498 and W-2G

Do not use commas, \$, &, *, #, or other special characters. Show the cents portion of the money amounts (for example, report \$1,000 as 1000.00). Do not enter "0" or "none" in boxes where no entry is required. Use either the official forms provided by the IRS or substitute forms that meet IRS specifications; do not use photocopies of any form. Report information only in the appropriate boxes provided on the forms.

Do not change the title of any box on any form. Do not use prior year forms unless you are reporting prior year information. Do not cut, tear, separate, staple or tape Copy A of the forms. You must remove pinfeed strips and/or perforated edges from Copy A, the copy that must be submitted to the IRS. All sheets submitted to the IRS must conform to the 8" x 11" size requirement. A penalty of up to \$100 per incorrectly filed document may apply if you fail to follow the required format.

Substitute statements must contain the tax year, form number and form name prominently displayed together in one area of the statement (example: upper right of statement).

Required telephone number on Forms 1098 and 1099

You are required to include your telephone number in any conspicuous area on Forms 1098 and/or 1099 that you issue. This number must provide direct access to an individual who can answer questions about the statement. Penalties for failure to include all information will apply if you do not provide a telephone number.

Wisconsin requirements

The WDOR will accept a copy of federal information Form 1099-MISC or Form 1099-R in lieu of the Wisconsin information return, Form 9b. You are not required to file information returns with the WDOR for payments of interest, dividends, liquidating dividends, or prizes and awards.

The WDOR does not require or provide a separate transmittal form. Use WT-7 for Forms 1099 that have state withholding.

Call us for assistance

It is your responsibility to determine which information returns you must file and to make sure you file them on a timely basis. Let us know if you have questions or need assistance with this task.

1099s — Frequently Used Forms, Basic Filing Guidance, and Due Dates

	Minimum amount to report		Due dates***		
	IRS	WI	Recipient	IRS	WI
1099-DIV (n/a for Wisconsin)					
• Distribution paid on stock, such as dividends, capital gains or non-taxable distributions	\$10	n/a	Jan. 31	Feb. 28*	n/a
• Distributions in liquidation	\$600	n/a	Jan. 31	Feb. 28*	n/a
1099-INT (n/a for Wisconsin)					
• Interest payments by financial institutions	\$10	n/a	Jan. 31	Feb. 28*	n/a
• Interest payments made in the course of a trade or business	\$600	n/a	Jan. 31	Feb. 28*	n/a
1099-MISC (Form 9b for Wisconsin, if desired)					
• Royalty payments	\$10	\$600	Jan. 31	Feb. 28*	**
• Rents	\$600	\$600	Jan. 31	Feb. 28*	**
• Payment for services rendered in a trade or business:					
- By individuals not treated as employees or single-member LLCs	\$600	\$600	Jan. 31	Feb. 28*	Feb. 28
- By partnerships and LLCs operating as partnerships	\$600	\$600	Jan. 31	Feb. 28*	Feb. 28
- By all attorneys and law firms, whether or not incorporated	\$600	\$600	Jan. 31	Feb. 28*	Feb. 28
Note: if the service provider is an incorporated trade or business, no 1099-MISC is required unless the service provider is an attorney or law firm.					
• Gross proceeds paid to attorneys for settlements where legal fees are separately stated (see page 18)	any amount	n/a	Feb. 15	Feb. 28*	n/a
• Prizes and awards that are not for services rendered	\$600	n/a	Jan. 31	Feb. 28*	n/a
• Direct sales of consumer goods for resale (except for sales to permanent retail establishments)	\$5,000	n/a	Jan. 31	Feb. 28*	n/a
1099-PATR (n/a for Wisconsin)					
• Distributions from cooperatives to their patrons	\$10	n/a	Jan. 31	Feb. 28*	Feb. 28
1099-R (Form 9b for Wisconsin, if desired)					
• Distributions from pensions, annuities, retirement or profit sharing plans, IRAs insurance contracts, etc.	\$10	\$600	Jan. 31	Feb. 28*	Feb. 28
• Distributions from pensions, annuities, etc. (as described above) with Wisconsin withholding	\$10	any amount	Jan. 31	Feb. 28*	Jan. 31
1099-S (n/a for Wisconsin)					
• Statement of proceeds from real estate transactions (Special rules apply for principal residences.)	\$600	n/a	Feb. 15	Feb. 28*	n/a
Form 1098 (N/A for WI)					
• Mortgage interest, including reportable points and certain mortgage insurance premiums, received in the course of your trade or business from any one individual for the calendar year	\$600	N/A	Jan. 31	Feb. 28*	n/a

Note: See page 20 for backup withholding that may apply to information returns.

* The due date is March 31 if filed electronically.

** Due date March 15 for corporations and February 28 for other taxpayers.

*** If any date shown falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

IRS Matching Notices Related to 1099s; Verifying Names and Numbers; Backup Withholding

IRS matching notices related to 1099 preparation

The IRS has procedures for matching recipients' names and identification numbers reported on Forms 1099 and 1098 to the names registered with the Internal Revenue Service. Issuing Form 1099 or 1098 in the wrong name can lead to penalties for failure to report the correct information. The proper reporting method differs, based on whether the recipient is a corporation or partnership, sole-proprietor, single-member LLC (SMLLC) or an individual.

- Corporations, partnerships and multi-member LLCs: You should use the name and employer identification number (EIN) of the recipient.
- Sole proprietors, SMLLCs owned by an individual and individuals: You must use the individual's name as recorded with the Social Security Administration on the first name line. You may use the business name on the second line, but not on the first line. On forms issued to sole proprietors and SMLLCs, you may use either the proprietor's or SMLLC owner's Social Security number or owner's EIN (if they have one) — the IRS prefers the Social Security number. Do not use the SMLLC's EIN as opposed to the owner's EIN.
- SMLLCs not owned by an individual: you should use the name and EIN of the owner. Do not use the SMLLC's EIN.
- Multiple recipients (joint accounts): If you made payments to more than one recipient, or if the account is in more than one name, show the name of the recipient whose TIN is first shown on the return as the ONLY name on the first name line. You may show the names of any other individual recipients in the area below the first line.

Use Form W-9, "Request for Taxpayer Identification Number and Certification," to obtain all names and numbers from businesses or individuals for whom you must report payments on Forms 1098 or 1099. Failure to obtain the correct taxpayer identification number or name may subject future payments to backup withholding. Properly completed Forms W-9 will provide the documentation necessary to avoid penalties (discussed below).

Verifying names and numbers reported on information returns — TIN Matching Program

For verifying names and numbers reported on information returns (Forms 1099), the IRS offers a Taxpayer Identification Number (TIN) Matching Program via the Internet. Currently there is no fee to participate; however, third-party payers and their authorized agents must sign an online "Terms of Agreement" clause. The TIN Matching Program is explained in Publication 2108-A, available at <http://www.irs.gov>.

Backup withholding requirements

Backup withholding is required if a payee fails to furnish you with the correct taxpayer identification number (TIN) or if the IRS notifies you that the payee is subject to backup withholding. The mandatory backup withholding rate is 28% for all payments until the payee furnishes you with the TIN in the manner required. Most payments, including nonemployee compensation, are subject to backup withholding even if the payee has applied for a TIN. Payees of interest and dividends may avoid backup withholding for up to 60 days by noting "Applied For" in the TIN block of Form W-9 and signing the form. However, you must begin backup withholding after 60 days if the payee fails to furnish you with the new TIN. For all payments, you may stop backup withholding once the payee provides you with the correct TIN in the manner required.

If you are required to withhold, but fail to do so and the IRS discovers it, expect an assessment for backup withholding in addition to any failure to file penalties and trust fund recovery penalties. The backup withholding assessment can, depending on the aggregate amount required to be reported, easily skyrocket to far more than the usual \$250 per form penalty for the intentional failure to file.

For example, if you paid \$600 or more during the year to each of several unincorporated service providers and failed to file information returns, the penalty for intentional non-filing would be \$250 per Form 1099, your backup withholding assessment would be 28% of the aggregate amount required to be reported on the information returns, and your trust fund recovery penalty would be another 28%. You must report backup withholding on Form 945.

Unemployment Compensation Tax — General Information and Certain Wisconsin Requirements and Elections

Who must file

Federal and Wisconsin unemployment taxes generally apply to employers who, during the current or preceding calendar year, (1) had one or more employees working at least some part of the day in each of 20 or more calendar weeks, (2) paid wages of \$1,500 or more in any calendar quarter or (3) acquired a business or a portion of a business of an employer subject to Wisconsin unemployment taxes. Different rules apply to household, agricultural, and nonprofit employers.

UC tax rates

The net federal UC rate for 2011 is generally 0.8% for quarters 1 and 2 of 2011 and 0.6% for quarters 3 and 4. This is a result of the federal unemployment compensation rate of 6.0% plus 0.2% surtax (which expired on June 30, 2011), less the maximum credit of 5.4% for timely-paid state unemployment taxes paid in the current year and detailed on Form 940.

The Wisconsin UC rate is determined on an individual employer basis. Rates vary depending on total taxable payroll, and other factors — such as whether a business is a “new employer” and/or whether the employer is in the construction industry.

Quarterly filing — federal

Although federal UC tax Form 940 is required on an annual basis, you must compute your federal unemployment tax liability on a quarterly basis to determine whether you are required to make a UC tax deposit. Deposits for the first three calendar quarters of the year are required only if your cumulative undeposited tax liability at the end of the quarter is more than \$500. These deposits are due by the last day of the month after the end of the quarter.

If your cumulative undeposited tax liability at the end of the year exceeds \$500, deposit this amount electronically (EFTPS). If your cumulative undeposited tax liability is \$500 or less, you may pay it with Form 940. In order to be eligible for a 10-day extension of the due date for filing Form 940, you must deposit any tax due on or before January 31.

Quarterly filing — Wisconsin

Wisconsin Quarterly Contribution and Wage Reports must be received by the Department of Workforce Development by the end of the month following the end of the calendar quarter. For employers with less than 25 employees on a quarterly basis, Wisconsin supplies UC forms with the employer’s contribution rate preprinted on the forms.

Wisconsin requires employers with 25 or more employees to file their Contribution and Wage Reports electronically.

If your unemployment tax liability for the previous fiscal year (July 2009 – June 2010) was at least \$10,000, you must make your unemployment tax payments via EFT (electronic funds transfer) in 2011. There are 2 methods for EFT — ACH Debit and ACH Credit. With ACH Debit method, you can initiate the EFT transaction on the DWD website. For ACH Credit, you will need to work with your bank using their banking software.

Election to exclude corporate officers from Wisconsin UC coverage

Under current Wisconsin law, officers of a corporation generally may collect no more than four weeks of unemployment compensation benefits. However, the corporation must pay UC taxes on all officers’ wages up to the maximum base. A corporation with a prior year taxable payroll of \$500,000 or less may elect to exclude the wages of all officers with at least 25% direct ownership of the corporation from coverage under Wisconsin UC rules.

These wages will still be subject to federal UC taxes since the IRS has not adopted this special provision.

If you make this Wisconsin election, you must complete Line 10 in Part 3 on your 2011 federal Form 940 regarding taxable FUTA wages excluded from state unemployment tax.

You must file your election by March 31, 2012, for it to be effective for 2012. If you filed an election in a previous year, it will remain in effect for the current year unless revoked. Once this election is revoked, it cannot be reinstated. We encourage you to contact us before filing any election to determine whether such an election will save or cost more in terms of combined state and federal UC taxes.

Addresses — Paper Forms

(Other states, see appropriate forms for filing addresses)

Form(s)	Due date(s)	If no payment is due	If payment is due with the return
Wage statements			
Federal W-3 and Copy A of W-2	Feb. 29	Social Security Administration Data Operations Center Wilkes-Barre, PA 18769-0001 (if mailing certified, use ZIP code 18769-0002)	Not applicable
Wisconsin Cover letter* and Copy 1 of W-2	Jan. 31	Wisconsin Dept. of Revenue P.O. Box 8920 Madison, WI 53708-8920	Refund or tax due: Wisconsin Dept. of Revenue P.O. Box 8981 Madison, WI 53708-8981
Employee Copies B, C and 2	Jan. 31	Not applicable	Not applicable
Employer's withholding tax returns			
Federal 941	End of month after calendar quarter	Department of the Treasury Internal Revenue Service Cincinnati, OH 45999-0005	Internal Revenue Service P.O. Box 804522 Cincinnati, OH 45280-4522
943	Jan. 31	Department of the Treasury Internal Revenue Service Cincinnati, OH 45999-0008	Internal Revenue Service P.O. Box 804523 Cincinnati, OH 45280-4523
944	Jan. 31	Department of the Treasury Internal Revenue Service Cincinnati, OH 45999-0044	Internal Revenue Service P.O. Box 804522 Cincinnati, OH 45280-4522
Wisconsin WT-6	Varies	Wisconsin Dept. of Revenue P.O.Box 930931 Milwaukee, WI 53293-0931	Wisconsin Dept. of Revenue P.O.Box 930931 Milwaukee, WI 53293-0931
Other withholding tax returns			
Federal 945	Jan. 31	Department of the Treasury Internal Revenue Service Cincinnati, OH 45999-0042	Internal Revenue Service P.O. Box 804524 Cincinnati, OH 45280-4524
Unemployment tax returns			
Federal 940	Jan. 31	Department of the Treasury Internal Revenue Service Cincinnati, OH 45999-0046	Internal Revenue Service P.O. Box 804521 Cincinnati, OH 45280-4521
Wisconsin UCT-101 applicable wage report	Received by end of month after calendar quarter	Dept. of Workforce Development Division of Unemployment Insurance P.O. Box 7945 Madison, WI 53707-7945	With payment or if paying by EFT: Dept. of Workforce Development Division of Unemployment Insurance P.O.Box 78960 Milwaukee, WI 53278-0960
Information returns			
Federal 1096 and 1099, 1098 or 5498	See page 19	Department of the Treasury Internal Revenue Service Center Kansas City, MO 64999	Not applicable
Wisconsin 9b (or state copy 1099)*	See page 19	Wisconsin Dept. of Revenue P.O. Box 8905 Madison, WI 53708-8905	

* Send 1099Rs that report WI withholding and a cover letter (same as Copy 1 of Form W-2). See page 14.

Note: See federal and state instructions for alternate addresses if not using the U.S. Postal Service. Use mailing labels provided by federal and state taxing authorities whenever possible.

Addresses — Electronic Filing

(Non-Wisconsin businesses, see appropriate forms for filing addresses)

Note: If you file 50 or more Wisconsin copies of Forms W-2 or 1099, you must file electronically with the Wisconsin Department of Revenue (WDOR). If you file 250 or more federal copies of Forms W-2, 1099, 1098, and 5498, you must file electronically with the SSA or IRS. These thresholds apply separately to each type of form.

Form(s)	Due date(s)	If no payment is due
Wage statements		
Federal		
W-2	Mar. 31	http://www.ssa.gov/bso/bsowelcome.html
Wisconsin		
W-2	Jan. 31	www.revenue.wi.gov/html/with.html Click on "W-2, 1099, W-2G and 3K-1 File Transmission."
WT-7*	Jan. 31	http://revenue.wi.gov (click "Login" under "My Tax Account"), or Telefile 608-261-5340 or 414-227-3895
* With the Wisconsin mandate to file Form WT-7 electronically and the new Wisconsin requirement to file 50 or more Forms W-2 electronically (see "Note" above), there are fewer options for paper filing, see page 22.		
Employer's withholding tax returns		
Federal		
941	End of month after calendar quarter	For a listing of approved IRS e-file for business providers: http://www.irs.gov/efile/article/0,,id=118516,00.html
943	Jan. 31	
944	Jan. 31	
944	Jan. 31	
Wisconsin		
WT-6	Varies	http://revenue.wi.gov (click "Login" under "My Tax Account"), or Telefile 608-261-5340 or 414-227-3895 No WT-6 is necessary if payment is made using EFT-ACH credit
Information returns		
Federal		
1099, 1098 or W-2G	Mar. 31	https://fire.irs.gov/
Wisconsin		
9b or state copy of 1099-MISC or 1099-R (Not reporting tax withheld)	Feb. 28; Mar. 15 for corporations reporting rents or royalties	www.revenue.wi.gov/html/with.html Click on "W-2, 1099, W-2G, and 3K-1 File Transmission."
Unemployment tax returns		
Federal		
940	Jan. 31	For a listing of approved IRS e-file for business providers: http://www.irs.gov/efile/article/0,,id=118516,00.html
Wisconsin		
UCT-101 applicable wage report	Received by end of month after calendar quarter	http://dwd.wisconsin.gov/uitax/ Click on "File Tax and Wage Reports."

Note: Wisconsin DWD requires electronic wage reporting when you have 25 or more employees in a calendar quarter.

The due date is March 31 if filed electronically. The due date March 15 for corporations and February 28 for other taxpayers. If any date shown falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

Payroll Processing and Other Business Solutions

When you trust your payroll processing to Schenck, you can dedicate your time to doing what you do best — managing your business. Our payroll professionals stay up-to-date on changes to complex payroll tax laws and reporting, including IRS deposit requirements for payroll taxes, new tax limits, taxability of employee benefits, changing W-2 formats and other payroll concerns. In addition to providing ease of processing throughout the year, we will print and electronically file your W-2s and assist you with any other filing needs you may have. Our well-trained payroll team has the expertise to handle payroll processing and reporting for businesses of any size and will deliver quality payroll solutions on time, every time, to your most important asset — your employees.

Business Solutions

With Schenck, you have access to the expertise of our more than 500 employees throughout the state. We are dedicated to serving your business needs, including (but not limited to) the following:

- Accounting and Auditing
- Business Consulting
- Cost Segregation Studies
- Estate and Trust Planning
- Financial Management
- International Business Solutions
- Medical Billing
- Mergers and Acquisitions
- Payroll Services
- Property Tax Consulting
- Retirement Plan Administration
- Risk Services
- Tax Planning and Compliance
- Technology Solutions
- Valuations and Litigation Support

Industry Teams

- Financial Institutions
- Government
- Health Service
- Manufacturing/Distribution
- Not-For-Profit
- Real Estate/Construction
- Retail
- Small Business
- Transportation

For more information about how we can help you make your business stronger, please give us a call at 800-236-2246, stop in, or visit us online at schencksc.com.