To: Clients/Friends  
From: Tax Department  
Date: December 30, 2015  
Re: Payroll Tax Rate Changes

In order to assist in the preparation of paychecks and payroll tax returns, we have listed the payroll withholding taxes that are effective January 1, 2016.

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Amount Withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Withholding Tax</td>
<td>Amount is determined pursuant to the withholding tables contained in Federal Circular E.</td>
</tr>
<tr>
<td>Social Security (OASDI) and Medicare Tax (HI)</td>
<td>The social security wage base for 2016 remains at $118,500. A 6.2% rate applies to employees and employers. The Medicare tax rate is 1.45%, with no limit to the amount of wages subject to the tax.</td>
</tr>
<tr>
<td>Additional Medicare Tax (HI)</td>
<td>An employer must withhold additional Medicare tax of 0.9% from wages it pays to an individual in excess of $200,000 or in a calendar year. Actual tax payer liabilities will vary based on filing status.</td>
</tr>
<tr>
<td>Pennsylvania Income Tax</td>
<td>The rate of 3.07% continues to be withheld, which is the same rate as 2015.</td>
</tr>
<tr>
<td>New Jersey Gross Income Tax</td>
<td>The rates for 2016 range from 1.5% to 9.90% on graduated levels of income. Keep in mind, there is New Jersey tax due for New Jersey residents working in Philadelphia when the effective state rate exceeds the Philadelphia non-resident rate.</td>
</tr>
<tr>
<td>City of Philadelphia (Effective Date July 1, 2015)</td>
<td>For residents of the City, the rate is 3.9102%, and for non-residents the rate is 3.4828%.</td>
</tr>
<tr>
<td>Pennsylvania Unemployment Compensation Employee Withholding</td>
<td>All wages are subject to .07% withholding.</td>
</tr>
<tr>
<td>Pennsylvania Unemployment Compensation Employer Expense</td>
<td>The wage base for 2016 is $9,500 for each employee. Tax rates are dependent upon each employer’s unemployment experience record.</td>
</tr>
</tbody>
</table>
Type of Tax                      | Amount Withheld
--------------------------------|---------------------------------------------------
Local Earned Income Tax/Occupational Privilege Tax | Most Pennsylvania municipalities impose a local earned income or occupational privilege tax, which in many cases is 1% & $52, respectively. However, please refer to your local tax collector for the percentage and amount since they vary. Under Act 32, employers must withhold at the higher rate of the employees home or place of work. There are also new forms to be completed by the employees that must be retained by the employer.

New Jersey Unemployment Compensation | The employee’s rate of .705% is to be withheld for 2016. The employer’s rate is dependent upon the employer’s unemployment experience record. The tax is calculated only on the first $32,600 of compensation.

Self-Employment Tax | The rate of 12.4% tax is computed on the first $118,500 and a 2.9% Medicare Tax is computed on all self-employment income. Additionally for 2016, self-employment income over the applicable threshold is subject to an additional 0.9% tax. The applicable threshold varies based on filing status.

**Electronic Federal Tax Payment System (EFTPS)**

The IRS has issued regulations under section 6302 which provide that beginning January 1, 2011, you must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically by electronic funds transfers. Forms 8109 and 8109-B, Federal Tax Deposit Coupon, cannot be used after December 1, 2010. For more information about electronic funds transfers, visit the IRS website at [www.irs.gov/e-pay](http://www.irs.gov/e-pay).

**Federal Depository Requirements (FWT & FICA)**

You will be either a monthly or semi-weekly depositor. The Internal Revenue Service should have notified you what your deposit status is for the coming calendar year. If you are not notified, you should use the same method as the previous year.

Your deposit schedule for a calendar year is determined from the total taxes reported on your Form 941 (or 941E) in a four quarter lookback period-July 1 through June 30. If you reported $50,000 or less of employment taxes for the lookback period, you are a monthly depositor; if you reported more than $50,000, you are a semi-weekly depositor. Two special exceptions exist:

1. Businesses that have less than $2,500 in quarterly employment taxes may make payments every three months with the filing of Federal Form 941.

2. Businesses that accumulate a tax liability of $100,000 or more on any day during a deposit period, must deposit the tax by the next banking day, whether the business is a monthly or semi-weekly schedule depositor. If this happens, you become a semi-weekly depositor for the remainder of the calendar year and for the following calendar year.

**Semi-weekly Rule**

Under the semi-weekly rule, amounts accumulated on paydays made on Wednesday, Thursday and/or Friday must be deposited by the following Wednesday. Amounts accumulated on paydays made on Saturday, Sunday, Monday and/or Tuesday must be deposited by the following Friday. Therefore, each employer must make one weekly deposit, depending on his or her payday.
Monthly Rule

Under the monthly rule, employment and other taxes withheld on payments made during a calendar month must be deposited by the 15\textsuperscript{th} day of the following month.

New Employers

You will be a monthly depositor for the first year of your business.

The above requirements can prove to be quite onerous. A payroll service can help eliminate problems and missed deposits.

Reminders for 2016

1. When filing the quarterly payroll tax forms, remember to remit a deposit against the FUTA tax liability (Form 940). The tax deposit should be 0.6\% for PA employees and 0.6\% for NJ employees of the first $7,000 of wages paid, per employee, in 2015. No deposit is required until the FUTA liability reaches $500.

2. 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) is a mandatory requirement for all employees and should be completed on the first day of employment. Also report new hires to the states as detailed later.

City of Philadelphia - Wage Tax Due to the City

The Revenue Commissioner has established the following parameters for filing frequency:

For 2016, if you remit more than $10,000 in any type of Philadelphia tax or if you are a payroll service, you will have mandatory electronic filing of wage tax. You should receive a letter stating this.

<table>
<thead>
<tr>
<th>Filing Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly</td>
<td>Less than $350 tax due per month</td>
</tr>
<tr>
<td>Monthly</td>
<td>From $350 to $16,000 tax due per month</td>
</tr>
<tr>
<td>Weekly</td>
<td>Greater than $16,000 tax due per month</td>
</tr>
<tr>
<td>Semi-Monthly</td>
<td>For an employer with Bi-weekly payroll who w/h Philadelphia wage taxes of $16,000 or more per month</td>
</tr>
</tbody>
</table>

Due dates for the filing periods are as follows:

Quarterly 1\textsuperscript{st} Quarter May 2\textsuperscript{nd} 2\textsuperscript{nd} Quarter Aug 1\textsuperscript{st} 3\textsuperscript{rd} Quarter October 31\textsuperscript{st} 4\textsuperscript{th} Quarter January 31\textsuperscript{st}

Monthly The 15\textsuperscript{th} day of the following month.

Weekly or Semi-Monthly Three (3) banking days after the payment of each payroll.

New Hire Reporting Law

All employers are required to report information on newly hired employees. The reporting requirement varies from state to state. Each state is required to inform business entities of their state requirements. If you have any questions with regard to your state filing requirements, please contact us.
For Pennsylvania, within twenty (20) days, send a complete Form W-4 or the new hire reporting form to:

Commonwealth of Pennsylvania
New Hire Reporting Program
PO Box 69400
Harrisburg, PA  17106-9400
(or)
Facsimile: (717) 657-HIRE (4473)
Phone: (888) PAHIRES – (888) 724-4737
Website: www.panewhires.com

For New Jersey, within twenty (20) days, send a complete Form W-4 to:

New Jersey New Hire Directory
PO Box 4654
Trenton, NJ  08650-4654
(or)
Telephone: 1-877-NJHIRES
Facsimile: 1-800-304-4901
Website: www.nj-newhire.com