

**MEMORANDUM TO CLIENTS
RE: VARIOUS PAYROLL-RELATED MATTERS
January 2010**

Social Security and Medicare Tax

As of January 1, 2010, the maximum amount of annual earnings subject to the Social Security tax remains unchanged from 2009, which is **\$106,800**. There is no limit on the amount of earnings subject to the Medicare tax.

Both the Social Security and Medicare tax rates will remain unchanged in 2010. The Social Security rate will stay at 6.2%, and the Medicare rate will stay at 1.45%. The combined rate on earnings up to \$106,800 is 7.65%. These rates apply to both employers and employees. The maximum Social Security tax to be deducted from each employee's compensation during 2010 will be \$6,621.60. (6.2% x \$106,800).

Income Tax Withholding

Revised federal income tax withholding tables will become effective as of January 1, 2010 for salaries and wages paid in 2010. There will be no change in Maryland (MD), District of Columbia (DC), Pennsylvania (PA), or Virginia (VA) withholding taxes.

MD's maximum individual income tax rate will remain at 6.25% for 2010; local county rates also are unchanged.

DC's and VA's maximum individual income tax rates will remain at 8.5% and

5.75% respectively. PA's individual income tax rate will remain at 3.07% for 2010.

An alternative flat federal withholding rate of 35% must be used on supplemental wages (e.g., bonus payments) exceeding \$1 million during a calendar year. Accumulated supplemental wages of \$1 million or less continue to be subject to a flat rate of 25%.

Unemployment Taxes

The rate for federal unemployment tax (FUTA) will remain at .8% for 2010. The federal taxable wage base will remain at \$7,000. MD, DC, PA, and VA wage bases will also remain at \$8,500, \$9,000, \$8,000 and \$8,000, respectively. Unemployment taxes are paid by the employer. PA employees are responsible for an additional withholding of .08% of total wages.

State unemployment tax rates vary according to the employer's experience. Employer 2010 rates will be as follows:

MD - from 2.2% to 13.5%

DC - from 1.5% to 6.8%

PA - from 2.237% to 10.3836%

VA - from 0.58% to 6.68%

In the event you did not receive your current MD unemployment insurance tax rate, it is available by calling 1-800-492-5524.

The minimum threshold amount for quarterly FUTA tax deposits is \$500.

Tax Deposits

There has been no change in the “Electronic Federal Tax Payment System” (EFTPS). Under these rules, payment of federal tax liabilities is required by EFTPS during 2010 if the total of all federal tax deposits (employment tax, excise tax, corporate income tax, etc.) was \$200,000 or greater in 2008 or you were required to use EFTPS in 2009. Once the \$200,000 threshold has been reached, EFTPS must be used even if deposits fall under \$200,000 in a subsequent year. Those who fail to use EFTPS may be subject to a 10% penalty. Taxpayers may voluntarily participate in EFTPS.

MD requires electronic funds transfer for any payment of state taxes of \$10,000 or more. PA’s threshold is for payments of \$20,000 or more.

Effective August 26, 2009, DC’s requirement for business electronic tax payments was reduced from \$25,000 to \$10,000. Employers now must make withholding tax payments electronically if the amount of payment due for a period is equal to or exceeds \$10,000.

VA has an electronic funds transfer requirement for business taxpayers paying corporate income tax, retail sales and use tax, or withholding tax exceeding an average monthly balance of \$20,000. The monthly liability threshold applies separately to each tax. VA will notify taxpayers who are required to pay by electronic funds transfer. Additionally, VA employers with 100 or more employees are required to submit all withholding payments using ACH credit.

Employers should receive notification from the taxing authorities as to their depository requirements. Semi-weekly depositors have three banking days to make a deposit. Monthly depositors due dates are the 15th day of the next month for MD and PA, the

20th for DC and 25th for VA. Quarterly depositors may remit accumulated tax with the quarterly tax returns which are generally due the last day of the following month after each calendar quarter. MD’s quarterly returns are due the 15th day of the following month.

Accelerated deposit dates are required for federal accumulation of \$100,000, which are due the next day. MD employers, who withheld \$15,000 or more during 2009 and currently have accumulated \$700 or more in withholding tax, must deposit within three business days after the payroll pay date. Employers that are allowed to file federal withholding tax returns on a monthly basis may apply to MD for a waiver of the three-day rule described above.

Wage Statements

All employers filing 250 or more W-2 forms must file electronically. PA and VA follow the federal threshold. DC’s requirement is 50 or more and Maryland’s is 100 or more. MD, PA and VA allow withholding statements on magnetic media or other machine-readable formats. Federal and DC are strictly electronic.

Minimum Wage

The federal minimum wage rate is \$7.25 per hour for employees covered by the Federal Fair Labor Standards Act. MD, PA and VA comply. DC’s minimum wage rate is \$8.25 per hour.

Retroactive Military Spouse Rules

As of November 11, 2009 spouses of active military members living in MD, DC or VA may file a worksheet or certificate with their employer to claim exemption from state withholding. Employers should be held harmless from any liability for the tax as long as they maintain the documentation.

Please contact Gross Mendelsohn at 410.685.5512 if you have any questions about these matters.