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**President's Fiscal Year 2012 Budget Includes Several Employment Tax Proposals.** President Obama has finalized his Administration's budget proposals for fiscal year (FY) 2012 (Oct. 1, 2011 to Sept. 30, 2012). The Administration has a robust agenda of tax proposals that it will push Congress to enact, including the following ones:

*Increase in the taxable wage base for unemployment tax.* One proposal would increase the federal taxable wage base from \$7,000 to \$15,000, beginning in 2014, and lower federal unemployment tax (FUTA) rates so employers' FUTA liability would not increase. States wouldn't be charged interest on unemployment loans from the federal government for two more years, which is a cost that many states pass on to employers. Employers in 31 states that haven't repaid their federal loans for several years would not have to pay a higher FUTA rate than other employers.

*Make FUTA surtax permanent.* The FUTA surtax is part of the 6.2% gross unemployment tax rate that employers pay on the first \$7,000 paid annually to each employee (6% permanent tax rate, 0.2% temporary surtax). The surtax has been in effect on a temporary basis since '76, and it is currently scheduled to expire on June 30, 2011. A proposal in the budget would keep the 0.2% FUTA surtax in effect on a permanent basis.

*Reduce improper payments of unemployment insurance (UI) benefits.* The budget proposal would provide additional funding to help reduce improper unemployment benefit payments and employer tax evasion. The budget notes that over \$15 billion in UI benefits was erroneously paid in 2010, and the overpayment rate increased to 11%, despite the efforts by States to reduce improper payments.

*Quarterly W-2 reporting.* Like the FY 2011 budget, the FY 2012 budget includes a proposal that would require W-2s to be reported on a quarterly basis, rather than annually.

*Reduce electronic filing threshold.* A proposal in the budget would give IRS regulatory authority to reduce the 250 return threshold for filing information returns electronically.

*Worker classification.* The Administration's budget proposal includes \$46 million to combat worker misclassification, including \$25 million for grants to States to identify misclassification and recover unpaid taxes, and \$15 million for personnel at the Wage and Hour Division to investigate misclassification. There would be fewer circumstances under which service recipients would qualify for reduced penalties if they misclassify workers.

*Expand work sharing.* The budget proposal includes funding to encourage States to provide partial unemployment checks to workers who are part of a work-sharing arrangement. Work sharing is a voluntary employer program that helps firms retain workers by reducing employees' weekly hours instead of laying them off.

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## Estimated Tax Payments.

**Who needs to pay estimated tax.** Individuals who have income that is not subject to withholding (for example, earnings from self-employment, interest, dividends, rents, alimony, etc.) must pay estimated tax or face a penalty. In addition, taxpayers who do not elect voluntary withholding on certain types of income, such as unemployment compensation and the taxable part of social security payments, also may have to pay estimated tax on those items or face a penalty. ([Code Sec. 6654](#))

**When and how much to pay.** For 2011 estimated tax, in general, a taxpayer must pay 25% of a “required annual payment” by Apr. 18, 2011, June 15, 2011, Sept. 15, 2011 and Jan. 17, 2012 to avoid an underpayment penalty. ([Code Sec. 6654\(c\)](#))

The required annual payment for most taxpayers is the lower of 90% of the tax shown on the 2011 return or 100% of the tax shown on the 2010 return, even if filed late (“prior year exception”). However, a taxpayer (other than a farmer or fisherman) whose adjusted gross income on his 2010 return is over \$150,000 (over \$75,000 if married filing separately) must pay the lower of 90% of his 2011 tax or 110% of his 2010 tax. The prior year exception does not apply for a taxpayer who did not file a 2010 return or filed a 2010 return that did not cover 12 months. ([Code Sec. 6654\(d\)](#))

**Other exceptions to penalty.** There's no underpayment penalty if the tax shown on the return (after withholding) is less than \$1,000. Estimated tax does not have to be paid for 2011 if the taxpayer was a U.S. citizen or resident alien for all of 2010 and had no tax liability for the full 12-month 2010 tax year. ([Code Sec. 6654\(e\)](#))

**Annualized method.** A taxpayer who, after Mar. 31, 2011, has a large change in income, deductions, additional taxes, or credits that requires him to start making estimated tax payments should use the annualized income installment method. While the due dates will not change, the payment amounts will vary based on the taxpayer's income, deductions, additional taxes, and credits for the months ending before each payment due date. As a result, this method may allow the taxpayer to skip or lower the amount due for one or more payments. A taxpayer who uses the annualized method should be sure to file Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, with his 2011 tax return to indicate to IRS how he has computed his payments, even if no penalty is owed. ([Code Sec. 6654\(d\)\(2\)](#))

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**Estimated tax payments.** The following estimated tax payments are due by May 15, 2011:

Individuals	No installment due
Corporate Income Tax Years Ending:	
January 31, 2012	1 <sup>st</sup> Installment
November 30, 2011	2 <sup>nd</sup> Installment
August 31, 2011	3 <sup>rd</sup> Installment
May 31, 2011	4 <sup>th</sup> Installment

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