



Butterfield + Co.

CPAs, Inc.

January 3, 2025

Dear Client:

We want to take this opportunity to thank you for your continued support of our firm. As we happily move forward to 2025, we want to update you on relevant changes to payroll and general compliance related regulations. We hope you find this information helpful and can use it as a reference tool throughout the year.

Withholding Limitations and Rates for the Year 2025

Social Security		<u>Employee</u>	<u>Employer</u>
Rate		6.2% [.0620]	6.2% [.0620]
Maximum wage	\$	176,100.00	\$ 176,100.00
Maximum withholding		10,918.20	10,918.20
Medicare			
Rate		1.45% [.0145] *	1.45% [.0145]
Maximum wage		NO MAXIMUM	NO MAXIMUM
Maximum withholding		NO MAXIMUM	NO MAXIMUM
FUTA			
Rate		N/A	1.2% [.012]**
Maximum wage		N/A	\$ 7,000.00
Maximum withholding		N/A	84.00**
SDI			
Rate		1.2% [.012]	N/A
Maximum wage	\$	N/A	N/A
Maximum withholding		N/A	N/A
SUI/ETT			
Rate		N/A	VARIOUS
Maximum wage		N/A	\$ 7,000.00
Maximum withholding		N/A	VARIOUS

* Employers are responsible for withholding an additional .9% Medicare tax from an employee's wages and compensation paid more than \$200,000 in a calendar year (\$250,000 for married couples filing jointly).

Unlike the regular Medicare tax, there is NO employer match for the additional tax withholding.

The Additional Medicare Tax on wages it pays to an individual over \$200,000 in a calendar year, should be withheld without regard to the individual's filing status or wages paid by another employer. An individual may owe more than the amount withheld by the employer, depending on the individual's filing status, wages, compensation, and self-employment income. In that case, the individual should make estimated tax payments and/or request additional income tax withholding using Form W-4, Employee's Withholding Allowance Certificate.

**For 2024, California employers are subject to a .6% credit reduction (additional tax). The credit reduction for California employer's will continue to increase by .3% each year the State fails to repay their federal loans. The liability is calculated on Form 940 Schedule A and should be prepared when filing Form 940 – Employer's Annual Federal Unemployment (FUTA) Tax Return for the year ended December 31, 2024. The result is a maximum additional FUTA tax of \$63.00 per employee for 2024 and \$84.00 for 2025.

Software Update Reminder

If you are using software to calculate your payroll checks, please be sure to update your payroll tax tables prior to preparing any 2025 payroll checks. If your software offers an automatic update, please remember you will still need to manually update your State of California unemployment and employee training tax rates as these rates are unique to each employer and generally change each year.

Federal Electronic Tax Deposit Requirement

Generally, the deposits of employment taxes, corporate taxes and other taxes must be paid using the Electronic Federal Tax Payment System (EFTPS). For certain taxes, you may be able to send a tax payment with the return when filed if you meet the criteria set for the tax return.

Enrollment is available online at <https://www.eftps.gov>. Click on the enrollment tab to begin the process. If you require assistance with enrollment, call 1-800-555-4477. The system is easy to use, fast and accurate. Tax payments can be made online or by calling 1-800-555-3453. There is no charge to use this service.

Payroll Tax Deposit Requirements for 2025

There are three payroll tax deposit schedules – monthly, semiweekly or next day - for determining when you deposit federal employment and withholding taxes (other than FUTA taxes). The IRS should notify you each November whether you are a monthly or semiweekly depositor for the coming calendar year.

Your deposit schedule for a calendar year is determined from the total taxes paid in a four-quarter look back period - July 1 through June 30 of the prior year. If you reported \$50,000 or less of employment taxes for the look back period, you are a monthly depositor; if you reported more than \$50,000, you are a semiweekly depositor. The deposit rules and exceptions are discussed in the following sections.

Monthly Deposit Schedule Rule

Under the monthly deposit rule, employment and other taxes withheld on wage payments made during a calendar month must be deposited by the 15th day of the following month. If the 15th is a Saturday or Sunday, or legal holiday, the last timely date would be the next "business day".

New employers - During the first calendar year of your business, your tax liability for each quarter in the look back period is zero. Therefore, you are a monthly depositor for the first year of your business. However, see the \$100,000 One-Day Rule exception on the following page.

Semiweekly Deposit Schedule Rule

Under the semiweekly deposit rule, employment and other taxes withheld on wage payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Employment and other taxes withheld on wage payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.

<u>Payroll Pay Days</u>	<u>Deposit by</u>
Wednesday, Thursday and/or Friday	Following Wednesday
Saturday, Sunday, Monday and/or Tuesday	Following Friday

Note: If you have more than one pay date during a semiweekly period and the pay dates fall in different calendar quarters, you will need to make separate deposits for the separate liabilities.

Employers subject to the semiweekly deposit rules must complete 941 Schedule B each quarter and submit with the Form 941.

Deposits on Business Days Only

If a deposit is required on a day that is not a normal business day, meaning any calendar day that is not a Saturday, Sunday, or legal holiday. The deposit is considered to have been made in a timely manner if it is made by the close of the next regular business day. Additionally, because EFTPS is available 24 hours a day, seven days a week, the IRS has provided clarification on the definition of a “legal holiday”. For tax deposit purposes, the term “legal holiday” refers only to those holidays recognized in the District of Columbia. Therefore, a statewide holiday will no longer be considered a legal holiday unless it coincides with a legal holiday in the District of Columbia.

The following days are currently legal holidays in the District of Columbia: New Year’s Day, Martin Luther King, Jr. Day, President’s Day, DC Emancipation Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veteran’s Day (observed on November 11, 2025), Thanksgiving Day and Christmas Day.

For example, if a deposit is required on a Friday and Friday is not a business day, the deposit will be considered timely if it is made by the following Monday.

A special rule is provided for semiweekly depositors who have at least 3 business days to deposit taxes. These depositors are allowed an additional day for each day that is a legal holiday to make their deposit.

For example, if a semiweekly depositor has employment taxes accumulated for payments made on Friday and the following Monday is not a business day, deposits made by the following Thursday are considered timely (allowing 3 business days to make the deposit).

\$100,000 Next Day Deposit Rule

When any single payroll has a federal tax liability amount that exceeds \$100,000 on any one day during a deposit period, it must be deposited by the next banking day regardless of whether an employer is a monthly or semiweekly schedule depositor. If you are a monthly depositor and accumulate a \$100,000 tax

liability, you become a semiweekly depositor and you must remain on a semiweekly schedule for the remainder of the year and the following year. For monthly depositors, the deposit period is a calendar month.

The deposit periods for semiweekly depositors are Wednesday through Friday and Saturday through Tuesday. For purposes of the \$100,000 rule, do not continue accumulating employment tax liability after the end of a deposit period; rather begin to accumulate anew on the next day.

For example, if a semiweekly depositor has accumulated a liability of \$95,000 on a Tuesday (of a Saturday-through-Tuesday deposit period) and accumulated a \$10,000 liability on Wednesday, the \$100,000 one-day rule does not apply.

The deposit requirements will be considered satisfied if at least 98% of the accumulated tax is deposited in a timely manner or if any deposit shortfall does not exceed \$100. No penalties will be assessed if the shortfall is deposited by the shortfall due date. Shortfall due dates for monthly depositors is the due date of the quarterly return. Semiweekly depositors or one-day rule depositors' shortfall due date is the first Wednesday or Friday, whichever is earlier, falling on or after the 15th day of the month following the shortfall.

FUTA Tax Deposit Rules

Employers are required to make a quarterly deposit for unemployment taxes if the accumulated tax exceeds \$500. If the balance due on Form 940 is less than \$500, it may be paid with the return. If the balance is \$500 or greater, the taxes must be deposited by the end of the month following the end of the quarter (via the EFTPS payment system) to avoid penalties.

Filing Form 944 – Employer's Annual Federal Tax Return

Employers whose annual tax liability is anticipated to be \$1,000 or less in the coming year will receive notification from the IRS that they are a Form 944 filer. They will be required to file Form 944 annually instead of Form 941 quarterly. If you believe you qualify to file Form 944 and have not received notification of your eligibility, please call the IRS at 1-800-829-4933 and select option 2.

To request to file Form 944 instead of Form 941, you must either call the IRS by April 1, 2025 or send a written request postmarked on or before March 17, 2025.

If you received notification to file Form 944 but prefer to file Form 941 instead, you must either call the IRS by April 1, 2025 or send a written request postmarked on or before March 17, 2025.

Correcting Previously Filed Federal Employment Taxes

To correct errors on federal employment tax forms, use the corresponding "X" form to correct employment tax errors as soon as they are discovered and within the period of limitations. For example, use the 941-X, Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund, to correct errors on a previously filed Form 941. The "X" forms are available for download from the IRS website.

Filing of Forms W-2 and W-3

W-2 and W-3 forms are due on January 31, 2025 whether you file using paper forms or electronically. You may request one 30-day extension by filing Form 8809, Application for Extension of Time to File Information Returns. The IRS will only grant extensions in extraordinary circumstances or catastrophe. The Social Security Administration has only one location for filing paper Forms W-2 and W-3. Please mail to:

Social Security Administration
Direct Operations Center
Wilkes-Barre, Pennsylvania 18769-0001

IMPORTANT: The IRS may assess penalties ranging between \$60 to \$330 per W-2 Wage and Tax Statement (maximum of \$232,500 - \$1,329,000 for small businesses) containing discrepancies as to the names and social security numbers of their employees, among other things. Employers should request a copy of each employee's social security card to ensure the name listed on the W-2 form is the same as that listed on the social security identification card. **Intentional Disregard** to comply with Form W-2 filing requirements can result in a penalty of \$660 per Form W-2 with no maximum. If a **fraudulent Form W-2** is willfully filed for payments claimed to have been paid to another person, that person may be able to sue for damages of \$5,000 or more.

REMEMBER: If you are required to file 10 or more Forms W-2, you must file them electronically unless the IRS has granted you a waiver. You may be charged a penalty if you fail to file electronically when required.

State of California Filing Requirements

All employers are **required** to electronically submit employment tax returns, wage reports, and payroll tax deposits to the Employment Development Department (EDD). Effective 1/1/19, penalties for not complying with the E-file and E-pay mandate are:

- \$50 per return for Tax Returns (DE9, DE3HW, DE3D)
- \$20 per wage item for Wage reports (DE9C, DE3BHW)
- 15% of amount due for Payments (DE88)

California wages are required to be reported and filed on both Form DE9 Quarterly Contribution Return and Report of Wages and Form DE9C Quarterly Contribution Return and Report of Wages each quarter.

The DE9 reconciles wages reported and taxes paid each quarter. Overpayments are refunded automatically by EDD. Any tax payment due should be submitted electronically.

The DE9C reports individual employee wages for each quarter.

For more information and special situations concerning deposit rules, frequencies, reporting requirements, and the new Express Pay option, refer to the *California Employer's Guide* (DE44), visit EDD's website at https://www.edd.ca.gov/payroll_taxes/file_and_pay.htm, or call (888) 745-3886.

Registering for a California Employer Account

- You may register online for your employer payroll tax account number. For more information visit https://www.edd.ca.gov/Payroll_Taxes/Enroll_Employer_e-Services_Business.htm or https://edd.ca.gov/pdf_pub_ctr/de44.pdf
- You may also mail a completed registration form to:

Employment Development Department
Account Services Group, MIC 28
P.O. Box 826880
Sacramento, CA 94280-0001

- You may fax a completed form to (916) 654-9211

Please note, mailing or faxing a registration form can take up to 14 business days to process. Online registration will provide you with an employer account number immediately.

New Hire Reporting Requirements

All employers are required by law to report new hires to the New Employee Registry (NER) at EDD using Form DE34 within 20 days of employment, including rehires.

A new employee is an employee who has not been employed by you or was previously employed by you but has been separated from such prior employment for at least 60 consecutive days.

Timeliness of Electronic Funds Transfers

The timeliness of your EFT payment is determined by the settlement date (the date funds are credited to the State's bank account).

- Next banking day deposits – must settle in the State's bank account on or before the third business day following the payroll date.
- Semiweekly, monthly, and quarterly deposits – must settle in the State's bank account on or before the next business day following due date.

Please visit www.edd.ca.gov/payroll_taxes/electronic_funds_transfer.htm for more information on electronic payment options. You may also contact the EDD e-pay group at (916) 654-9130.

State of California Paid Sick Leave

California employers must offer paid sick leave benefits to employees who work for them at least 30 days within a year and satisfy a 90-day employment period. The law requires employers to offer a minimum of 40 hours of sick leave pay per year. Employers may choose to allow employees to accrue the hours based upon hours worked or may choose to make the full amount of sick leave immediately available for the year. Please visit https://www.dir.ca.gov/dlse/paid_sick_leave.htm for additional information.

As a reminder, the Paid Family Leave (PFL) program includes time off to care for a seriously ill child, parent, parent-in-law, grandparent, grandchild, sibling, spouse, or registered domestic partner.

Household (Domestic) Employment Tax Reporting

Employers of domestic workers (i.e., housekeepers, maids, babysitters, gardeners, etc.) must report and pay their employment tax obligations annually with their federal tax return, Form 1040 on Schedule H, Household Employment Taxes. Individuals employing domestic workers are required to increase their quarterly estimated tax payments or increase withholding from their own wages to cover these employment taxes.

Employers are required to include an employer identification number (EIN) on all forms filed for household employees. Household employers should disregard instructions stating otherwise. To receive an EIN, file Form SS-4 with the Internal Revenue Service or apply online at www.irs.gov and search “Apply for an EIN”. An employer must also register with the Employment Development Department (EDD) when cash wages are paid totaling \$750 or more in a calendar quarter. Registration must be within 15 days after paying \$750 in total cash wages.

Federal

- Social Security and Medicare taxes: Wages of \$2,800 or more, generally an employer must withhold Social Security and Medicare at 7.65 percent.

State

- If employer pays \$750 to \$999.99, they must withhold State Disability Insurance (SDI) and remit to EDD.
- If employer pays \$1,000 or more, withhold SDI from employee wages. Employers must pay State Unemployment Insurance (SUI) and Employment Training Tax (ETT).
- If wages fall below \$750 in the following quarter, employers must continue to withhold SDI from employee’s wages through remainder of a current year and through the following calendar year.
- If wages fall below \$1,000 in the following quarter, employers must continue to withhold SDI from employee’s wages; and employer pays UI and ETT through remainder of a current year and through the following calendar year.

Foreign Agricultural Workers

Employers are required to report compensation of \$600 or more on Form W-2 for pay to H-2A visa agricultural workers. If the H-2A visa agricultural worker furnishes a valid taxpayer identification number, report payments in box 1 of Form W-2, DO NOT check box 13 (“statutory employee”) as H-2A agricultural workers are not “statutory employees”. On Form W-2, no amount should be reported in boxes 3 or 5. Also, no amount should be reported on line 2 or line 4 on FORM 943.

If the H-2A agricultural worker fails to furnish his or her Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN) to the employer, and the aggregate annual payments made to the H-2A agricultural worker are \$600 or more, the employer must begin backup withholding on the payment(s) at the rate of 24% and continue withholding until the H-2A agricultural worker furnishes his or her SSN or ITIN. The employer will report the compensation subject to backup withholding and the tax withheld on Form 1099-MISC and Form 945, Annual Return of Withheld Federal Income Tax, instead of on Form W-2 and Form 943. (See the Instructions for Form 1099-MISC and the Instructions for Form 945).

An employer who fails to do backup withholding when required will be held liable for the backup withholding tax which it should have withheld from the H-2A agricultural workers’ compensation.

Hourly Wage Requirements

The minimum federal hourly wage rate remains at \$7.25. Effective January 1, 2025, the minimum wage for the State of California is \$16.50 per hour for all employers. Any employee in the State of California must be paid at the California minimum wage amount. Only those operations out of state can use the federal hourly wage rate and employers should first verify whether the other states also have a minimum wage established which could supersede the federal hourly wage rate.

Retirement Plan Contribution Limits

Deferral Type	2024	2025
Traditional and Safe Harbor 401(K)	\$23,000	\$23,500
Traditional and Safe Harbor 401(K) Catch-up for participants aged 50 and over	\$7,500	\$7,500
Simple 401(k) Plans	\$16,000	\$16,500
Simple 401(k) Plans Catch-up for participants aged 50 and over	\$3,500	\$3,500
Individual Retirement Plan (IRA)	\$7,000	\$7,000
Catch-up	\$1,000	\$1,000
Overall limit	\$69,000/\$77,000 with catch-up	\$70,000/\$79,000 with catch-up

Contributions an employer can make into an employee's SEP-IRA cannot exceed the lesser of:

- 25% of the employee's compensation or \$66,000 for 2023
- 25% of the employee's compensation or \$69,000 for 2024
- 25% of the employee's compensation or \$70,000 for 2025

Expense Allowances & Reimbursements for 2025

Direct dollar for dollar employee business expense reimbursement payments is not includable on Form W-2 if there was an "accountable" plan in place. Automobile mileage reimbursement is includable on Form W-2 as gross income **only if such reimbursement exceeds IRS standard mileage rates** as stated below.

Aside from the increased standard mileage rate listed below, there were no changes in the basic rules for 2025.

All fringe benefits and allowances, other than de minimis fringe benefits and health insurance premiums, are subject to payroll taxes and includable on Form W-2.

If you have questions regarding fringe benefits, we will be happy to answer your questions on an individual basis.

Standard Mileage Rates

The annual standard mileage rates for business use are as follows:

2025 = 70.0 cents per mile
2024 = 67.0 cents per mile

Employer Provided Health Coverage

The Affordable Care Act requires employers to disclose the cost of coverage under an employer sponsored group health plan for each employee on their annual Form W-2, Box 12, Code DD. In general, the amount reported should include both the portion paid by employer and employee.

- Employers with fewer than 250 employees have been exempted until further guidance is issued.
- For employers with 250 or more employees, reporting is mandatory.

The reporting is for informational purposes only to show employees the value of their health care benefits so they can be more informed consumers. The amount reported will not affect tax liability.

Please take the necessary steps to update your payroll systems accordingly to ensure you have the information available prior to year-end reporting.

Shareholder Health Insurance

S-Corporation employers who employ individuals that hold more than 2% ownership in the company must include the value of accident or health benefits provided to them by the company in the employee's wages subject to federal and state income tax. However, you can exclude the value of these benefits from the employee's wages subject to social security, Medicare, FUTA and State Unemployment Taxes.

Health Savings Accounts (HSA)

Employer contributions to the HSA of a qualified individual are exempt from federal income tax withholding, social security tax, Medicare tax, and FUTA, but subject to state income tax, state disability tax and state unemployment tax.

- Employers must report all contributions (including an employee's contribution through Cafeteria Plan) in Box 12 of Form W-2 with code W.
- For calendar year 2024, the annual contribution limit was **\$4,150** for self-only coverage and **\$8,300** for an individual with family coverage.
- For calendar year 2025, the annual contribution limit is **\$4,300** for self-only coverage and **\$8,550** for an individual with family coverage.
- Participants 55 to 64 can make an additional contribution of up to \$1,000.
- Participants 65 and older are not eligible to contribute.

Taxable Value of Meals & Lodging for 2025

If you provide meals and/or lodging to your employees as part of their salary, the meals and/or lodging are subject to all payroll taxes. Meals are subject to state and federal income tax withholding unless you furnish the meals for your own convenience on your premises. Lodging is subject to federal and state income tax withholding unless the lodging is a requirement of employment.

The State of California taxable value of meals and lodging provided to non-maritime employees on a regular basis is:

<u>Meals</u>	<u>Value*</u>
• Breakfast	\$ 3.15
• Lunch	4.75
• Dinner	<u>7.50</u>
• 3 meals per day	\$ 15.40
• A meal not identified as either breakfast, Lunch, or dinner	\$ 5.50

Lodging Values

- The lodging value is set at 66.67% (0.6667) of the amount you could rent the property for (ordinary rental value). However, the maximum value you can use is \$63.15 per week. Furthermore, the maximum value you can use in a month is \$1,946.

Note: The above values do not apply where higher values of meals and lodging are stipulated in a union agreement or contract of hire or are required for compliance with minimum wage laws. If you have any questions regarding the taxability of meals and lodging, please contact our office.

Personal Use of Employer Vehicle

Personal use of company vehicles is considered taxable income to the employee and is subject to all payroll taxes. Personal use, that is limited to commuting to and from work, is includable on employee's Form W-2 and may be valued at \$3 per day (\$1.50 each way), subject to meeting all the following requirements:

1. Employer must have a written policy that employees may not use company automobiles for personal purposes other than for commuting, except de minimis use.
2. The employee complies with the written policy by never using the vehicle for personal purposes other than for commuting or de minimis personal use.
3. The employee using the vehicle is not a 1% or greater stockholder, shareholder-appointed, confirmed or elected officer whose pay for the year was \$140,000 or more, a director, an elected official, a government employee whose compensation is equal to or exceeds Federal Government Executive Level V or an employee whose annual compensation exceeds \$285,000.
4. The employer requires the employee to use the company vehicle for commuting for a bona fide noncompensatory reason (i.e., proximity to major customer or 24-hour on-call).

There are two ways of calculating other personal use of company vehicles: (1) the standard mileage rate methods of 70.0 cents per mile may be used to value 2025 personal use if the vehicle's fair market value is below the "luxury auto" level when first provided to the employee. (2) If the "luxury auto" values apply, then the annual lease value method must be used. A log or written evidence must be maintained to substantiate business and personal use of the vehicle. These methods apply to all employees. We will be happy to assist you with any calculation for W-2 inclusion on an individual basis.

In determining business usage of vehicles used directly in connection with farming, a business use percentage of 75% may be used versus maintaining a log. If a farmer wants to use a higher business percentage, a log or written evidence is required to be maintained.

A log does not have to be maintained for certain specific vehicles, which are considered by the Internal Revenue Service as non-personal vehicles. A few examples of such vehicles are cement mixer trucks, refrigeration trucks, flat-bed trucks and vehicles designed to carry cargo with an unloaded gross vehicle weight over 14,000 pounds.

Independent Contractor Reporting Requirements

This law requires business and government entities to report specified information to the Employment Development Department (EDD) on independent contractors.

Any business or government entity that is required to file a federal Form 1099-MISC or 1099-NEC for services will be required to report information to EDD. The information will be used to establish, modify, or enforce child support obligations, and must be reported by law within 20 days of the earlier of either:

- Entering a contract which equals or exceeds \$600.
- When the aggregate payments to an Independent Contractor equal or exceed \$600.

This requirement must be met each year. Therefore, regardless of how long you have done business with an individual, you must, once they meet the criteria above, report the required information to the EDD within 20 days using Form DE542 Report of Independent Contractor(s).

This reporting requirement applies only to individuals working as independent contractors. **It does not apply if the service provider is a corporation, partnership, or limited liability company.**

Filing 1099 Forms

Since 2020, the IRS created a new 1099-NEC form to report nonemployee compensation.

Please note that you should take immediate action to review your records and ensure you have the information necessary to file your Forms 1099-MISC and 1099-NEC forms properly and accurately for 2024. This includes obtaining the correct payee's name, address, and tax identification number by having a completed W-9, Request for Taxpayer Identification Number on file.

Note the following important deadlines:

- Form 1099-NEC reporting is due to the Department of Treasury and the State of California on or before January 31, 2025 if you file on paper or if you e-file.
- Form 1099-MISC reporting is due to the Department of Treasury by February 28, 2025 or February 15 for amounts reported in boxes 8 or 10; if you file on paper or March 31, 2025 if you e-file.

Note: Do not use Form 1099-MISC to report employee business expense reimbursements. Report payments made to employees under a nonaccountable plan as wages on Form W-2.

Since 2011, credit card transactions are being tracked by third party merchant services and reported annually to both merchants and the IRS. If you accept credit card payments, you will continue to receive Form 1099-K for the payments received during calendar year 2024. In addition, if you use credit cards to

make payments to your service providers, you will not be required to issue a separate 1099-MISC, since your merchant services provider will issue Form 1099-K instead. However, you must count all payments to service providers for purposes of determining if they meet the \$600 reporting threshold.

Every trade, business or not-for-profit organization must issue **Form 1099** if there were payments of:

- a) At least \$600 in rents, non-employee compensation (services – including parts and materials) prizes and awards, and other payments reportable as income.
- b) Use **Form 1098**, rather than 1099 for mortgage interest received of \$600 or more.

Generally, payments to corporations are not reportable. However, you must report payments to corporations for the following:

- 1. Medical and health care payments (Form 1099-MISC, box 6).
 - 2. Federal income tax or foreign tax withheld (Form 1099-MISC, box 4).
 - 3. Barter Exchange transactions (Form 1099-B).
 - 4. Substitute payments in lieu of dividends and tax-exempt interest (Form 1099-MISC, box 8).
 - 5. Acquisition or abandonment of secured property (Form 1099-A).
 - 6. Cancellation of debt (Form 1099-C)
 - 7. Attorney fee payments (Form 1099-NEC, box 1) and gross proceeds paid to attorneys (Form 1099-MISC, box 10).
 - 8. Federal Executive Agency payments for services (Form 1099-NEC, box 1).
 - 9. Fish (all fish and other forms of aquatic life) purchases for cash (Form 1099-NEC, box 1).
- d) Corporate dividends or royalties paid in lieu of dividends of \$10 or more.
 - e) Interest income of \$10 or more.
 - f) Interest or original issue discount paid or accrued to a regular interest holder of a REMIC (Form 1099-INT or 1099-DIV).
 - g) Director's fees paid to a director employee are reported on Form W-2 and are subject to all payroll taxes, including payments made after retirement. Director fees paid to non-employee directors are reportable on Form 1099-NEC, box 1, if \$600 or more annually.

Forms 1099 must also be filed if any federal income tax has been withheld under the backup withholding rules regardless of the amount of the payment. (For more information, refer to 2024 Instructions for Form 1099).

To avoid Internal Revenue Service notices regarding employer identification numbers and social security number inconsistencies, always use the social security number for a named individual and a taxpayer identification number for a business name even if the business is individually owned. **Never use a business name (i.e., Joe's Meat Market) with a social security number.**

Please check the instructions as to where to file the forms in the booklet you receive from the Internal Revenue Service. According to IRC Section 6721, the **Internal Revenue Service may assess penalties for failing to file correct information returns.**

Penalties have continued to increase and now range between \$60 and \$330 per information return (maximum of \$630,500 to \$220,500 for small businesses). If you are found to have intentionally disregarded the 1099 filing requirements, the IRS may penalize you at least \$660 per payee statement with no maximum penalty.

Please note, the EDD has clarified that if we advise a client to treat workers as employees, but your business misclassifies the workers, we can be subject to a penalty if we prepare the return for the business, reporting the workers as independent contractors, even if the business went against the advice of the tax professional. In this situation, we will not be able to prepare the 1099 information returns.

REMEMBER: If you are required to file 10 or more Forms 1099, you must file them electronically unless the IRS has granted you a waiver. You may be charged a penalty if you fail to file electronically when required. Please verify the format with the Internal Revenue Service.

Unsecured Property Tax Assessment Form 571

The valuation and lien date for Form 571, Business Property Statement, is January 1. The **San Joaquin County** Assessor's office has set to **May 7, 2025**, as the last day to file without incurring a 10% penalty, unless you receive an "early filing requirement" notice from the assessor's office. These notices should be mailed to you by February 1, 2025. The "early filing" due date is April 1, 2025. Please note, the Business Property Statement due dates may vary by county.

This letter is for informational purposes only and is not all-inclusive. Should you have any questions or need assistance or clarification on any of these items, please contact a member of our staff.

Yours very truly,

Butterfield + Co. CPAs, Inc.

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