



# Tax Researcher

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## FUTA SURTAX EXPIRED 6/30/11

Up through June 30, 2011, the Federal Unemployment Tax Act (FUTA) imposed on employers a 6.2% payroll tax on the first \$7,000 of wages paid to each of their employees annually. The rate of 6.2% was composed of the permanent rate of 6.0% and a 0.2% temporary surtax which was passed by Congress in 1976. Through legislation that repeatedly extended its expiration, the surtax remained in effect through its latest expiration date of June 30, 2011. To date, no legislation extending it further has been enacted. Therefore, effective July 1, 2011 the FUTA tax rate is 6.0%.

The 6.0% tax rate is before consideration of state unemployment insurance tax credits. Most employers are allowed to claim 5.4% in state credits against the FUTA rate. That means the effective FUTA rate for most employers as of July 1, 2011 will be 0.6%, down from the previous 0.8%.

## IRS INCREASES STANDARD AUTO MILEAGE REIMBURSEMENT RATES EFFECTIVE 7/1/11

The Internal Revenue Service (IRS) has announced that effective July 1, 2011 through December 31, 2011, the standard mileage rate for BUSINESS usage increases from the current \$0.51 to \$0.555 per mile. Also effective July 1, 2011 through December 31, 2011, the automobile reimbursement rate for deductible MEDICAL and MOVING expenses increases from \$0.19 to \$0.235 per mile. However, there is no change in the reimbursement rate applicable to mileage incurred for CHARITABLE purposes. That remains at \$0.14 per mile.

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2011. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

"This year's increased gas prices are having a major impact on individual Americans. The IRS is adjusting the standard mileage rates to better reflect the recent increase in gas prices," said IRS Commissioner Doug Shulman. "We are taking this step so the reimbursement rate will be fair to taxpayers."

While gasoline is a significant factor in the mileage figure, other items enter into the calculation of mileage rates, such as depreciation and insurance and other fixed and variable costs.

Seeking to reduce recordkeeping, the IRS has allowed taxpayers who use no more than four vehicles at the same time for business purposes, to use the standard mileage rate instead of requiring them to document the actual expenses for each vehicle.

Any of the standard automobile mileage rates are a "short cut" authorized by the IRS when taxpayers substantiate the cost of automobile usage. The flat mileage rate does not cover parking or tolls. The IRS considers that the substantiation and adequate accounting requirements for employer-reimbursed BUSINESS expenses, for example, are satisfied by employers and employees who merely use the \$0.555 a mile rate (effective July 1, 2011). It is not necessary to provide sales receipts or other documentation, as long as the time, place, business purpose of the expense, and the number of miles traveled, are evident.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

PURPOSE	RATES	
	1/1/11 TO 6/30/11	7/1/11 TO 12/31/11
Business	\$0.51	\$0.555
Medical/Moving	\$0.19	\$0.235
Charitable	\$0.14	\$0.14

## PHILADELPHIA SCHEDULED WAGE TAX RATE DECREASES ELIMINATED EFFECTIVE 7/1/11

The City of Philadelphia has enacted legislation, effective July 1, 2011, that eliminated the reductions in their wage tax rates that were scheduled to go into effect starting on that date. As a result, the resident wage tax rate will continue at 3.9280% (includes the 1.5% Pennsylvania Intergovernmental Cooperation Authority Tax). The nonresident rate wage tax rate will continue at 3.4985%.

Previously, the resident rate had been scheduled to decrease to 3.8722% and the nonresident rate had been scheduled to decrease to 3.4370%.

## RECORDKEEPING FOR EMPLOYMENT TAXES AND INFORMATION RETURN REPORTING

Last month's issue included an article that listed the types of records that the Internal Revenue Service and the US Department of Labor require employers to keep. The IRS also provides further details:

For you to be able to respond to any inquiries from the IRS about your tax forms, you should keep the following records for at least four years after the due date of the return or the date it was filed, whichever is later. In the case of quarterly (Form 941) returns, the due date is considered April 15th of the calendar year after the quarter ends. In some cases, you may want to keep the records longer.

### Employment tax:

- Forms 941 or 944
- Copies of Forms W-2 and W-3
- Employee Forms W-4
- Employee Forms W-5 (applicable to tax years 2010 and prior)
- Records of fringe benefits paid to employees, and how their value was determined
- Names, addresses, and social security numbers of all employees
- Dates of employment for each employee
- Special payments such as sick pay, lump sum leave payments
- Travel vouchers and other accounting for reimbursements to employees
- Receipts, cancelled checks, etc., for deposits made or tax paid with return

### Vendor or nonemployee payments:

- Names, addresses, and taxpayer identification numbers of payees
- Dates of payment
- Forms W-9
- Payer copies of 1099-MISC and other information returns
- Forms 945
- Description and purpose of payments made
- Notices related to backup withholding

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