

TAX ALERT



GOLDENBERG ROSENTHAL, LLP
BUSINESS ADVISORS • CERTIFIED PUBLIC ACCOUNTANTS

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CHANGES IN EMPLOYMENT TAXES

Effective for wages paid on or after January 1, 2003



FEDERAL TAXES



Social Security and Medicare Taxes

Beginning January 1, 2003, the maximum annual earnings subject to **Social Security tax** (FICA) is \$87,000. The tax, computed at a rate of 6.2%, must be withheld from each employee and matched by the employer. The rate for self-employed individuals is 12.4%.

The maximum Social Security tax payable by an employee will be \$5,394.00.

The **Medicare tax** applies to all taxable wages. The tax, computed at a rate of 1.45%, must be withheld from each employee and matched by the employer. The tax rate for self-employed individuals is 2.9% of net earned income.

Income Tax Withholding

The 2003 federal withholding tables are contained in the IRS Publication 15 - Circular E: *Employer's Tax*

Unemployment Tax

Guide. The Internal Revenue Service (IRS) will mail these tables to all employers in December, 2002. The taxable earnings per employee for FUTA is the first \$7,000. The tax rate is 0.8%.

SOCIAL SECURITY RECIPIENTS

As of January 2000, the Retirement Earnings Test was eliminated for individuals age 65-69. It remains in effect for those ages 62 through 64. A modified test applies for the year an individual reaches age 65. (The Senior Citizens' Freedom to Work Act of 2000).

Retirement Earnings Test

	<u>2002</u>	<u>2003</u>
Under full retirement age	\$11,280/yr.	\$11,520/yr.
Note: One dollar in benefits will be withheld for every \$2 in earnings above the limit.	(\$940/mo.)	(\$960/mo.)

Year individual reaches full retirement age

	<u>2002</u>	<u>2003</u>
Year individual reaches full retirement age	\$30,000/yr.	\$30,720/yr.
Note: Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every \$3 in earnings above the limit.	(\$2,500/mo.)	(\$2,560/mo.)

There is no limit on earnings beginning the month an individual attains full retirement age (65 for retirees born in 1937; 65 and 2 months for those born in 1938).

(continued on other side)



(Federal continued from other side)

New Hire Reporting

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provides that all employers must report information about every new employee to a state directory of new hires within twenty days of the hire date.

Standard Mileage Rate

The optional standard mileage rate for the business use of an automobile will decrease on January 1, 2003, from 36.5 cents per mile to 36.0 cents per mile.

The mileage rate for charitable purposes will remain at 14 cents per mile, while the rate for medical or moving purposes decreases from 13 cents to 12 cents per mile in 2003.

Retirement Plan Contributions

The maximum annual employee deferral to 401(k) and 403(b) plans for individuals under the age of 50 is \$11,000 in 2002 and \$12,000 in 2003. Individuals who reach 50 during the plan year and who already make the maximum allowable pre-tax elective deferrals may make an additional catch-up contribution of \$1,000 in 2002 and \$2,000 in 2003.

STATE AND CITY TAXES

PENNSYLVANIA

Income Tax Withholding Rate

The Pennsylvania personal income tax withholding rate remains 2.8% for 2003 at the time of this publication.

Unemployment Tax - PA

The maximum taxable earnings per employee for Pennsylvania unemployment tax is \$8,000. Starting January 1, 2003, a .02% (20¢ per \$1000 earned) is to be withheld from all employee wages.



PHILADELPHIA

City Wage Tax

The City of Philadelphia reduced the city wage tax rates on July 1, 2002. The tax rate for a resident is 4.5%, while the tax rate for a non-resident employee who works in the city is 3.9127%. These wage tax rates may change again in July, 2003 as they did in prior years. The city notifies taxpayers of any change in rates.

NEW JERSEY

Income Tax Withholding

There are no changes to the New Jersey withholding tax tables.

Unemployment Tax - NJ

The maximum taxable earnings per employee for New Jersey unemployment tax is \$23,900 for the year 2003. The .925% employee unemployment withholding tax applies to the first \$23,900 of earnings or a maximum of \$221.08 for combined UI/SDI per employee.

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