

Important W-2 & 1099 Changes for 2011

W-2 The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 has temporarily reduced the rate of social security tax withholding (for employees only) from 6.2% to 4.2% for wage payments made in 2011.

Two new codes have also been added to box 12 of the 2011 Form W-2: *Reprogramming required.*

- Code DD is used to report the cost of employer-sponsored health coverage. However, this reporting will not be mandatory for 2011.
- Code EE is used to report designated Roth contributions under a governmental section 457(b) plan.

W-2 & W-3 The advance earned income credit payment is eliminated for tax years beginning after December 31, 2010. Therefore, box 9, Advance EIC payments, has been deleted from Forms W-2 and W-3. *Reprogramming required.*

W-3 & W-3c To improve document matching compliance, box b of the 2011 Form W-3 & W-3c has been expanded to include a new section, Kind of Employer, which contains five new checkboxes. Filers are required to check one of these new checkboxes. Box 12b (HIRE exempt wages and tips) had been deleted from the 2011 W-3 (this does not apply to form W-3c). *Reprogramming required.*

All 1099s The pilot program for truncating an individual's identifying number on paper payee statements has been extended through 2012, despite IRS instructions stating that has ended.

1099-B New boxes have been added to Form 1099-B for reporting the date of acquisition (box 1b), cost or other basis (box 3), amount of loss disallowed due to a wash sale (box 5), whether the property sold is a noncovered security (box 6), amount of gain or loss (box 7), and whether the gain or loss is short-term or long-term (box 8). These new boxes must be completed when reporting sales of securities unless box 6 is checked. There are also new rules for filers using this form. *Reprogramming required.*

1099-R The blank box formerly to the left of the box labeled "1st year of design. Roth contrib." has been numbered box 10 and labeled "Amount allocable to IRR within 5 years". Other boxes have been renumbered to accommodate this change. *Reprogramming required.*

1099-SA & 5498-SA Excess employer contributions (and the earnings on them) withdrawn from employee HSAs by the employer should not be reported as a distribution on Form 1099-SA or as a contribution on Form 5498-SA.

Penalties Increase

The **penalties** for failure to file correct 1099 information returns and failure to furnish correct payee W-2 statements have increased, doubling in many cases. These penalties will be adjusted for inflation every 5 years after 2012.



Beginning January 1, 2011 - Penalties for failure to file correctly with the IRS/SSA and recipient by the due date.

\$30 per form if you correctly file within 30 days; maximum \$250,000 per year (\$75,000 for small businesses)

\$60 per form if you correctly file more than 30 days after the due date but by August 1; maximum penalty \$500,000 (\$200,000 for small businesses)

\$100 per form if you file after August 1st or you do not file required information returns; maximum penalty \$1.5 million per year (\$500,000 for small businesses)

Intentional disregard of filing requirements If any failure to file a correct form is due to intentional disregard of the filing or requirements, the penalty is at least \$250 per form with no maximum.