

Dear Client:

We hope the following summarized payroll, sales tax and form 1099 information will be helpful to you in the coming New Year.

Rates and Limits For 2017

FEDERAL PAYROLL TAXES

FICA- The Social Security portion of FICA to be withheld from the employee is 6.2% on gross wages up to **\$127,200.00 - maximum \$7,886.40**. The Medicare portion of FICA is 1.45% and is withheld on **all** wages. The employer must match the amount withheld for social security and medicare when making a payroll tax deposit.

FICA- (Self-Employment) – The Social Security Portion of FICA is 12.4% on gross wages up to **\$127,200.00 - maximum \$15,772.80**. The Medicare portion of FICA is 2.9% on **all** wages.

FUTA- Employer expense, 0.6% on gross wages up to \$7,000.00 - maximum \$42.00. The minimum threshold for Federal Unemployment Tax Act (FUTA) tax deposits is \$500.00.

Note: Under FUTA credit reduction, an additional tax will be due in the fourth quarter. This fourth quarter payment must be made by the due date of the return, which is January 31.

FUTA CREDIT REDUCTION

For 2016, California employers had a **1.8%** FUTA credit reduction for the entire year.

Under Title XII of the Social Security Act, states can borrow funds from the federal government to pay unemployment benefits. The same provision provides that the federal government can recover the funds by reducing the FUTA credit it gives to employers. When a state has an outstanding loan balance on January 1 for two consecutive years and the loan is not repaid by November 10 of the second year, the FUTA credit is reduced until the loan is repaid.

0.9% ADDITIONAL MEDICARE TAX ON EARNED INCOME

Beginning in 2013, individuals pay an additional 0.9% Medicare Hospital Insurance (HI) tax on wages and self-employment (SE) income on amounts earned above certain threshold amounts.

The threshold amounts are \$250,000 for married taxpayers who file jointly, \$125,000 for married taxpayers who file separately and \$200,000 for all other taxpayers.

These threshold amounts are not indexed for inflation. Under the new law, if income exceeds the threshold amounts, the employee's share will increase by the 0.9%, but the employer's share will remain at 1.45%. For self-employed individuals, the rates will increase from 2.9% TO 3.8%. In other words, there is no employer match.

The IRS has released guidelines in FAQ format at <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>.

CALIFORNIA PAYROLL TAXES

- SDI- (State Disability Insurance) To be withheld from employee is **0.9% on gross wages up to \$110,902.00 - maximum \$998.12**
- SUI- (Unemployment Insurance) Employer expense, rates **may vary from 1.5% to 6.2%** based upon employer's experience, **applied on gross wages up to \$7,000.00 per employee**. Employers may find their SUI rates at <https://eddservices.edd.ca.gov/tap/open/rateinquiry> .
- ETT- (Employment Training Tax) - Employer expense, **0.1% of gross wages up to \$7,000.00 per employee**.

Federal and California Income Taxes Withheld

Refer to the Federal Income Tax Tables and the California Employers Tax Guide. California does not send these unless requested. The Tax Guide is available as a pdf online, by US mail (upon request) or at the Employment Tax Office www.ftb.ca.gov/businesses/faq/702.shtml.

Supplemental Wage Payments (such as bonus, commission and overtime pay)

Flat withholding rates for supplemental wage payments (i.e., bonuses) are:

Federal - 25%

California - 10.23% (Bonuses & Stock Options)

California - 6.6% (Overtime Pay, Commissions, Sales Awards, Vacation Pay)

Supplemental wage payments in excess of \$1,000,000.00 are subject to Federal withholding at the highest income tax rate of 39.6% without regard to the employee's Form W-4.

FEDERAL WITHHOLDING TAX AND FICA

Employer Filing and payment requirements:

Form W-2 Reporting requires that employers who generally file 250 or more Form W-2's will need to report the aggregate cost of employer-sponsored health insurance coverage provided to employees during 2016. Small employers are currently exempt. Additional information may be found at <http://www.irs.gov/Affordable-Care-Act/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage>

Form 941 Employers Quarterly Federal Tax Returns are due the last day of the month following the end of the quarter and include:

- a. Federal income tax withheld (FIT)
- b. FICA & Medicare tax withheld
- c. FICA & Medicare tax- Employer's Share

FEDERAL PAYMENT REQUIREMENTS

If an employer reported employment taxes of \$50,000 or less during the look back period, they must make monthly deposits for the entire year. The deposit must be made by the 15th day of the following month. Businesses that have less than \$2,500 in quarterly employment taxes are allowed to make payments every three months, rather than on a monthly basis. Businesses that qualify for the quarterly payment of employment taxes may pay the taxes by filing Form 941, Employers Quarterly Federal Tax return and including the payment with the return.

If an employer reported employment taxes of more than \$50,000 during the look back period, they must make deposits on a semi-weekly basis. Employment taxes from payrolls paid on

Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday; taxes from Saturday, Sunday, Monday, and/or Tuesday payrolls must be deposited by the following Friday. If a quarter ends during a semi-weekly period, any taxes owed for the quarter just ended are subject to one deposit. The taxes owed for the new quarter should be deposited separately even though they are due on the same day.

For annual returns, (Form 943, 944, 945 and CT-1) lookback period is the calendar year preceding the previous year. See IRS Notice 931 at <https://www.irs.gov/pub/irs-pdf/n931.pdf> for more information on Federal deposit requirements.

DEPOSITING EMPLOYMENT TAXES

You must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS).

Your tax deposit must be scheduled **at least one calendar day, by 8 p.m. ET, before** the due date.

For more information or to enroll in EFTPS, visit the website at www.eftps.gov.

ALERT: Penalties for failure to deposit taxes when due will still apply. A resource for federal tax deposits can be found at <https://www.irs.gov/pub/irs-pdf/p3151a.pdf>.

FIT AND FICA AGRICULTURAL

- Form 943** Employer's Annual Tax Return - Agricultural, file by **January 31, 2017** for the 2016 calendar year. However, if you made deposits on time and in full for the year you may file as late as February 10, 2017.
- a. Federal income tax withheld
 - b. FICA & Medicare tax withheld
 - c. FICA & Medicare tax - Employer's share

Who must file:

File Form 943 if you paid wages to one or more farm workers and the wages were subject to social security taxes or federal income tax withholding for any calendar year that you pay a single farmworker cash wages of \$150 or more, or the total cash and noncash wages you pay to all farmworkers is \$2,500 or more.

Agricultural employers who are monthly depositors are required to make monthly deposits regardless of the amount due.

Agricultural employers are held to the depositing rules stated above.

Federal Income Tax Withholding on the wage of Agricultural Workers:

Most agricultural workers are subject to withholding for Federal income tax. If the worker is subject to FICA withholding, they will also be subject to Federal income tax withholding.

Please note that the Social Security Administration (SSA) and Internal Revenue Service (IRS) continue to track employers with employees that have mismatched name and social security number combinations. The IRS has assessed penalties on employers for incorrect name and social security number combinations. A penalty can be assessed as high as \$260 per incorrect Form W-2.

The Social Security Administration provides free verification options to assist you in matching employee names and social security numbers with their records:

Employers must first register for a Business Services Online (BSO) User ID and Password at <https://secure.ssa.gov/acu/IRESWeb/registration.jsp>. Once registered, employers may either verify up to 10 employee names and Social Security numbers using either the SSA's Telephone Number Employer Verification (TNEV) automated phone system by dialing 1-800-772-6270, or by using the Social Security Number Verification Service (SSNVS) online to obtain immediate verification. If using the online method, employers are not limited to the number of times they request verification of groups of up to ten employees in one session.

For verification of large groups of employees (up to 250,000 names and SSN's) employers may upload a file on SSNVS and will usually receive results the next government business day.

More information on SSNVS may be found here:
<http://www.ssa.gov/employer/ssnvshandbk/ssnvsHandbook.pdf>.

STATE WITHHOLDING TAX, SDI, SUI, AND ETT

Form DE-9

Forms DE-9 (Quarterly Contribution and Report of Wages) and DE-9C (Continuation) are due the last day of the month following the end of the quarter.

Form DE-88

Form DE-88, Report of Contributions should still be used to make your California deposits. If you are required to make a Federal semi-weekly or monthly deposit, and have accumulated more than **\$350** in State PIT withholding, you are required to deposit all SDI and PIT to the Employment Development Department by the same due date as your Federal deposit.

EDD - NEW E-FILE AND E-PAY MANDATE - BEGINNING JANUARY 1, 2017

A new state law requires all employers to electronically submit employment tax returns, wage reports, and payroll tax deposits to the EDD.

Beginning January 1, 2017, employers with 10 or more employees will be required to electronically file and pay.

Beginning January 1, 2018, all remaining employers will be required to electronically file and pay.

For more information, visit E-file and E-pay Mandate for Employers.

Any employer required under existing law to electronically submit wage reports and/or EFT to the EDD will remain subject to those requirements. More information may be found at http://www.edd.ca.gov/Payroll_Taxes/E-file_and_E-pay_Mandate_for_Employers.htm.

Electronic Funds Transfer (EFT) Requirements:

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

Employers who have state disability and personal income tax withholding that averaged \$20,000 or more in the last state fiscal year (July 1 through June 30) must make all EDD payments using electronic funds transfer (EFT).

FRANCHISE TAX BOARD (FTB)

The Franchise Tax Board also requires electronic funds transfer (EFT) should a taxpayer's estimated tax liability exceeds \$20,000 or more with respect to any installment, or whose total tax liability exceeds \$80,000 in any taxable year.

If you are required to remit payments by EFT and you remit payment by other means (e.g., check, cash, etc.), you will be assessed a penalty equal to 10 percent of the amount paid. Voluntary participants of EFT are not subject to the EFT penalty.

.NEW HIRES

All employers are required to report new employees to the New Employee Registry (NER) Program. Within 20 days of the start to work date, all employees newly hired, rehired or returning to work from a furlough, separation, leave of absence without pay or termination, must be reported.

Rehire if the employer/employee relationship has ended and the returning individual had been separated from that same employer for at least 60 consecutive days. Be sure to report them on your Report of New Employee(s) (DE-34) within 20 days of the rehire date.

Overtime requirements

Employers in California must pay overtime at 1-1/2 times a qualified employee's regular rate after 8 hours of work in a day (as well as 40 hours in a week) and for the first eight hours of the seventh consecutive work day in a workweek. Employers in California must pay overtime at double the employee's regular rate for all hours worked over 12 hours in a day and all hours worked in excess of eight on the seventh consecutive day of work in a workweek.

California Minimum Wage

As of January 1, 2017, the California minimum wage is \$10.50 per hour for employers of 26 or more. For employers with 25 or less employees the rate remains at \$10.00 per hour for 2017.

HOUSEHOLD EMPLOYEES

FEDERAL:

The Federal rules require household employers to report Social Security and unemployment tax obligations annually on their individual income tax returns, Form 1040, Schedule H. Household employers must include their employer's identification numbers (EIN) on Forms W-2 and Schedule H. Household employers without an EIN are required to apply for one using Form SS-4. Household employers who pay cash wages of \$1,000 or more in any calendar quarter, or \$2,000 or more to any **one** household employee during all of 2017, are required to pay employment taxes. Please refer to IRS Publication 926 at <https://www.irs.gov/publications/p926/ar02.html> for more information.

CALIFORNIA:

California does not allow household employers to pay household employment taxes with their California income tax return. Household employers must register with the EDD and report household employees by filing Form DE 1HW, Registration Form for Employers of Household Workers, when they employ one or more individuals and pay cash wages of \$750 or more in a calendar quarter. Household employers must also file Form DE 34, Report of New Employee(s), for each new employee within 20 days of hire.

1. Subject to SDI withholding, if **\$750.00** or more in cash is paid in any calendar quarter.
2. Subject to SDI, SUI and ETT if **\$1,000.00** or more in cash is paid in any calendar quarter.
3. Not subject to PIT unless employer and employee voluntarily agree to the withholding.

More information can be found at http://www.edd.ca.gov/pdf_pub_ctr/de8829.pdf.

To register as a household employer for the State of California, use one of the following methods:

- Online Registration: http://edd.ca.gov/About_EDD/Employer_Services_Online.htm
 - You will receive your employer account number immediately.
You must also mail a completed DE1 HW to EDD.
- Mail your completed DE 1 HW to:
 - Employment Development Department
Account Services Group, MIC 28
P O Box 826880
Sacramento CA 94280-0001
- Fax the DE 1 HW to: (916) 654-9211
 - You must also mail a completed DE 1 HW to EDD.

To obtain a copy of a Registration Form for Employers of Household Workers (DE 1 HW) please call Taxpayer Assistance Center at (916) 654-8706 or download the form here: http://www.edd.ca.gov/pdf_pub_ctr/de1hw.pdf.

An eight-digit employer account number will be issued (example: 000-0000-0). This number will be on all preprinted forms sent to you. Please use this number when you write to EDD.

Household employers are required to follow the same deposit and report filing requirements as regular employers. The employee's name, social security number, quarterly wages and personal income tax withheld, unemployment insurance, employment training tax, and state disability contributions will be reported quarterly on the Form DE-9. Use payroll tax coupon Form DE-88 to make your California deposits.

Annual Payment

Household employers who pay less than \$20,000 in wages per year may elect to pay taxes annually by checking the "yes" box in Item L on Form DE 1HW or, if previously registered with the EDD, may complete Form DE 89, Employer of Household Worker Election.

If the election is approved, an employer of household workers will file a *Quarterly Report of Wages and Withholdings for Employers of Household Workers* (DE 3BHW) each quarter. However, the employer will pay all taxes due in January of the following year when filing the *Annual Payroll Tax Return for Employer of Household Workers* (DE 3HW).

More information about the responsibilities of household employers can be found in the EDD's 2017 Household Employer's Guide at http://www.edd.ca.gov/pdf_pub_ctr/de8829.pdf.

2016 FORM 1099 – REQUIREMENTS

NEW - The filing deadline for Forms **1099-MISC** reporting nonemployee compensation in **Box 7** of the form has been moved up to **January 31, 2017**. This applies to both paper filed and electronically filed forms. For all other reported payments, file Form 1099-MISC by February 28, 2017, if you file on paper, or March 31, 2017, if you file electronically.

The Internal Revenue Service is firmly enforcing the backup withholding requirement for any payor filing Form 1099.

1. If a payor does not obtain the payee's Tax Identification Number (TIN) before or at the time of reporting a reportable payment, the payor must backup withhold at 28%.
2. Information including a properly completed Form W-9 allows the payor to avert backup withholding.
3. Written documentation providing the payees' TIN is always advisable.

Backup withholding of 28% is required on payments of interest, dividends, rents, commissions, non-employee compensation, gross proceeds to attorneys, and certain other payments.

Please note: If backup withholding is not collected and paid as required, the payor may become liable for any amounts uncollected.

Backup withholding applies if:

1. The payee fails to furnish TIN in the required manner.
2. The IRS sends a "B" notice to the payor indicating that the payees' TIN is incorrect.
3. The IRS sends the payor a notice that the payee is subject to backup withholding.
4. The payee fails to certify that he/she is not subject to backup withholding.

Upon receiving a "B" notice the payor is required to backup withhold from the payee no later than 30 days after receipt. Withholding must continue until the payee furnishes a TIN and certifies that it is correct (completion of Form W-9).

To avoid these issues, it is STRONGLY RECOMMENDED having each payor require a Form W-9, completed by the payee at time of hire. Form W-9 is available at <https://www.irs.gov/pub/irs-pdf/fw9.pdf>.

Payors can face numerous penalties for non-compliance. For the 2016 form year, the maximum penalty per form has increased to \$260 per form. Penalties can be lowered by taking timely corrective action. Therefore, we encourage you to take the time to require Form W-9 from each of your vendors, non-employees, service providers, etc. Additional information may be found at <https://www.irs.gov/pub/irs-pdf/i1099gi.pdf>.

[DE 542 REPORT OF INDEPENDENT CONTRACTORS](#)

Businesses and rental property owners must report individuals who are independent contractors who provide services to them. If you file Form 1099-MISC, you must also report the independent contractor on Form DE 542, regardless of where the independent contractor lives or works. However, a business is not required to file Form DE 542 for an independent contractor who is a corporation, partnership, limited liability company or limited liability partnership.

You must report independent contractors within 20 days of making payments of or entering into a contract for \$600 or more within any calendar year. Check the "ongoing" box on Form DE 542 if you cannot determine when the independent contractor will reach this dollar amount. Information needed to complete DE 542 includes full name, business name, address, telephone number, social security number and/or California state employer account number, date contract was executed, or if not a contract the date payments equal or exceed \$600, and the total amount of payments. If you do not report the independent contractor as required, the EDD may assess you a penalty of \$24 per failure. If you and the independent contractor agree not to report the payments in an effort to circumvent the requirement, the penalty is \$490.

When filing your 2016 Form 1099, also file Form DE 542 for independent contractors who you will be making payments to in **2017**. Make sure to check the "ongoing" box, and leave the dollar amount blank since the payments have not yet been made.

[FORMS W-2, 1099-INT, 1099-OID, 1099-DIV, 1099-PATR, 1099-B](#)

NEW - Beginning with the 2016 tax year the deadline for filing both electronic and paper Forms W-2 and W-3 with the **Social Security Administration** is **January 31** of the following year. Previously employers had until the end of February for paper filed Forms W-2 and until the end of March for electronic filings. The deadline for distribution of Form W-2 to **employees** remains January 31, 2017.

ALL FORMS W-2 AND W-3 SHOULD BE SENT TO THE SOCIAL SECURITY ADMINISTRATION, DATA OPERATIONS CENTER, WILKES-BARRE, PA 18769-0001.

NOTE: If you use certified mail to file forms W-2 and W-3, change the zip code to 18769-0002.

If more than 250 of each type of information returns are filed, you must file electronically. For information on different electronic filing options, go to www.ssa.gov/employer or call (800) 772-6270.

AccuWage

AccuWage is free software from the Social Security Administration that allows you to check W-2 reports for correctness before you send them to Social Security.

You should check your files with AccuWage before you submit your file. The link to download the software is located at <https://www.socialsecurity.gov/employer/accuwage/>.

SALES TAX INFORMATION – GENERAL

SALES TAX RATES – Effective January 1, 2017

<u>MONTEREY COUNTY</u>		7.375%
Del Rey Oaks	8.875%	
Gonzales	7.875%	
Greenfield	9.125%	
King City	7.875%	
Marina	8.375%	
Monterey	8.375%	
Pacific Grove	8.375%	
Salinas	8.875%	
Sand City	8.375%	
Seaside	8.375%	
Soledad	8.375%	
<u>SAN BENITO COUNTY</u>		7.25%
Hollister	8.25%	
San Juan Bautista	8.00%	
<u>SANTA CLARA COUNTY</u>		8.50%
Campbell	8.75%	
<u>SANTA CRUZ COUNTY</u>		8.00%
Capitola	8.50%	
Santa Cruz	8.50%	
Scotts Valley	8.50%	
Watsonville	8.75%	

Sales tax for cities not listed is at the county rate. Sales and use tax rates for other California counties and cities may be found at <https://maps.gis.ca.gov/boe/taxRates/>

The Following due dates apply for reports of sales:

- a. Annual report of sales - report and payment due January 31.
- b. Quarterly report of sales - report and payment due last day of the month following end of quarter.
- c. Monthly deposits are due the last day of the following month.

The BOE assigns a filing frequency based on your reported sales or your anticipated taxable sales at the time of registrations. Taxpayers with sales and use tax liabilities that average \$10,000.00 per month must make their payments by Electronic Funds Transfer. Failure to make a payment electronically will be subject to a penalty of 10 percent for tax returns and 6 percent for prepayments.

CALIFORNIA USE TAX REQUIREMENTS

As part of the increase in use tax collection, the State of California has implemented mandatory registration of qualified purchasers.

Over the years, consumers mistakenly believed that purchases made on the internet are not subject to tax because of the Internet Tax Freedom Act. This 1998 law prevents charging taxes on Internet access fees. However, it does not provide an exemption from tax for purchases made on the Internet. These purchases are subject to tax just like any other purchases.

MANDATORY REGISTRATION OF QUALIFIED PURCHASERS

Under the Qualified Purchaser Program, if you do not hold an active seller's permit in California, you must register and file a use tax return when certain conditions are met. To determine if you are a qualified purchaser, **all of the following conditions must be met:**

- The person receives at least \$100,000 in gross receipts from business operations or gross rental income per calendar year. Gross receipts are the total of **all** receipts, including in state **and** out of state business activities.
- The person is not required to hold a seller's permit or certificate of registration for use tax (under section 6226 of the Revenue and Taxation Code).
- The person does not hold a tax direct payment permit as described in section 7051.3 of the Revenue and Taxation Code.
- The person is not otherwise registered with the Board of Equalization (BOE) to report use tax.

You may register online at <http://www.boe.ca.gov/electsv/esrvcont.htm>. More information about the registration process can be found at http://www.boe.ca.gov/taxprograms/qualified_purchaser/registration.html.

Registration and Reporting are not considered voluntary. You MUST register and report, even if you have no taxable purchases or tax payable.

COMMON EXAMPLES OF WHAT IS SUBJECT TO USE TAX

Machinery and equipment
Computers, printers, electronic equipment
Office furniture and supplies
Computer programs shipped on a disc
CD's and books

COMMON WAYS OF PURCHASING OUT OF STATE GOODS SUBJECT TO USE TAX

Internet purchases (Amazon.com and eBay)
Certain foreign purchases
Shopping channel purchases
Mail order & phone purchases

Farm Equipment and Machinery

There is a partial sales and use tax exemption for farm equipment and machinery, and the parts thereof, purchased by a qualified person engaged in an agricultural business described in SIC Codes 0111 to 0291 and any other person who assists that person in the lines of business described in those SIC Codes, that is used primarily in producing and harvesting agricultural products (R&TC Sec. 6356.5). "Primarily" means 50% or more of the time.

This is an exemption only from the State general fund portion of the sales and use tax rate. You are not relieved from your obligations for the local and district taxes on these transactions. Rates will vary depending on location.

Diesel Fuel Used for Farming

There is a partial sales tax exemption for diesel fuel used in farming activities or food processing. Farming activities mean farming business, as defined in IRC Sec. 263A, and includes the transportation and delivery of farm product to the marketplace (AM 426, Ch. 01-156) (R&TC Sec. 6357.1).

This is an exemption only from the State general fund portion of the sales and use tax rate. You are not relieved from your obligations for the local and district taxes on these transactions. Rates will vary depending on location.

More information can be found at <http://www.boe.ca.gov/sutax/exemptdfuel.htm>.

MISCELLANEOUS INFORMATION

Form 8300 - Report of Cash Payment Over \$10,000

Generally, each person engaged in a business or trade who, in the course of such trade or business, receives more than \$10,000 in cash (currency or cashier's check) in one transaction or in two or more related transactions must file Form 8300. The Form must be filed with the Internal Revenue Service by the 15th day after the date the cash was received.

More information about filing requirements and penalties can be found at <https://www.irs.gov/businesses/small-businesses-self-employed/irs-form-8300-reference-guide>.

California Employee Paid Sick Leave

As of July 1, 2015, employers are required to offer at least three days of annual paid sick leave to California employees who work for them at least 90 days. Vacation, holidays, medical, dental, vision coverage and retirement benefits are not required by law. Any employee who, on or after July 1, 2015, works in California for 30 or more days within a year from the commencement of employment is entitled to paid sick days for prescribed purposes. Unlike vacation days, sick leave does not accrue or vest. Therefore, any unused sick leave may be forfeited at the end of a designated period. Sick leave does not need to be paid out upon termination of the employment relationship. More information can be found at

http://www.dir.ca.gov/dlse/Paid_Sick_Leave.htm.

Standard Automobile Mileage Rates for 2017

The IRS has published optional standard mileage rates that taxpayers can use in 2017 to compute deductible costs of operating autos for business, charitable, medical, or moving expense purposes. The new rates are:

- 53.5 cents per mile for business miles driven;
- 17 cents per mile for medical or moving purposes; and
- 14 cents per mile driven in service of charitable organizations

Unclaimed Property

California's Unclaimed Property Law (Code of Civil Procedure, Section 1500 Et seq.) requires business owners to review their records each year to determine if any unclaimed funds, securities, or other property have remained unclaimed for the required dormancy period. The law requires the "holders" of such property to send notice to the owner's address of record not less than 6 months nor more than 12 months before the account becomes reportable to the California State Controller's Office. Additionally, the law requires these "holders" to annually report such unclaimed property to the State Controller's Office.

Unclaimed property includes, but is not limited to uncashed payroll and accounts payable checks, aged accounts receivable credit balances, outstanding money orders and outstanding customer discounts or undistributed dividends and rebates.

When ten or more accounts are reported and remitted, the report must be submitted electronically. In addition, a holder of cash unclaimed property in an amount of \$20,000 or more is required to submit the cash unclaimed property electronically. A penalty of 2% of the amount of the payment will apply for noncompliance. Free electronic software is available at www.unclaimed.org/reporting/free-holder-reporting-software . Holders are strongly encouraged to use an electronic format for all reports.

To access information, publications, forms and instructions regarding this program, please use the following website: http://www.sco.ca.gov/upd_rptg.html.

The state can impose interest at 12% per year for unclaimed property payments that have not been properly submitted. Also, any person who willfully fails to render any report or perform other duties, including use of the report format described in section CCP 1530, required under this chapter shall be punished by a fine of \$100 for each day such report is withheld or such duty is not performed, but not more than \$10,000.

Affordable Care Act ("ACA") or Health Care Law

As of January 1, 2015 the ACA or Health Care Law went into effect with employers subject to the new rules. Large employers (generally 50 full time employees or more) are subject to penalties while small employers (generally 49 or less full time employees) may be exempt or eligible for tax credits for providing insurance to their employees. For more information on requirements can be found at www.irs.gov/Affordable-Care-Act/Affordable-Care-Act-Tax-Provisions or talk to your health insurance representative.

Should you have any questions, please do not hesitate to call **(831) 784-6000**.

Sincerely,

Ryan & McDonald LLP