

MEDIA DATA SERVICES, INC.

"The Payroll Experts"

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2016

YEAR END INFORMATION

&

2017

PAYROLL TAX PREVIEW

PLEASE READ THIS INFORMATION CAREFULLY AND SHARE IT WITH YOUR
ACCOUNTANT OR TAX PROFESSIONAL

Media Data Services, Inc. does not render tax or accounting advice.

TAX and TAXABLE WAGE NEWS FOR 2017

Please note that **MEDIA DATA** is prepared to implement any payroll tax, wage and form changes as required, whether detailed below or not yet announced.

SOCIAL SECURITY ADMINISTRATION

2017 Social Security Wage Base Increases over 7%

The Social Security maximum taxable earnings will increase to \$127,200 from \$118,500 in 2017. The Social Security tax rate will remain at 6.2% for employees and employers. Maximum employer and employee social security contributions will be \$7,886.40. Medicare maximum taxable earnings remain unlimited.

Medicare tax rates also remain the same as 2016, and are as follows:

Employer rate: 1.45%

Employee withholding rate: 1.45% on wages < \$200,000

Employer withholding rate: 2.35% on wages >\$200,000 (1.45%+0.9%)

IRS NEWS FOR 2017

W-2s FOR 2017 MUST BE FILED BY JANUARY 31

IRS has changed its electronic and paper filing requirements for W-2s. **All W-2s must be reported to the SSA no later than January 31, 2017.** The deadline for electronic filers and paper filers used to be March 31 and February 28, respectively. As a result of the earlier filing requirement, companies **MUST** give MEDIA the following information no later than **December 15, 2016** to avoid penalties:

- 1) **Social Security Number and Address Changes** for your employees. If you require an employee list displaying this information for your review, please ask your Media Account Representative as it is no longer on payroll reports or check stubs due to privacy legislation. Please note **MEDIA WILL NOT BE RESPONSIBLE FOR INCOMPLETE OR INACCURATE INFORMATION ON FORM W-2, FORM 941 OR NJWR-30 OR OTHER STATE WAGE LISTINGS.**
- 2) **Taxable Fringe Benefits Reporting.** According to the IRS rules, the value of certain fringe benefits (e.g., car allowance, owners' health benefits) must be reported as taxable income on the 941 as well as on the employee's W-2. Please consult your

CPA or tax advisor regarding the taxability of benefits for your company and report the information to your Account Representative, again, no later than December 15, 2016.

3) **Disability Reporting.** If you have already reported disability income for any of your employees during this year, this information will automatically be generated on a W-2 for that employee. If you have not already reported those disability income reports to us, please do so IMMEDIATELY. All disability information processed through Media must be submitted by December 15th.

4) **Qualified Pension Reporting.** As required, a qualified pension plan (e.g. 401k, 403b, SEP or SIMPLE) will automatically be marked on an employee's W-2, if there is a salary deferral for the plan from the wage of the employee. However, if the plan is funded entirely by the employer, then you must inform Media no later than December 15th which employees are participants in the plan.

FEDERAL INCOME TAX

The IRS has announced various tax changes due to inflation adjustments for tax year 2017, including but not limited to tax rate schedule changes. Media is prepared to implement these changes promptly for 2017. The personal exemption remains at \$4,050 for 2017.

The annual dollar limit on employee contributions to employer-sponsored healthcare flexible spending arrangements (FSA) increased to \$2,600 in 2017 from \$2,550. Any "catch-up" contributions must be reported to Media each year.

PENSION PLAN LIMITS UNCHANGED FOR 2017

| Limits on exclusions for elective | 2017 | 2016 | 2015 | 2014 |
|---------------------------------------|----------|----------|----------|----------|
| 401(k) and SEP plans | \$18,000 | \$18,000 | \$18,000 | \$17,500 |
| 403(b) and 457 plans | \$18,000 | \$18,000 | \$18,000 | \$17,500 |
| Simple Plans | \$12,500 | \$12,500 | \$12,500 | \$12,000 |
| "Catch-up" | \$6,000 | \$6,000 | \$6,000 | \$5,500 |
| "Catch-up" Contributions: Simple plan | \$3,000 | \$3,000 | \$3,000 | \$2,500 |

AFFORDABLE CARE ACT REPORTING FOR 2017

Media has the reporting tools to help our clients with Affordable Care Act (ACA) compliance issues. Some of our clients are using these tools to help with the Employer Reporting Responsibilities of the ACA.

An APPLICABLE LARGE EMPLOYER (ALE) is any employer who employs a total of 50 full time or full-time equivalent employees in the prior year. The ALE must report to the IRS information about health care coverage on Form 1094C and provide the IRS and the employee with a Form 1095C. The forms must be filed on the same schedule as the W-2. More information is available on www.irs.gov.

If you are an ALE, tracking of your employee hours is of utmost importance beginning each new year. You can use our online tool to monitor the hours so your Form 1095C's can be completed by March 2, 2017, which was extended from the original January 31, 2017 due date.

If you are a new ALE for 2017, you should begin tracking employee hours January 1, 2017. Please let us know immediately if you want to take advantage of this helpful online service. Also, please be aware that there is work to be done by you in this regard. We urge you to take action immediately to ensure that your reporting obligations are met.

HEALTH CARE COVERAGE REPORTING REQUIREMENT ON W-2s

Similar to ACA, the health care reporting requirements on the W-2 continue to be optional for small employers in 2017. However, employers with 50 or more employees (based on 2016 W-2s) are subject to the reporting requirements. Please see www.irs.gov for more information on calculating cost of coverage and health care reporting requirements.

Media provides the necessary reporting requirements on the W-2 for those companies with mandatory compliance. For small employers, Media continues to leave the optional reporting requirement up to the employer. It will be your responsibility to tell Media if you plan to report health care costs on the W-2. You will need to provide your Media Account Representative with the appropriate information on or before December 15, 2016.

REVISED FORM I-9 FOR EMPLOYMENT ELIGIBILITY & VERIFICATION

The Office of Management and Budget (OMB) approved a revised Form I-9, Employment Eligibility Verification. It is available at <https://www.uscis.gov/>. Media also has a link on its website at http://www.mediadataservices.com/resources/payroll_government_forms.

Employers must use the new version after January 21, 2017.

NEW JERSEY PAYROLL NEWS

The State of New Jersey has **INCREASED** the taxable wage base for unemployment (UI), temporary disability (TDI) and family leave insurance (FLI) to \$33,500 for 2017 from \$32,600 in 2016. The State has also **INCREASED** the employee's TDI rate to 0.24% from 0.20% and the FLI rate to 0.1% from 0.08%. There is no change to the employees' UI rate of 0.425%.

| | 2017 | 2016 | 2015 | 2014 |
|---|------------|------------|------------|------------|
| The maximum employee contributions | | | | |
| UI $\$33,500 \times 0.425\% =$ | \$142.38 | \$138.55 | \$136.00 | \$133.88 |
| TDI $\$33,500 \times 0.240\% =$ | \$80.40 | \$65.20 | \$80.00 | \$119.70 |
| FLI $\$33,500 \times 0.100\% =$ | \$33.50 | \$ 26.08 | \$ 28.80 | \$31.50 |
| Employee Total | \$256.28 | \$229.83 | \$244.80 | \$285.08 |
| Maximum Workers' Compensation weekly | \$896.00 | \$871.00 | \$855.00 | \$843.00 |
| Maximum Unemployment Insurance weekly | \$677.00 | \$657.00 | \$646.00 | 636.00\$ |
| Maximum Temp. Disability Insurance weekly | \$633.00 | \$615.00 | \$604.00 | \$595.00 |
| Base week amount increases to | \$168.00 | \$168.00 | \$165.00 | \$145.00 |
| Alternative earnings test amount is | \$8,400.00 | \$8,400.00 | \$8,300.00 | \$7,300.00 |

In the third quarter of 2016, Media implemented each employer's unemployment and disability rates as dictated by the State of New Jersey's Department of Labor and Workforce Development Employment Security Agency (DOL). You should have received a notice from the state describing the calculation of the employer's final unemployment experience rate (allocated between Unemployment and Workforce Funds) and Disability insurance experience rate. The new rates were retroactively effective from July 1, 2016 and will remain in place until June 30, 2017.

Reciprocal Tax Agreement Still In Place with Pennsylvania

Governor Christie retracted his original decision to end New Jersey's almost 40-year old reciprocal tax agreement with Pennsylvania. The reciprocal tax agreement allows commuters to pay income tax to the state where they live, rather than where they work. For more information on this news, go to www.revenue.pa.gov or www.njtaxation.org.

Sick Leave Required: 13 Localities in New Jersey

Since 2014, certain localities in NJ have been requiring businesses to provide sick time for their employees. There are now thirteen cities in New Jersey requiring mandatory sick leave. They include Bloomfield, East Orange, Elizabeth, Irvington, Jersey City, Montclair, Morristown, Newark, New Brunswick, Passaic, Paterson, Plainfield and Trenton.

Please contact your city government for specific details as each city has different requirements. For example, Jersey City law requires businesses that employ 10 or more workers to provide one hour of paid sick time for every 30 hours an employee works, capped at 40 hours, or five days, annually. Businesses with nine or fewer workers must provide 5 unpaid sick leave days.

Newark law requires that all private employers must provide sick time to employees who work at least 80 hours in a calendar year. Employers with 10 or more employees must provide up to 40 hours of paid sick time to each employee in a calendar year. Employers with fewer than 10 employees must provide 24 hours of paid sick leave.

NEW MINIMUM WAGE ACTIONS

The Federal minimum wage remains \$7.25 per hour except for employers who do business with the government. Those workers will receive at least \$10.15 per hour by executive order of President Obama. However, as you know, some states have a higher minimum wage rate. When the state minimum wage rate is higher than the federal rate, workers need to be paid at the higher rate. Below is only a summary of certain state minimum wage actions for 2017. For more information and if you operate in states not list below, please go to the particular state department of labor website.

New Jersey: The minimum wage will increase to \$8.44 from \$8.38 in New Jersey for 2017.

New York: For 2017, New York will increase its minimum wage to \$9.70 per hour from \$9.00 for areas outside of New York City, Nassau, Suffolk and Westchester counties. For employers operating in New York City with fewer than ten employees the minimum wage will increase to \$10.50 per hour. For employers in New York City with eleven or more employees the minimum wage will increase to \$11.00 per hour. If employers operate in Nassau, Suffolk and Westchester Counties, the minimum wage will rise to \$10.00 per hour. The minimum wage for fast food workers in New York City will increase to \$12.00 per hour from \$10.50. For the rest of the state, fast food workers will receive \$10.75 per hour from \$9.75. Effective January 1, 2016, the New York City Commuter Benefits Law required employers with 20 or more full-time employees to provide pre-tax transit benefits to employees. For more information on New York's minimum wage and commuter benefits, please see www.labor.ny.gov.

Massachusetts: Massachusetts will increase its minimum wage to \$11.00 per hour from \$10.00.

Connecticut: Connecticut will increase its minimum wage to \$10.10 per hour from \$9.60.

California: California minimum wage remains \$10.00 per hour for 2017. However, certain cities within California have higher minimum wages, which may be increasing July 1, 2017. For more information on these rates and changes go to www.dir.ca.gov/dlse.

Florida: The minimum wage in Florida will remain \$8.05 per hour in 2017, consistent with 2016, given that Florida's rate of inflation did not trigger an increase.

States with \$7.25 per hour Federal minimum: Alabama, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Mississippi, New Hampshire, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Wisconsin, and Wyoming.

States where minimum wage is linked to annual state cost of living increase: Arizona, Colorado, Florida, Missouri, Montana, Nevada, New Jersey, Ohio, Oregon, and Washington.

New U.S. Department of Labor Rules on Overtime for Salaried Employees

The U.S. Department of Labor has increased the salary threshold for those exempt administrative, executive and professional employees who are eligible for overtime pay. As such, if an exempt employee earns less than \$47,476 per year (\$913 per week), that employee is eligible to earn overtime if they work more than 40 hours per week.

The salary threshold as currently defined does not include nondiscretionary bonuses and commissions. However, the rules allow up to 10% of the salary threshold to be met by commissions and nondiscretionary bonuses or incentives if the variable pay is issued at least quarterly.

The new threshold is more than double its previous amount of \$23,660 and will take effect on December 1, 2016. The White House estimates that 4.2 million people may be eligible for overtime in 2017 as compared to previous years. The salary threshold of \$47,476 will automatically update every three years based on wage growth with the next change occurring January 1, 2020.

There are no changes to the "duties test" that identifies if a person's duties qualify the employee as an exempt employee.

The new rules also increase the definition of a highly compensated employee to \$134,004 per year from \$100,000.

In order to be compliant with the new rules, employers will need to either:

- Increase the salaries of exempt administrative, executive and professional employees to meet or exceed the new threshold in order to preserve the exempt employee status under the Fair Labor Standards Act;
- Pay overtime at one-and-a-half times the employee's regular rate of pay for any hours worked in excess of 40 per week;
- Reduce or eliminate the need for these employees to work overtime hours;
- Reduce base salary and add pay to account for overtime hours worked in workweek to hold total weekly compensation constant; or
- Use a combination of the above strategies.

FUTA CREDIT REDUCTION ALERT

A state that has not repaid money it borrowed from the federal government to pay unemployment benefits is a "credit reduction state." The Department of Labor determines these states. If an employer pays wages that are subject to the unemployment tax laws of a credit reduction state, that employer **MUST PAY** additional federal unemployment tax when filing its form 940.

Good news for New Jersey, New York, Pennsylvania and Connecticut employers:

Unemployment Trust Funds in these states are solvent, which means that there will be **NO FUTA CREDIT REDUCTION** added to their Form 940s for 2015 Only California and the US Virgin Islands are subject to the FUTA Credit Reduction this year, both at 1.8%.

Media's Electronic Payment Option for Its Fees

Media's automatic pay option by direct debit is one of the safest and most reassuring ways of paying your bills. Payments are made automatically, so bills are never forgotten, lost or delayed by the mail and there's no risk of late payment charges. It takes away the hassle associated with writing out checks and allows you to use your time more efficiently.

Please also note that our service fees can be deducted from any specified account, even if it is different from your payroll account. Media invoices after each payroll. Automatic payment will occur each billing cycle and there is no charge for this service.

If you are not one of the hundreds of our clients that already take advantage of electronic payment, we strongly recommend that you consider this option. It will increase efficiency in our office as well as yours. Just return the bottom of this letter to activate. We are happy to continue to accept paper checks for payment of our service fees. However, there will be an additional administrative and handling charge to cover our time and expenses.

If you have any questions about this policy, please do not hesitate to call me at 973-785-3100.

Kind regards,
Dan DeCando, Vice President, Marketing

Bank Account Authorization Agreement for Electronic Payment

Media Data Services, Inc. (Media) is authorized by the undersigned client ("Client") to implement and utilize the debit method (and/or corrections to previous debits) originated by check or electronic fund transfer for purposes of collecting from Client's bank or other financial institution ("Bank") account ("Account:") identified below Media's payroll processing and tax service fees and charges.

The Bank is authorized by Client to comply with this authorization and debit the Account in accordance with the debit method originated by check or electronically as if initiated by client. This authorization shall remain in effect until revoked by the undersigned in writing and received by Bank so as to allow a **reasonable amount of time for all involved parties to act on it.**

Client shall maintain a sufficient balance in said account to be readily available at least (2) banking days prior to Client's payroll check date to cover all current payroll and tax service fees as agreed upon by Media and Client. If for any reason Client's bank were to refuse to honor a payroll direct debit transaction, a \$35.00 non-sufficient funds (NSF) fee will be assessed to Client as Media's reasonable costs. Additional NSF fees escalate by \$50.00 each reoccurrence. Under such circumstances, Media may immediately terminate this Agreement without written notice. Should Media so terminate this Agreement, Media shall not be responsible or liable for making the then due or any future payroll transactions.

Client Name: _____

Bank Name, City, & State.: _____

R/TNumber(ABA#): _____ AccountNumber: _____

Authorized Signature (on Bank records)

Print Name

Date

•!• Please affix a voided check or bank specification sheet ONLY if the account from which you want to pay for your payroll service fees is DIFFERENT from the account used to write your payroll checks. Otherwise, we will debit your regular payroll account for processing fees.

MEDIA'S PAYROLL PLATFORM FEATURES

Media's payroll system is a robust platform that offers many additional features that include unlimited pay types and deductions as well as customized reports. Additional features include:

ON-LINE PAYROLL Media currently offers on-line payroll services to allow for a completely paperless payroll.

QUICK BOOKS AND OTHER GL DOWNLOADS... Formats compatible with certain general ledger systems can be sent to you via email after every payroll to expedite your bookkeeping processes.

PAY AS YOU GO WORKERS' COMP.... Payroll data is transmitted electronically with each payroll to Media's insurance partners such as The Hartford & E-Comp.

TIMEKEEPING SERVICES....Media partners with a timekeeping services provider where the data from the time clocks can be imported directly into our system.

DIRECT DEPOSIT.... Media can transmit data for the automatic transfer of money into the individual employee's bank account to ensure the money is available on the pay date.

RETIREMENT PLAN REPORTING.... Annual compliance reports for 401(k), 403(b), 457, etc. are available. We can also transmit information to your plan provider after each payroll.

ADDITIONAL PRODUCTS AND SERVICES.....Employee address list, Payroll check signing, stuffing and sealing in envelopes, individual earnings reports (Ledger cards); Vacation, Sick, Holiday accumulators, Automatic New Hire reporting (unless you opt out).

ELECTRONIC TAX PROCESSING If you are a tax-filing client, all reports and W-2s are electronically filed for you. If you are NOT a tax-filing client and have more than 250 W-2s, you must file electronically. MEDIA can perform this service for you if you NOTIFY US IN WRITING (see below) AND FAX TO 973-785-2453.

Please file my W-2 information electronically to SSA _____ State of NJ _____ BOTH _____
COMPANY NAME _____ AUTHORIZED SIGNATURE _____

MEDIA'S WEBSITE HAS MANY RESOURCES FOR YOU ON ITS WEBSITE INCLUDING LINKS TO FEDERAL AND STATE POSTERS, FORM W-4 AND I-9. PLEASE GO TO www.mediadataservices.com