

2010 ANNUAL UPDATE FOR PAYROLL AND OTHER VARIOUS TAX MATTERS

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PAYROLL TAXES & OTHER EMPLOYMENT TAX ISSUES

Employee Taxes

Social Security tax	6.2%	on the first \$106,800 of wages
Medicare tax	1.45%	on all wages (there is no limit).

Employer Taxes

Social Security tax	6.2%	on the first \$106,800 of wages.
Medicare tax	1.45%	on all wages (there is no limit)
Federal Unemployment Tax	.8%	of first \$7,000 of wages
Minnesota Unemployment Tax		The minimum experience rate for 2010 is 0.67%; the maximum is 10.836% on first \$27,000 of wages. All additional assessments and fees are included.

The 2010 rate for new employers and others not eligible for an experience rating will be 2.8674% (9.81% for employers in high experience industries).

Self Employment Taxes

Social Security tax	12.4%	on the first \$106,800 of wages.
Medicare tax	2.90%	on all wages (there is no limit).

Household Employee

Anyone who paid a household worker \$1,700 or more in cash wages annually must pay employment taxes

Minnesota Minimum Wage

Effective August 1, 2005, employers with \$625,000 or more in annual sales must pay a minimum wage of \$6.15 per hour. For the employers with less than \$625,000 in annual sales the minimum wage is \$5.25 per hour. Training wages of \$4.90 per hour for the first 90 days are allowed for employees under 20 years old. Tip credit is not allowed. Overtime starts after 48 hours per week.



Note: Federal minimum wage increased effective July 24, 2009. The federal minimum wage to be paid by covered employers is \$7.25 an hour effective July 24, 2009 for businesses with annual dollar volume of business of \$500,000 or more, or engaged in interstate commerce.

Mileage rates:

For all business miles	50¢ per mile
For medical and moving expenses	16.5¢ per mile
For charitable organizations	14¢ per mile driven in service

Minnesota Payroll Tax Filing Requirements:

Withholding

- If Minnesota taxes of \$1,500 or more were withheld in the prior quarter, Minnesota withholding must be deposited on the same schedule as federal tax withholding.
- If less than \$1,500 (rather than \$2,500) was withheld during the previous quarter, the tax may be remitted with a timely filed quarterly return.
- Annual filers need to deposit only once they have \$500 in liability. That deposit must be made by the end of the month following the month in which the liability exceeds \$500.
- Minnesota has NOT adopted the Federal One-Day Rule for liabilities of \$100,000 or more.
- For the first three quarters, file the quarterly return either by Internet or by telephone. For the fourth quarter, the return is a combined fourth quarter/year end reconciliation.
 - Web site: <http://www.mndor.state.mn.us> and follow E-file link
 - Phone number: (800) 570-3329
 - Must be filed quarterly using the calendar year, even if it is a fiscal year business.
 - If you were notified by the Minnesota Department of Revenue that you are an “Annual Filer,” only the annual reconciliation needs to be done.

State Unemployment Insurance

- A wage detail report is considered timely only if it is submitted and accepted by the due date.
- The payments are made with the quarterly tax return no matter what the dollar amount. Payments must be received by the due date and are either paid electronically or by check—the postmark date is no longer applicable.
- Payments are due by the last day of the month following the end of the previous quarter.



Note: Anyone reporting 50 or more employees may no longer pay by check, but must submit all payments electronically.

Single Member LLC Payroll Tax Reporting

When you register for a Minnesota unemployment insurance account, by default, wages of corporate officers who own 25% or more of an S or C corporation, as well as wages paid to members of a limited liability company (LLC) who own 25% or more of the LLC, are not subject to Minnesota unemployment tax. This may affect your Federal unemployment tax, but you may elect to have officer wages be covered. If you are unsure as to whether or not to elect in, consult your tax advisor.

Federal Payroll Tax Deposits

Form 941 is filed quarterly using the calendar year, even if your business is on a fiscal year or no wages were paid in the quarter. It is due by the last day of the month following the end of the quarter.

Form 944, Employer's Annual Federal Return, substitutes for Form 941 for small employers who owe \$1,000 or less in total Federal employment taxes per year. Filing is due January 31 following the end of the year being filed. If you have received written notification that you qualify for the Form 944 program, you must file that form.

If you prefer to file Form 941, you may request to have your filing requirements changed if you satisfy certain requirements. Employers that were previously notified by the IRS to file Form 944, but want to file Form 941 instead, must call or write the IRS stating that they want to opt out of filing Form 944 before the applicable due date. Those calling to request to opt in or out of filing Form 944 for the current tax year must do so before Apr. 1 of the current tax year (e.g., Apr. 1, 2010 for returns for tax year 2010). Those writing to request to opt in or out of filing Form 944 for the current tax year must have their written correspondence postmarked on or before Mar. 15th of the current tax year (e.g., Mar. 15, 2010 for returns for tax year 2010).

The IRS will send written notification to employers that their filing requirement was changed to Form 941. Employers who were notified of their qualification to file Form 944 but do not receive notification that their filing requirement was changed to Form 941 must file Form 944 rather than Form 941.

NEW

Beginning in January 2009, if an employer needs to correct a previously filed employment tax return, the new Form 941X, Adjusted Employers Quarterly Federal Tax Return or Claim for Refund, must be used. Form 941X replaces Form 941C, Supporting Statement to Correct Information and Form 843, Claim for Refund and Request for Abatement. Form 941X is a stand-alone form corresponding to, and relates line-by-line with, the employment tax return it is correcting. The employer will be able to file Form 941X when an error is discovered, rather than having to wait to file it at the end of the quarter with the next employment tax return. Form 944X and 945X are used to correct Forms 944 and 945

Electronic Federal Tax Payment System (EFTPS)

I. Definition

- A. Anyone may pay their federal taxes electronically; for some payers, it is a requirement. Payments may be made on line at www.eftps.gov, or by phone at (800) 555-3453 or (800) 272-9872. Once you are required to pay electronically, you will be required to continue to pay in this manner.
- B. This requirement includes ALL federal taxes and not just payroll related deposits. This requirement would include the following:
 1. Payroll Taxes: Forms 940, 941, 943, 944 and 1042,
 2. Corporate Taxes including estimates: Forms 1120 and 1120S,
 3. Excise Tax: Form 720
 4. Nonprofit Taxes: Forms 990-C, 990-PF and 990-T
 5. Backup withholding (Form 945)

II. Threshold Amount

- A. Electronic deposit requirement—You must make electronic deposits of all depository tax liabilities that occur in 2010 if the total of all your Federal tax deposits (such as deposits for employment tax, excise tax, and corporate income tax) in 2008 were more than \$200,000, or if you were required to deposit electronically in

2009. If you are voluntarily depositing electronically but your deposits did not exceed \$200,000, you may continue to do so or you may deposit with 8109 coupons.

- B. The Electronic Federal Tax Payment System (EFTPS) must be used to make electronic deposits. If you are required to make deposits by electronic funds transfer and fail to do so, you may be subject to a 10% penalty.
- C. Taxpayers who are not required to make electronic deposits may voluntarily participate in EFTPS.
- D. Depositing on time. For deposits made by EFTPS to be on time, you must initiate the transaction at least one business day before the date the deposit is due.

III. Enrollment

- A. To be able to comply with the IRS rules, you must enroll in EFTPS. To enroll in EFTPS, call (800) 555-4477 or (800) 945-8400, or visit the website: www.eftps.gov. If you use a payroll service bureau to deposit your payroll taxes and they already file electronically on your behalf, you still need to enroll directly with the IRS. Please notify your payroll service bureau of your EFTPS requirement.
- B. If you have multiple taxpayer identification numbers, use a separate enrollment form for each TIN.

IV. Options— ACH Debit or ACH Credit

A. ACH Debit

1. The transfer of funds is initiated by calling the government (i.e., the Treasury Financial Agent in your area).
2. The transfer must be initiated no later than one day before the payment is due.
3. The funds are withdrawn from your bank account the day after the initiation.
4. The financial agent will issue an acknowledgement number upon payment. KEEP ON FILE, as this is your only receipt.
5. The IRS considers that a deposit is made when the funds are withdrawn.
6. There are no fees.
7. If you choose the Debit option, you may initiate the transfer at the government level or at your financial institution (i.e., you may switch between ACH debit and credit options).

B. ACH Credit

1. You initiate the transfer of funds by calling your financial institution and instructing them to pay.
2. It depends on your financial institution as to when the initiation of transfer needs to be made.
3. Most financial institutions will give you a confirmation number and receipt of the transfer.
4. The IRS considers that a deposit is made on the date the U.S. Treasury account receives payment.
5. The fees will depend on your financial institution.

V. Other Points of Interest

- A. The penalty for not depositing your tax payment electronically will be 10% of the amount of the deposit due.
- B. Once you have been mandated by the IRS to deposit electronically, you cannot go back to using paper coupons.
- C. If you are not otherwise required to do so, you may voluntarily deposit your federal taxes electronically.
- D. New businesses are now automatically enrolled in the EFTPS program upon receiving a Federal identification number. Businesses not required to use EFTPS may choose not to enroll when they receive the EFTPS information at a later date.

Electronic Funds Transfer in Minnesota

Minnesota now requires electronic funds transfer (EFT).

- Minnesota law requires some businesses to pay their state taxes and fees electronically. If you had a \$10,000 tax liability in any one tax during fiscal year July 1, 2008 – June 30, 2009, you must pay all Minnesota business taxes electronically starting January 1, 2010.
- Taxpayers who pay \$10,000 or more in annual corporate estimated payments are also required to pay by electronic funds transfer.
- The state offers two ways to transfer funds electronically:
 - The Automated Clearing House (ACH) debit option whereby the taxpayer either calls the Minnesota Department of Revenue or pays on the Internet. The costs for the debit option are paid by the state.
 - The ACH credit option allows the taxpayer to initiate the transfer from their bank.
 - The credit option fees are paid by the taxpayer.
 - The charge will depend upon the financial institution involved.
- This program is also open to those who wish to voluntarily transfer the taxes electronically for any dollar amount.
- Filing electronically does not change any due dates.
- Minnesota Department of Revenue electronic funds transfer contact personnel:

General Information and Instructions
Phone (800) 570-3329
<http://www.mndor.state.mn.us>

Paid Family Leave

Under the Minnesota family leave plan, employers with 21 or more workers must grant up to 6 weeks of unpaid leave for the birth, adoption or illness of a child.

Child Support Payments

Employers must remit withheld child support payments within seven business days of the date the person owing child support is paid.

Minnesota Overtime

Overtime starts after 48 hours per week (if not subject to FSLA).

Minnesota Shared Work Program

I. What is Shared Work?

- A. The Shared Work program is an alternative to layoffs for employers facing a temporary downturn in business. It allows employers to divide available hours of work among a group of employees instead of implementing a full layoff. These employees may then receive partial unemployment insurance benefits while working reduced hours.

- B. The purpose of Shared Work is to avoid a layoff, not to subsidize wages. Shared Work can help employers avoid the difficulties that can go along with a layoff. By participating in the Shared Work Program, an employer can maintain morale, productivity and flexibility in the work place. If employees keep working during a temporary slowdown, employers can more quickly gear up when business conditions improve. This saves employers the expense of recruiting, hiring, and training new workers and protects employees from the financial hardships of full unemployment.
- C. Shared Work will increase your costs. If you are a taxpaying employer, your unemployment insurance tax rate will increase for the next four years as benefits paid out will be charged to your employer account. If you are a reimbursing employer, you will be billed for benefits paid to employees.

II. Who should use Shared Work?

- A. The Shared Work Program is intended as an alternative to full layoffs. It cannot be used by employers facing seasonal layoffs and is not an effective tool for employers faced with a permanent downsizing. Employers who have used the program successfully in Minnesota have a number of things in common:
 1. They have a recovery plan to meet the conditions that led to possible layoffs
 2. They have a skilled workforce that is important to their future growth.
 3. They are committed to maintaining a permanent workforce

III. How does it work?

- A. Example:

A firm facing a 20 percent reduction in business may consider laying off one-fifth of its workforce.

However, under an approved Shared Work plan, that company could maintain its total workforce while reducing each worker's scheduled hours by one-fifth or 20 percent. Employees would receive a partial unemployment insurance payment equal to 20 percent of their individual weekly unemployment insurance award along with the income earned for the week under the approved plan.

IV. Advantages

- A. Production and quality levels are maintained. Rapid recovery is possible through the retention of an experienced work force.
- B. When the business recovers, administrative and training costs of hiring new employees are eliminated.
- C. Recently hired workers who would have been most susceptible to layoff are retained.
- D. Employee morale remains high.
- E. Affirmative action gains are protected.
- F. Employees retain their skills and advantage opportunities.
- G. Employees maintain vital fringe benefits such as health insurance protection.
- H. Consumer spending patterns remain more stable which could result in a milder recession.
- I. Keeping your workforce intact, even at reduced weekly hours, lessens the adverse effects for your employees and your business.



Note:

- Long term employees who can find full employment elsewhere may be lost.
- Work scheduling may be more difficult.
- Senior employees suffer a reduction in hours and income.
- Shared Work benefits received by affected employees are used in the employer's future tax rate calculation.

For further information, please go to the Minnesota Unemployment Insurance website. An on-line Shared Work Agreement application may be found there, at www.uimn.org/sharedwork.

New Hire Program for Minnesota

All employers must report every new hire to the state's Department of Human Services.

Minnesota complies with the Uniform Interstate Family Support Act, which provides that a child support order from another state does not need to be filed with a Minnesota court before being sent to an employer.

Employers must submit a copy of the employee's W-4 or any form with the required information. The required information is the employee's name, address, Social Security number, hire date (optional) and date of birth (optional) within 20 calendar days from the date of hire.

Employers must also provide the name of their company, address and Federal ID number.

Employers must report new hires, rehires, any other employee returning to work from being laid off, furloughed, separated, granted a leave without pay, or terminated, even if they worked only a few hours or days.

There are penalties for noncompliance. Employers who violate the requirement will be subject to a penalty of \$50 for each intentionally unreported employee, after the second violation occurs. Employers cited for a third violation are subject to a penalty of \$500 for each intentionally unreported employee.

Fax Form W-4 to (800) 692-4473, or mail the form to:

Minnesota New Hire Reporting Center
P.O. Box 64212
St. Paul, MN 55164-0212

You may report online at www.mn-newhire.com.

Forms 1099

Types of 1099s

A Form 1099 reports certain information regarding amounts paid to recipients. Here is a partial list of available informational returns:

1099-A	Acquisition or Abandonment of Secured Property
1099-B	Proceeds from Broker and Barter Exchange Transactions
1099-C	Cancellation of Debt (reported by financial institutions only)
1099-CAP	Changes in Corporate Control and Capital Structure (\$100 million or more)
1099-DIV	Dividends and Distributions
1099-G	Certain Government Payments
1099-H	Health Coverage Tax Credit (HCTC) Advance Payments

1099-INT	Interest Income
1099-LTC	Long-Term Care and Accelerated Death Benefits
1099-MISC	Miscellaneous Income
1099-OID	Original Issue Discount
1099-PATR	Taxable Distributions Received from Cooperatives
1099-Q	Payments From Qualified Education Programs (Under Sections 529 and 530)
1099-R	Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
1099-S	Proceeds from Real Estate Transactions
1099-SA	Distributions from an HSA, Archer MSA, or Medicare+Advantage MSA
1098-C	Contributions of motor vehicles, boats, and airplanes after
1098-E	Student Loan Interest Statement
1098-T	Tuition Statement

Form 1099 requirements

You must include the phone number of a person to contact in the filer/payer name and address area on the following information forms: W-2-G, 1098, 1098-C, 1098-E, 1098-T, 1099-A, 1099-B, 1099-DIV, 1099-G, 1099-INT, 1099-LTC, 1099-MISC, 1099-OID, 1099-PATR, 1099-Q and 1099-S. Filers are encouraged to provide a phone number on any other 1099s.

An account number is required if you have multiple accounts for a recipient for whom you are filing more than one information return of the same type.

Backup Withholding

Possible subjects to backup withholding at a 28% rate for 2009 are: Interest, dividends, rents, royalties, commissions, non-employee compensation, and certain other payments (including broker and barter exchange transactions, reportable gross proceeds paid to attorneys, and certain payments made by fishing/boating operators). Backup withholding will apply if:

- The payee fails to furnish his/her taxpayer identification number to you. Form W-9 is available for a payee to furnish their identification number to you.
- IRS notifies you to impose backup withholding because the payee furnished an incorrect tax payer identification number. ("B" notice)
- You are notified that the payee is subject to backup withholding.
- For interest and dividend accounts opened or instruments acquired after 1983, the payee fails to certify to you, under penalties of perjury, that he or she is not subject to backup withholding under number 3 above.
- For interest, dividend, broker, or barter exchange accounts opened or instruments acquired after 1983, or broker accounts considered inactive in 1983, the payee fails to certify that the TIN provided is correct.

Backup withholding must be reported on Form 945, Annual Return of Withheld Federal Income Tax Return

Form 1099-INT

This form is filed for each person or business entity:

- To whom you paid or credited amounts of interest of \$10 or more (paid or credited) on earnings from savings and loan associations, credit unions, bank deposits, etc.
- For whom you withheld and paid foreign tax on interest.
- From whom you withheld any federal income tax under the backup withholding rules, regardless of the amount of the payment.
- To whom you paid or credited interest of \$600 or more in the course of your trade or business. For example, a 1099-INT should be issued by a corporation that paid \$2,000 of interest to an officer.

Form 1099-MISC

This form must be filed for each entity, other than an S or C corporation, to whom you have paid:

- At least \$10 in royalties or brokers payments in lieu of dividends or tax-exempt interest.
- At least \$600 in rents for property or equipment, payments for services (including parts), prizes and awards to non-employees, or medical and healthcare payments.
- Any fishing boat proceeds.
- Sales of at least \$5,000 of consumer products to a person on a buy-sell, deposit-commission, and other commission basis for resale (by the buyer or any other person) anywhere other than in a permanent retail establishment. Enter "X" in Box 9.
- Any non-employee that had federal income tax withheld, regardless of the amount.
- Payments of \$600 or more made to attorneys or other providers of legal services are reportable on Form 1099-MISC whether or not the recipient is incorporated (Box 7).
- Payments of \$600 or more made to medical/health providers are reportable on Form 1099-MISC whether or not the recipient is incorporated (Box 6).

Gross proceeds to any attorney in connection with legal services, such as in a settlement agreement (Box 14)

- Nonqualified deferred compensation (Section 409A) income subject to self-employment tax.
- Payment of accrued wages. Vacation pay and other compensation after death of an employee.

Examples of non-employee compensation include:

- Accounting fees paid, where the professional service firm is not incorporated.
- All payments for services to attorneys and law firms of \$600 or more whether or not the firm is incorporated.
- Payment for services, including parts or materials used to render the services, unless the person rendering the services is in the business of selling parts and materials.
- Commissions paid to non-employee salespersons.
- A fee and a non-accountable reimbursement aggregate of \$600 or more paid to a non-employee.
- Payments to non-employee entertainers for services.
- Taxable fringe benefits for non-employees.

- Amount of the total deferrals during the year (Box 15a) for non-employee from all Nonqualified Deferral Compensation (NQDC) plans subject to Section 409A provisions, including earnings on the current and previous years' deferrals.

All deferrals (plus earnings) reported in Box 15b are included in gross income because the NQDC plan doesn't satisfy the requirements of Section 409A.

Employee vs. Independent Contractor

The significance of correctly characterizing workers as employees or independent contractors arises in several employment tax and reporting situations, including pension and benefits calculations. Reclassification by the IRS of a person's status from an independent contractor to an employee may result in assessments for various back taxes, penalties and interest.

The IRS has provided 20 common law factors to help determine proper classification, listed here for your reference. Any conclusions as to classification should be discussed with your tax advisor.

Comparative Approach of 20 Common Law Factors

	Employees	Independent Contractors
Instructions	Complies with instructions about when, where, and how work is to be performed.	Works their own schedule and does job in their own way.
Training	Individual trained by an experienced employee, by correspondence, by attending meetings and by other methods indicating the employer wants the services performed in a particular manner.	Responsible for their own training.
Integration	Services of the individual are merged into the business. Success and continuation of the business depends upon these services. Employer coordinates work with that of other employees.	Success and continuation of business are not dependent on their services.
Service Rendered Personally	Services must be rendered personally. Not able to engage other people to do the work.	Contractor able to assign one of their workers to do the job.
Hiring, Supervising, and Paying Assistants	Hires, supervises, and pays workers at the direction of the employer (acts as a representative of the employer).	Hires, supervises, and pays other workers as a result of a contract under which there is an agreement to provide materials and labor, and is responsible for the results.

Comparative Approach of 20 Common Law Factors

	<u>Employees</u>	<u>Independent Contractors</u>
Continuing Relationship	The individual continues to work for the same person year after year.	Hired to do one job. No continuous relationship.
Set Hours of Work	The hours and days are set by the employer.	Is master of his or her own time.
Full-Time Required	Works substantially full-time for the business of the employer. Possibly restricted from doing other gainful work.	Free to work when and for whom they choose.
Doing Work on Employer's Premises	Implies that the employer has control, is physically within the employer's direction and supervision.	Works away from employer's premises, uses own office, desk, and telephone.
Order or Sequence Set	Performs services in the order or sequence set by the employer. Salesperson reports at the office at specified times, follows-up on leads and performs certain tasks at certain times.	Services performed at one's own pace.
Oral or Written Reports	Required to submit regular oral or written reports to the employer.	Submits no reports.
Payment by Hour, Week, Month	Paid by the employer in regular amounts at stated intervals.	Paid by the job or on commission.
Payment of Business and/or Traveling Expenses	The employer pays the person's business and/or traveling expenses.	Pays own expenses.
Furnishing of Tools, Material	Employer furnishes tools, materials, etc.	Furnishes own tools.
Significant Investment	Has a lack of investment and depends on the employer for such facilities.	Has a real, essential and adequate investment.

Reminders:

EMPLOYEES

Forms for new employees:

1. W-4
 - You should have a signed and dated Form W-4 for each employee on file at all times.
2. I-9
 - Employers are required to fill out Form I-9 for each employee hired, including household employees. The form must be completed within 3 business days after the date of hire.
3. New Hire reporting
 - All employers must report every new hire to the state's Department of Human Services. Employers must submit a copy of the employee's W-4 or any form with the required information. The required information is the employee's name, address, Social Security number, hire date (optional) and date of birth (optional) within 20 calendar days from the date of hire.
 - Employers must also provide the name of their company, address and Federal ID number.
 - Employers must report new hires, rehires, any other employee returning to work from being laid-off, furloughed, separated, granted a leave without pay, or terminated, even if they worked only a few hours or days.

INDEPENDENT CONTRACTORS

Forms for Independent contractors:

1. W-9
2. Form W-9—Request for Taxpayer Identification Number and Certification

The purpose of the form is to help furnish a correct TIN to the person requesting the information.

Form W-9 also is used to:

- Certify that the TIN furnished is correct.
- Certify that you are not subject to backup withholding.
- Claim exemption from backup withholding.

SALES & USE TAX

Sales Tax Rates

State Sales and Use Tax (Effective July 1, 2009)	6.875%.
Liquor Sales	9.375% (consists of 6.875% regular + 2.5% Liquor Gross Receipts tax)

City of Minneapolis:

Sales and Use tax	.5%
Lodging tax	2.625%
Entertainment tax	3%
Downtown restaurant tax	3%
Downtown liquor tax	3%

Hennepin County imposed .15% sales and use tax to finance the Minnesota Twins stadium.

Figuring Hennepin County tax:

- Charge Hennepin County sales tax to customers from a county outside Hennepin who pick up items for business or personal use, even if the items are taken out of the Hennepin County.
- Charge Hennepin County sales tax to customers from in or out of the county if you perform taxable services to them in Hennepin County.
- Do not charge Hennepin County Sales tax on sales of taxable items to customers outside Hennepin County when:
 - you deliver the items to them using your own vehicle or common carrier
 - You sell to motor carrier direct pay certificate holders.

Transit Improvement Sales, Use and Vehicle Excise Tax	0.25%
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This additional tax will be used to fund improvements to the transit system, and applies to retail sales made within transit area consisting of five participating counties: Anoka, Dakota, Hennepin, Ramsey, Washington. The total rates are as follows:

Anoka County	7.125%
Carver County	6.875%
Dakota County	7.125%
Hennepin County (Not Minneapolis)	7.275%
Hennepin County Minneapolis	7.775%
Ramsey County (Not St. Paul)	7.125%
Ramsey County St. Paul	7.625%
Scott County	6.875%
Washington County	7.125%

Filing Requirements & Due Dates

A. Cash vs. Accrual Basis

1. If you are on the cash basis for income tax purposes, you file sales tax returns on a cash basis.
2. If you are on the accrual basis for income tax purposes, you file sales tax returns on an accrual basis.
3. If you are on the accrual basis and write-off some bad debts, remember to adjust current taxable sales for those previously reported.

B. State Sales Tax

1. File electronically using either the Internet or the telephone. Threshold for mandatory electronic payments is a liability of \$10,000 or more in the state's fiscal year ending June 30, 2009. If this threshold is met, then all 2010 tax payments must be made electronically. It is the taxpayer's responsibility to review the previous year liability to determine if the threshold was met.
2. Regularly average \$500 or more per month in sales tax.
 - a. File monthly
 - b. Due by the 20th of the following month.
3. Regularly average less than \$500 but \$100 or more per month in sales tax.
 - a. File quarterly
 - b. Due by the 20th of the month following the end of the calendar quarter.
4. Regularly average less than \$100 per month in sales tax
 - a. File annually

- b. Due by February 5th of the following year
- 5. Seasonal filing
 - a. If you make taxable sales only during certain months of the year, you may receive returns for only the months in which your business makes taxable sales.
 - b. File monthly
 - c. Due by the 20th of the following month.
- 6. Intermittent filing
 - a. File electronically using either the Internet or by telephone: 1-800-570-3329.
 - b. If you make infrequent taxable sales or purchases in Minnesota that result in a tax liability that exceeds the quarterly dollar limits, you may qualify for intermittent filing.
- C. State Use Tax
 - 1. File electronically using either the Internet or the telephone.
 - 2. The amount of liability that can be reported on an annual use tax return for businesses is \$1,200.
 - 3. Annual use tax returns due dates:
 - a. Individuals—April 15.
 - b. Businesses, including sole proprietorships—February 5
- D. City and County Sales Tax—Filing period and due date is the same as your state sales tax return.
- E. City and County Use Tax—Due on or before the 20th of the month following the month in which the items become taxable.
- F. Filers with sales and use tax liability of \$120,000 or more in the state’s fiscal year (July 1 – June 30) must make an accelerated payment in June of following year. Beginning with the year in which an accelerated tax payment applies, the amount to be remitted will be increased to:
 - 90% of the estimated June liability, or
 - 90% of your May liability, or
 - 90% of your average monthly liability for the previous calendar year.

To avoid the penalty for underpayment the amount must be paid two business days before June 30th.

Sales Tax Refund Opportunities

Your company may be entitled to a refund of all or part of Minnesota sales and use tax paid, related to the following:

- Capital equipment purchased for a new or expanded facility.
- Printed material you delivered to customers outside of Minnesota.
 - The sales and use tax must be paid upon the purchase of capital equipment (and replacement capital equipment) and then a refund must be applied for from the Department of Revenue.
- Capital Equipment

- Defined as:
 - Machinery and equipment and the materials to construct, install or repair the machinery.
- Equipment must be used for manufacturing, fabricating or refining a product to be sold at retail; electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system; or for generating electricity or steam to sell at retail.
- Equipment must be used for the establishment of a new or the physical expansion of an existing manufacturing facility in the state.
- Printed Material
 - “Printed material that the seller delivers to customers outside Minnesota by means of his own vehicles, mail, parcel post, or common carrier...” is exempt from Minnesota sales and use tax.
 - You must retain evidence of out-of-state shipment.
- Applying for the Refund
 - A claim for the above sales tax refunds may be made only twice a calendar year. Ideally, claims should be filed to capture all potential claims in a timely manner.
 - File Form ST-11, Sales and Use Tax Refund Claim.
 - You must attach proper documentation to the claim form to allow the Department of Revenue to determine that the refund is correct.

Example: The documentation for promotional materials shipped out-of-state might include invoices showing that the tax was collected and paid, and that the material was indeed shipped out-of-state. Analysis of mailing lists may help establish the non-Minnesota percentage.
 - The time period for filing a refund claim is within three and one-half years from the due date of the return or within one year of the date of an order assessing liability (if the liability is paid in full), whichever is longer.
 - There is an appeal process for refund claims that are denied.
- Other Refund Opportunities
 - Form ST11-PUR is used to refund incorrectly paid sales or use tax, as well as other eligible items
 - Form ST11-P is used to refund tax paid on a stair lift, ramp or elevator for the disabled, tax paid on business use items in a city designated as a border city zone, and other items.
 - A Streamlined Sales Tax Project (SSTP) has been offered to all states. The ultimate goal is to radically simplify the sales and use tax system. Effective October 1, 2005, Minnesota became one of 22 states that have passed conforming or partially conforming legislation on the project. The changes being implemented by the project include unified definitions, rate simplification, and state level tax administration. States will still choose, however, what is and what is not taxable for sales and use tax purposes. Consult your tax advisor regarding specific details.

NEW DEVELOPMENTS

Work Opportunity Tax Credit

Federal tax credit available to all private sector businesses. It was designed as an incentive to employers to hire individuals in certain targeted groups who consistently experience high rates of unemployment due to a variety of employment barriers. The Federal tax liability can be reduced by as much as \$9,000 per new hire. There are 12 targeted groups, but the deadline for application for 2 of the groups has already expired.

Unclaimed Property

The Minnesota Unclaimed Property Act requires businesses and other organizations to report to the commissioner of the Department of Commerce certain funds, securities and other property that have remained unclaimed for three years. This includes credits on accounts and uncashed checks.

The Red Flags Rule

The Red Flags Rule is a U.S. federal law that requires most every business and organization to develop and implement an identity theft prevention program. The purpose of the identity theft prevention program is to authenticate the identity of customers to reduce incidences of identity theft. Authentication is required when a new financial or credit account is opened or when a change is requested on an existing covered account. The law covers consumer and business accounts.

The broad definitions of “covered account” and “creditor” include most every business and organization. If a business or organization accepts payment for products or services after they are delivered, they are a creditor under the law and must comply. Those that only accept payment prior to or upon delivery are not creditors regardless of how payment is accepted—cash, check or credit card.

Certificate of Deposit Account Registry Service (CDARS)

Financial institutions can offer CDARS because they are members of a special network.

Currently, bank funds are insured under FDIC for up to \$250,000. This program allows much higher account balances to remain on deposit with full FDIC coverage. When you place a large deposit with a network member, that institution uses CDARS to place your funds into certificates of deposit issued by banks in the network. This occurs in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance.

Other network members do the same thing with their customers' deposits. With the help of a sophisticated matching system, network members exchange funds. This exchange occurs on a dollar-for-dollar basis, so that the equivalent of your original deposit comes back to your institution and effectively stays local (meaning the full amount can support lending initiatives that build a stronger local community). Alternatively, with your consent, network members can receive fee income instead of matching deposits. In either case, the full amount of your original deposit becomes eligible for complete FDIC protection and you receive just one regular statement detailing all your holdings.

This program does have additional administrative costs, and some banks do not participate.

HOW LONG SHOULD A BUSINESS RETAIN RECORDS?

One of the most common client questions is: “How long should I keep my business tax records?” Unfortunately, it is not possible to provide a simple answer that will satisfy the differing statutes and regulations of various federal, state and local agencies. Each Business should evaluate its own needs and its available storage space before this question can be answered. In many cases, the client should seek the advice of a lawyer.

The schedule below may provide you with a starting point for preparing a record retention schedule. The suggested retention periods begin at the end of the fiscal year during which the document was created, not from the date on the document. For items supporting tax returns, the retention period begins on the filing date of the return or its due date (with extensions), whichever is later.

Suggested Schedule for Retention of Business Records

Key:

- P = Records should be retained permanently. Figures represent the number of years for retaining the records
- AT = After termination
- AD = After disposal of the underlying asset
- AE = After expiration

Type of Record	Suggested Retention Period	Type of Record	Suggested Retention Period
Accident reports (settled)	7	Financial reports:	
Annual financial reports	P	▪ Audited	P
Articles of incorporation	P	▪ Annual	P
Audit reports	P	▪ Interim	3
Bank deposit slips	3	Fire damage reports	6
Bank reconciliations	3	Fixed asset records	7 AD
Bank statements	7	Freight drafts, bills and claims	5
Budgets	3	Garnishments	3 AT
Capital stock:		Insurance policies	3 AE
▪ Applications for authorizations and issuance	P	Inventory records	7 AD
▪ Certificates (cancelled)	P	Invoices (issued or received)	7
▪ Ledger	P	Invoices—Fixed assets	7 AD
▪ Transfer records	P	Labor records:	
▪ Sales slips (cash and charge)	7	▪ Applications (employees)	7 AT
Check register	10	▪ Contracts	7 AT
Checks* (paid and cancelled)	7 AD	▪ Daily time reports	5
Claims for insurance reimbursement	7	▪ Disability claims	7 AT
Commission reports	6	▪ Earnings records	7
Contracts:		▪ Employee service records	7 AT
▪ Corporate	20 AT	▪ I-9 Forms	7 AT
▪ Employee	7 AT	▪ Pay checks	7
▪ Vendor	7	▪ Personnel files	7 AT
Correspondence:		▪ Salary and wage rate	7 AT

Type of Record	Suggested Retention Period	Type of Record	Suggested Retention Period
<ul style="list-style-type: none"> ▪ Accounting ▪ Credit and collection 	<p>5 7</p>	<ul style="list-style-type: none"> changes ▪ Salary receipts ▪ Time cards, tickets, and clock records 	<p>7 AT 5</p>
<ul style="list-style-type: none"> ▪ General ▪ Personnel 	<p>3 7 AT</p>	<ul style="list-style-type: none"> ▪ Unemployment claims ▪ Withholding exemption certificates 	<p>7 AT 7 AT</p>
Deeds	P	<ul style="list-style-type: none"> ▪ Worker's compensation reports 	10
Deposit slip copies	3	<ul style="list-style-type: none"> ▪ Leases 	7 AT
Depreciation schedules	7 AD	Ledgers and journals:	
Dividend register	P	<ul style="list-style-type: none"> ▪ Accounts payable ledger 	7
Equipment leases	6 AE	<ul style="list-style-type: none"> ▪ Accounts receivable ledger 	7
Equipment repair records	3	<ul style="list-style-type: none"> ▪ Billing journal 	10
Expense reports	5	<ul style="list-style-type: none"> ▪ Cash journal 	10
<ul style="list-style-type: none"> ▪ Fidelity bonds 	3 AT	Remittance statements	3
<ul style="list-style-type: none"> ▪ General journal 	10	Requisitions	3
<ul style="list-style-type: none"> ▪ General ledger 	P	Securities (brokerage slips)	7 AD
<ul style="list-style-type: none"> ▪ Journal entries--year-end 	P	Stockholder records (list of minutes, proxies, reports to stockholders)	P
<ul style="list-style-type: none"> ▪ Payroll journal 	10	Surety bonds	3 AT
<ul style="list-style-type: none"> ▪ Purchases journal 	10	Tax records (including worksheets, bills and statements, and Agent's reports)	10
<ul style="list-style-type: none"> ▪ Stock ledger 	P	Tax returns (copies):	
Licenses	1 AT	<ul style="list-style-type: none"> ▪ Estate 	P
Maintenance and repair records:		<ul style="list-style-type: none"> ▪ Gift 	P
<ul style="list-style-type: none"> ▪ Buildings 	7	<ul style="list-style-type: none"> ▪ Income 	P
<ul style="list-style-type: none"> ▪ Machinery 	5	<ul style="list-style-type: none"> ▪ Payroll 	7
Manufactured stock records	7	<ul style="list-style-type: none"> ▪ Personal property 	10
Minute books	P	<ul style="list-style-type: none"> ▪ Sales and use 	10
Mortgages	7 AT	<ul style="list-style-type: none"> ▪ Social Security 	7
Notes (cancelled)	7	Title papers	P
Note register	P	Travel records (employees)	3
Patient bills	7	Uncollectible accounts records	7
Patient records	7	Union (labor) contracts	P
Pension records	P	Wage rate records	7

Type of Record	Suggested Retention Period	Type of Record	Suggested Retention Period
Petty cash records	3	Warrants	P
Property records:		Withholding and exemption certificates	7 AT
▪ Account ledgers	P	W-2 Forms	7
▪ Appraisals	P		
▪ Damage reports	7		
▪ Deeds and titles	P		
▪ Depreciation	7 AD		
▪ Plans and specifications	P		
▪ Purchases	P		
▪ Sales	P		
▪ Taxes	10		
Purchase order copies	3		
Purchase invoices	7		
Receiving reports	3		