




- The presentation will be emailed to you.
- If you have a question, **please type it in the chat**. Questions will be answered at the end of the presentation.

1



State Basic Payroll Tax Seminar



EDD Employment Development Department State of California v23

2

Presenters

Employment Development Department (EDD)
Payroll Tax Specialists

edd.ca.gov
Taxpayer Assistance Center:
1-888-745-3886

3

Agenda

- Employer responsibilities.
- Reporting and deposit requirements.
- Employee or independent contractor.
- Reporting requirements for independent contractors.

5

What's New?

EDD

Important State Payroll Tax Updates
2023 California Employer's Guide (DE 44)
edd.ca.gov/pdf_pub_ctr/de44.pdf

6

Employer Responsibilities



7

Objectives

- Completing required forms.
- Posting required information.
- Keeping adequate records.

8

E-file and E-pay Mandate

Effective January 1, 2018, all employers are required to electronically submit:

- Tax returns
- Wage reports
- Payroll tax deposits

Resource:
Information Sheet: E-file and E-pay Mandate for Employers (DE 231EM)

9

e-Services for Business



- Fast, easy, and secure.
- No cost to enroll or use.
- Access 24 hours a day, 7 days a week.

edd.ca.gov/e-Services_for_Business

10

Employer's State Requirements

- Obtain a workers' compensation insurance policy.
- Apply for an EDD employer payroll tax account number.
- Fulfill posting requirements.
- Provide required notices and pamphlets.

11

Employee Notification Requirements

- *Paid Family Leave* (DE 2511).
- *State Disability Insurance Provisions* (DE 2515).
- *For Your Benefit: California's Programs for the Unemployed* (DE 2320).
- Written separation notice to employees.
- Information on federal and state earned income tax credit.

12

When Hiring New Employees

Effective January 1, 2020, employees are required to complete:

- The federal *Employee's Withholding Allowance Certificate* (Form W-4) **and**
- The state *Employee's Withholding Allowance Certificate* (DE 4).

13

New Employee Reporting

Submit a *Report of New Employee(s)* (DE 34):

- Locate parents who are delinquent in their child support obligations.
- Report new hires or rehires within 20 days.
- File timely to avoid penalty and interest.

15



Reporting and Deposit Requirements



17

Objectives

- Define wages.
- Discuss payroll taxes:
 - When and how to make deposits.
 - Filing returns.
 - Electronic filing and payment options.
- Identify questionable employment tax practices.

18

Wages

Compensation to an employee for services performed include, but is not limited to:



- Salaries, overtime, and back pay.
- Commissions, bonuses, and sales awards.
- Sick, holiday, and vacation pay.
- Advances.
- The reasonable cash value of compensation other than cash.

19

State Payroll Taxes

Employer pays:

- Unemployment Insurance (UI)
- Employment Training Tax (ETT)

Employee pays:

- State Disability Insurance (SDI)
- Personal Income Tax (PIT)

21

Depositing Payroll Taxes

- UI and ETT are due by the end of the month following each quarter end. They may be paid more frequently, along with SDI and PIT deposits.
- SDI and PIT due dates vary, depending on the federal deposit schedule and accumulated PIT withholding during each quarter.

22

File and Pay Options



- e-Services for Business
- Express Pay
- Federal and State Employment Taxes (FSET)
- Electronic Funds Transfer (EFT)
 - State Data Collector
 - Automated Clearing House (ACH) Credit
 - ACH Debit
- Credit Card

27

Payroll Tax Reporting



Payroll Tax Deposit (DE 88)

Tax Return (DE 9)

Wage Report (DE 9C)


28

Penalty and Interest Avoidance

- File all documents and returns timely.
- Make all payments timely and in full.
- Use electronic filing and payment methods to comply with e-file and e-pay mandate.
- Respond timely to all correspondence.
- Classify workers and payments properly.

37

**Employee
or
Independent Contractor**



38

Objectives

- Discuss the importance of proper worker classification.
- Explain the differences between employees and independent contractors.
- Define subject employment, statutory employment, and excluded services.
- Identify resources to help properly classify workers.

39

Reasons to Properly Classify Workers

- Ensure timely benefit payment.
- Avoid payroll tax audits and investigations by the EDD due to:
 - Worker claims.
 - Worker informants.
 - Competitor informants.
- Prevent additional taxes, penalties, and interest.

40

Misclassification Example

One worker, earning \$20,000 for one year	Employer misclassifies worker as independent contractor	Employer correctly classifies worker as employee
UI (3.4 percent)* <small>*New employer rate</small>	\$238	\$238
ETT (0.1 percent)	\$7	\$7
SDI (0.9 percent)	\$180	(withheld from employee)
PIT (6.0 percent)	\$1,200	(withheld from employee)
Total due for one year	\$1,625** <small>**Plus penalty and interest</small>	\$245

41

Types of Workers

- Employees
 - Subject employment
 - ❖ Excluded services
 - Statutory

- Independent contractors

42

The ABC Test: Employee or Independent Contractor?

Subject Employee:

- An individual who performs services or labor is **presumed to be an employee** unless the hiring entity can prove the worker meets all three conditions of the ABC test.

Independent Contractor:

- An individual for whom the hiring entity established **all three conditions** of the ABC test.

45

The ABC Test

Under the ABC test, a worker is considered an employee and not an independent contractor, unless the hiring entity satisfies **all three** of the following conditions:

- A. The individual is free from control and direction, both under contract and in fact.
- B. The individual performs work that is outside the usual course of the hiring entity's business.
- C. The individual has their own independently established business of the same type as the work performed.

46

Exceptions from the ABC Test

For certain occupations, industries, and contracting relationships:

- Meeting an exception means that the ABC test does not govern the determination and, instead, the multifactor *Borello* test would apply for most exceptions.

47

Court of Law Rulings

Where a court of law rules that the ABC test cannot be applied:

- The determination of employee or independent contractor status shall be governed by the multifactor *Borello* test.

48

Statutory Employees

Employee by law under a specific statute.

Examples include, but are not limited to:

- Corporate officers
- Unlicensed contractors
- Certain limited liability company (LLC) members

Resources:

- *Information Sheet: Statutory Employees (DE 231SE)*
- *Information Sheet: Limited Liability Entities (DE 231LLC)*
- *Information Sheet: Payments to Corporate Officers (DE 231PC)*

49

Excluded Services

Certain employees are not subject to specific taxes or withholding provisions.

Examples include:

- Domestic workers
- Family members
- Direct sellers
- Real estate agents

Resource:

- *Information Sheet: Exempt Employment (DE 231EE)*

50

Resources

- *California Employer's Guide (DE 44)*
- *Employment Determination Guide (DE 38)*
- *Determination of Employment Work Status for Purposes of State of California Employment Taxes and Personal Income Tax Withholding (DE 1870)*
- Employment Status Portal:
labor.ca.gov/employmentstatus
- Employment Status Tax Seminar:
seminars.edd.ca.gov/payroll_tax_seminars

51

Reporting Requirements for Independent Contractors




52

Objectives

- Discuss independent contractor payments.
- Define backup withholding.
- Describe forms.
- Explain due dates.

53

California Backup Withholding Requirements

If required to remit federal backup withholding to the IRS, withhold 7 percent of income.

Remit to **Franchise Tax Board (FTB)**:
ftb.ca.gov/pay/withholding/backup-withholding.html

54

Independent Contractor Reporting

Submit a *Report of Independent Contractor(s)* (DE 542):

- Locate parents who are delinquent with their child support obligations.
- Report within 20 days if you are making payments totaling \$600 or more or entering into a contract of \$600 or more, whichever occurs earlier.
- File timely to avoid penalty and interest.

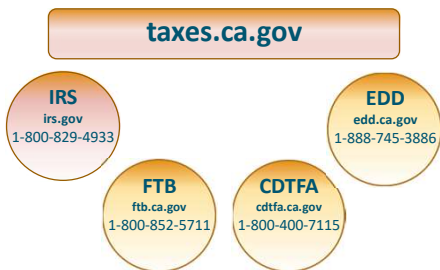
55

Do I Need to Send Form 1099 to the FTB?

- If filed by paper or using combined Federal and State Filing Program for electronic filers – **No.**
- If filed electronically, but not using combined Federal and State Filing Program – **Yes.**

56

California Tax Service Center



57

Disclaimer

This information is provided as a public service and is intended to provide non-technical assistance. Every attempt has been made to provide information that is consistent with the appropriate statutes, rules, and administrative, and court decisions. Any information that is inconsistent with the law, regulations, and administrative, and court decisions is not binding on either the Employment Development Department or the taxpayer. Any information provided is not intended to be legal, accounting, tax, investment, or other professional advice.

58

Occupational Employment and Wage Statistics Survey

The survey is a cooperative effort between the Bureau of Labor Statistics and the Employment Development Department. It collects data from a sample of businesses which is used to support education and training decisions to help build a skilled workforce.

59

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities.



61

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[Take a Workshop](#)



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62



63
