DHS ADVISORS

Important Year-End Items

December 1, 2025

Dear Client:

This letter outlines changes for the coming new year regarding bookkeeping, payroll, 1099 reporting and property tax. Please review the following updates and reminders for 2026.

***** Action Items for 2026 *****

- **Electronic filing is required with tax agencies if you have 10 or more of the following forms to file for calendar year 2025:**
  - **Forms W-2**
  - **Forms 1099 (includes 1099-Int, 1099-MISC, 1099-NEC and others)**
- **Remember to update all rates and taxable limits in your payroll software BEFORE preparing the first payroll of 2026.**
- **California Minimum Wage effective January 1, 2026:**
  - **$16.90 per hour for Employers of all sizes**
- **Review your employment posters to ensure they are current.**

Note – Additional copies of W-2s must be requested in writing and signed by the employee.

Although there are some exceptions, employees in California must be paid the minimum wage as required by state law. Please visit the Department of Industrial Relations website for a complete listing of exceptions at https://www.dir.ca.gov/dlse/faq_minimumwage.htm

If you prepare your own payroll, below is a list of the tax rates that are effective January 1, 2026:

	EMPLOYEE TAX RATE	EMPLOYER TAX RATE	TAXABLE LIMIT
FICA	6.20%	6.20%	$184,500
MEDICARE	1.45%	1.45%	No Limit
Combined FICA and MEDI	7.65%	7.65%	

**Additional Medicare withholding of 0.90% is required when an employee's calendar year wages exceed $200,000.

FUTA	N/A	0.60%	$7,000
SDI (includes Paid Family Leave)	1.30%	N/A	No Limit

Payroll Taxes

Each year the IRS notifies employers of which deposit schedule to use for depositing federal income tax withheld for the coming year. Most small businesses will use the monthly deposit schedule. Please see IRS Publication 15 (Circular E) for complete information on monthly and semi-weekly deposit requirements.

You must make your deposits (such as employment tax, excise tax, and corporate income tax) electronically. IRS regulations began requiring electronic deposits on January 1, 2011. If you are not already enrolled for the Electronic Federal Tax Payment System (EFTPS), please visit the EFTPS website for enrollment information. An exception to the EFTPS payment rule is a taxpayer on a monthly deposit schedule with a total tax liability of less than $2,500 for the quarter.

The taxpayer may choose to pay their taxes by paper check along with the quarterly filing of their Form 941 payroll tax return. Please see IRS Publication 15 (Circular E), "Depositing Taxes" for complete information.

Bonuses
Bonuses (including Christmas bonuses) are subject to employment taxes. If you have questions or would like assistance with calculations, please contact our office.

CA State Unemployment Insurance Rate
Each year the Employment Development Department notifies employers of their new State Unemployment Insurance (SUI) rate. **Please provide a copy of this notice to our office to include in your records.** Before preparing your first payroll of 2026, be sure to update the rate in your payroll software used to calculate payroll. This will ensure that your payroll taxes are correctly calculated. The EDD requires all employers to electronically submit employment tax returns, wage reports, and payroll tax deposits.

Employment Forms
At the beginning of 2026, have your employees complete a new Federal Form W-4. The employee should complete California Form DE-4 only if the employee wants state withholding calculated differently than the information provided on their Federal W-4.

When hiring new employees, be sure to have them fill out forms W-4, I-9, and provide the new employee with Form LC 2810.5 (Division of Labor Standards Enforcement (DLSE) – Notice to Employees LC 2810.5) ***at the time of hire. These forms are updated annually; please be sure to use the correct form.*** The Form I-9 must be retained by the employer for three years after the date of hire; or one year after the termination of the employee, whichever is later. Instructions for filling out W-4s and I-9s are provided with the forms. Please read the instructions ***carefully*** to be sure the forms are filled out properly. ***It is the employer's responsibility to make sure the information is accurate, and the forms are complete.***

*Division of Labor Standards Enforcement (DLSE) – Notice to Employees LC 2810.5 – Provide this completed form to all nonexempt employees. Be sure to provide a copy to the employee and retain the signed original for your records.

Don't forget to file the *Report of New Employee(s),* Form DE-34, with the Employment Development Department (EDD). California law requires all employers to report all newly hired employees who work in California to the EDD within 20 days of their start-of-work date (first day of work). In addition, any employee who is rehired after a separation of at least 60 consecutive days must also be reported within the 20 days. Failure to report a new hire or a rehired employee within 20 days of their start-of-work date can result in a fine of $24 per employee. If the failure to report is an intentional agreement between the employer and employee to not supply the required information or to supply a false or incomplete report, a penalty of $490 may be charged.

Exempt Employees
For those of you with exempt employees, there are strict guidelines on both the determination of the type of position that may be exempt as well as the overtime compensation required for exempt employees. If you have exempt employees, please contact our office or the appropriate agencies to review these guidelines and related restrictions to ensure you are in compliance with federal and state regulations. California has laws in place that make the minimum salary for exempt employees higher than federal thresholds.

More information can be found at the following website:
https://www.dir.ca.gov/dlse/faq_overtimeexemptions.htm

California Harassment Training
The California Harassment Training (SB-1343) requires employers with five or more employees to provide the following:

- **Supervisory employees:** At least two hours of classroom or other effective interactive training and education regarding sexual harassment.
- **Nonsupervisory employees:** At least one hour of classroom or other effective interactive training and education regarding sexual harassment.
- "Refresher training" every two years thereafter.
- The applicable training must be provided within six months of hire or 100 hours worked (whichever is sooner) for new employees or within six months of entering a supervisory position.
- NOTE: The training timeline for Seasonal and Temporary (less than 6 months) employees has not changed. Beginning January 1, 2020, employers must provide training within 30 calendar days of hire or within their first 100 hours worked, whichever is sooner.

Employers who have provided training will need to provide training again two years from the date of completion of the first training. The California Department of Fair Employment and Housing offers a free online training course that satisfies the requirements. The course is available here: https://www.dfeh.ca.gov/shpt/. More information on this requirement can be found here: https://calcivilrights.ca.gov/shptfaq-employee/

CalSavers Retirement Savings Program Requirements
California state law requires California employers to participate in the CalSavers Retirement Savings Program if they do not sponsor a retirement plan and have 1 or more employees. There are no employer fees, and employers do not make contributions to employee accounts. ***The deadline for employers with 1-4 employees to register is December 31, 2025.*** The deadline for employers with 5 or more employees to register with CalSavers was June 30, 2022. The deadline for employers with 50 or more employees to register was June 30, 2021. The deadline for employers with 100 or more employees to register was September 30, 2020. For more information on the program, and to register, visit the CalSavers website at employer.calsavers.com.

Record Retention
As an employer, you are required by the Internal Revenue Service and the Employment Development Department to keep all records relating to payroll for at least seven years. If you employ independent contractors or exempt employees, the state of California requires records to be maintained for at least eight years. The following is a suggested list of records to keep, which refers to payroll-related records only; it is not intended to be a complete list of all business records that you should retain:

- Names, addresses, social security numbers, dates of employment, and occupations of employees
- Records of reported and allocated tips
- Any records of sick and/or vacation pay
- Amounts and dates of all wage, annuity, and pension payments
- Timecards and timesheets
- Copies of income tax withholding allowance certificates (Forms W-4, W-4P, W-4(SP), W-4S, and W-4V)
- Copies of Forms W-2 and W-2c (including employee copies that were returned to you as undeliverable)
- Payroll tax deposit records, including confirmation numbers for electronically filed deposits
- Copies of payroll tax returns filed (Forms 941, DE9, DE9C, etc.)

- Any records of fringe benefits and expense reimbursements
- I-9 Forms

Employee Earned Income Credit Notification
Effective January 1, 2008, employers are required to notify employees with Forms W-2 that they may be eligible for the Earned Income Credit. For more information, please refer to IRS Publication 15 (Circular E), "Required Notice to Employees About the Earned Income Credit".

Affordable Care Act Reminders
Under certain conditions, Qualified Small Employers may reimburse employees for healthcare coverage purchased through the individual market. If you think you may meet the stipulations for a Qualified Small Employer or would like more information, please contact our office.

Applicable Large Employers (ALE) (defined as employers with 50 or more full-time employees, including full-time equivalents) are required to report health coverage offered or not offered to employees. Reporting is completed on Forms 1094-C and 1095-C. If you need assistance with determining whether you are an ALE, please contact our office.

California Labor Law Notices
California Labor Law requires all employers to post certain notices to employees. Fines may be levied for non-compliance. Please visit the Department of Industrial relations website for a list of required posters at www.dir.ca.gov/dlse/RequiredPosters.html. All required posters may be downloaded and printed for free.

Information regarding Forms 1099
The due date for providing 1099s to recipients is January 31 (all 1099 series). Any service recipient who, in the course of his or her trade or business (including those activities deemed non-profit), will be making payments totaling $600 or more to any person for services rendered (other than a corporation) in a calendar year must file an information return on Form 1099.
New for 2025: An extension of time to provide Forms 1099 to recipients is now available, the one-time extension is 30 days and may be filed online or via fax. The extension is requested by completing and submitting Form 15397, more information may be found here: https://www.irs.gov/instructions/i1099gi
Please Note: This extension is for recipient copies only; a request for extension to file Forms 1099 with the IRS is submitted on Form 8809.
There is no extension available for filing Forms W-2 and 1099-NEC.

Use Form **1099-NEC** to report payments of at least $600 for:

- Services (including parts and materials) to payees who are not employees
- Attorney's fees for legal services

Use Form **1099-MISC** to report payments of at least $600 in:

- Rents
- Fishing boat proceeds
- Fish purchased from anyone engaged in the trade or business of catching fish
- Prizes and awards
- Section 409A deferrals
- Medical and health care payments
- Payments to an attorney
- Other income payments
- Crop insurance proceeds
- Nonqualified deferred compensation

The above lists do not display all 1099 reportable payments; if you have questions, please contact our office. Do not report payments to employees such as Christmas bonuses, or reimbursements for travel or car expenses on Form 1099; report these on Form W-2.

File Form DE-542 with the EDD for independent contractors within 20 days of either making payments or entering into a contract totaling $600 or more, whichever is earlier.

Business Property Annual Reporting (Form 571-L)
Business Property Tax Statements will be e-filed in April. Please review your latest depreciation schedule and note any additions, disposals, or corrections and provide us with a list of any equipment purchases/sales through December 31, 2025, by date purchased/disposed, description, and amount.

If you need a copy of your latest depreciation schedule, we are happy to provide one to you upon request. Please notify us of any changes and send us the business property tax return form (571-L) received from the county by April 1, 2026. The form provides us with the Business Identification Number (BIN) needed to e-file your business property tax returns.

Please be sure to read all notices you receive from regulatory agencies, as there may be regulatory changes that affect your business.

Please contact our office if you have any questions about the information in this letter.

Sincerely,

DHS Advisors - Eureka