

## **2018 BUSINESS AND PAYROLL UPDATE**

**READ CAREFULLY! IF YOU HAVE ANY QUESTIONS, PLEASE CALL.**

### **SOCIAL SECURITY RATES**

The FICA tax will 6.2% for employees and 12.4% for self-employed individuals on earnings up to \$132,900 effective January 1, 2019. In addition, the Medicare hospital insurance portion of the FICA Tax remains at 1.45% for employees and 2.9% for self-employed individuals on all earnings (there is no limit). Thus, the total FICA rate will be 7.65% for employees and 15.30% for self-employed individuals up to \$132,900 with an additional 1.45% tax (2.9% for self-employed individuals) on earnings over \$132,900 effective January 1, 2019. There is an additional Medicare Tax at a rate of .9% on wages and self-employment income over the following thresholds, Married filing jointly \$250,000, Single, Head of Household, or Qualifying Widow(er) \$200,000, and Married filing separately \$125,000.

### **PROVISION 11011 SECTION 199A – QUALIFIED BUSINESS INCOME DEDUCTION**

Also known as the section 199A deduction or the deduction for qualified business income, the deduction was created by the 2017 Tax Cuts and Jobs Act. A1. Section 199A of the Internal Revenue Code provides many taxpayers a deduction for qualified business income from a qualified trade or business operated directly or through a pass-through entity. The deduction has two components.

1. Eligible taxpayers may be entitled to a deduction of up to 20 percent of qualified business income (QBI) from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. For taxpayers with taxable income that exceeds \$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers, the deduction is subject to limitations such as the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.
2. Eligible taxpayers may also be entitled to a deduction of up to 20 percent of their combined qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This component of the section 199A deduction is not limited by W-2 wages or the UBIA of qualified property.

The sum of these two amounts is referred to as the combined qualified business income amount. Generally, this deduction is the lesser of the combined qualified business income amount and an amount equal to 20 percent of the taxable income minus the taxpayer's net capital gain. The deduction is available for taxable years beginning after Dec. 31, 2017. Most eligible taxpayers will be able to claim it for the first time when they file their 2018 federal income tax return in 2019. The deduction is available, regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

## "S" CORPORATION HEALTH INSURANCE FOR SHAREHOLDERS

If you happen to have elected "S" Corporation status, the amounts paid by the Corporation for health insurance premiums on behalf of a more than 2% shareholder must be added to federal gross wages on the W-2 for that individual.

## SELF-EMPLOYED SPOUSAL HEALTH INSURANCE

Self-employed individuals - whether in partnerships, limited liability companies, "S" Corporations, or sole proprietorships - who hire their spouses as employees, can deduct their medical benefits as legitimate business expenses.

## FEDERAL TAX DEPOSITS

The IRS has issued proposed regulations that beginning January 1, 2011 you must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically using the electronic federal tax payment system (EFTPS). For more information about EFTPS or to enroll in EFTPS, visit the EFTPS website at [www.eftps.gov](http://www.eftps.gov) or call 1-800-555-4477.

## PENNSYLVANIA MINIMUM WAGE AND NEW HIRE REPORTING

The minimum wage in Pennsylvania was increased to \$7.25 on July 24, 2009. Remember that it is still mandatory to report to Pennsylvania all new employees within 20 days of hiring. An information packet with blank forms was mailed to all employers in December, 1997. For further information, you may call the Pennsylvania Bureau of Research and Statistics (1-888-724-4737).

## REPORTING PAYMENTS MADE TO ATTORNEYS

There is no threshold amount below which reporting [under section 6045(f)] is not required. Payments made to any company (including corporations) engaged in providing legal services are reportable on Form 1099-MISC.

## 1099-MISC REPORTING FOR PENNSYLVANIA

A payor must submit a 1099-MISC if the payor makes payments of "nonemployee compensation" or under an "oil and gas lease." If the payor must file electronically for employer withholding purposes, then the Form 1099-MISC must be filed electronically. Paper filing is allowed if the payor is not required or registered to perform electronic filing or if the payor is not subject to Pennsylvania employer withholding.

Businesses must withhold PA State income tax at 3.07% for all non-residents receiving payments, and must pay the withholding using the E-Tides Systems.

## MILEAGE RATES

The official per-mile rate for business use of a car was 54.5 cents for the 2018 tax year. The mileage rate for the 2019 tax year will be 58.0 cents per mile.

## SECTION 179 EXPENSE AND VEHICLE DEPRECIATION

The Section 179 expensing provision is \$1,000,000 in 2019, with phase out threshold at \$2,500,000. For heavy vehicles (rated between 6,000 and 14,000 pounds gross vehicle weight) The new law changed depreciation limits for passenger vehicles placed in service after Dec. 31, 2017. If the taxpayer doesn't claim

bonus depreciation, the greatest allowable depreciation deduction is: \$10,000 for the first year, \$16,000 for the second year, \$9,600 for the third year, and \$5,760 for each later taxable year in the recovery period. If a taxpayer claims 100 percent bonus depreciation, the greatest allowable depreciation deduction is: \$18,000 for the first year, \$16,000 for the second year, \$9,600 for the third year, and \$5,760 for each later taxable year in the recovery period.

The 2017 depreciation deduction limit on passenger automobiles is \$3,160 and \$3,560 for light trucks and vans.

## BONUS DEPRECIATION

The new law increases the bonus depreciation percentage from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. The bonus depreciation percentage for qualified property that a taxpayer acquired before Sept. 28, 2017, and placed in service before Jan. 1, 2018, remains at 50 percent. Special rules apply for longer production period property and certain aircraft.

The definition of property eligible for 100 percent bonus depreciation was expanded to include used qualified property acquired and placed in service after Sept. 27, 2017, if all the following factors apply:

- The taxpayer or its predecessor didn't use the property at any time before acquiring it.
- The taxpayer didn't acquire the property from a related party.
- The taxpayer didn't acquire the property from a component member of a controlled group of corporations.
- The taxpayer's basis of the used property is not figured in whole or in part by reference to the adjusted basis of the property in the hands of the seller or transferor.
- The taxpayer's basis of the used property is not figured under the provision for deciding basis of property acquired from a decedent.
- Also, the cost of the used property eligible for bonus depreciation doesn't include the basis of property determined by reference to the basis of other property held at any time by the taxpayer (for example, in a like-kind exchange or involuntary conversion).

## RETIREMENT PLAN CONTRIBUTIONS

The start of the \$6,000 (for singles) and \$12,000 (for MFJ) phase out for tax-deductible contributions to regular IRAs by "active participants" in employer-sponsored plans is \$62,000 AGI for singles and \$99,000 AGI for couples. Also, taxpayers 50 and over can make "catch-up" contributions to IRAs, 401(k)s and SIMPLEs (see chart below).

<b>Retirement Plan Contribution Limits</b>						
<u>Year</u>	<u>401(k)s</u>	<u>401(k)s for Taxpayers 50 &amp; over</u>	<u>IRAs *</u>	<u>IRAs * for Taxpayers 50 &amp; over</u>	<u>SIMPLEs</u>	<u>SIMPLEs for Taxpayers 50 &amp; over</u>
2018	\$18,500	\$24,500	\$5,500	\$6,500	\$12,500	\$15,500
2019	\$19,000	\$25,000	\$6,000	\$6,500	\$13,000	\$16,000

\*Traditional and Roth IRAs

The amount of contributions or benefits that can be provided for taxpayers as participants under a qualified plan is limited, based on the type of plan. This year, the amount of contributions and benefits that can be provided under both **defined contribution and defined benefit plans** is \$54,000. The compensation used to determine contributions to qualified plans is \$270,000.

## REVISED REPAIR/CAPITALIZATION RULES

The IRS recently issued long-awaited comprehensive final rules on the treatment of payments to acquire, produce or improve tangible property. Starting January 1, 2014, businesses must use these new rules in determining whether they can deduct their costs as repairs under Code Sec. 162(a) or must capitalize the costs, to be recovered over a period of years under Code Sec. 263(a). Businesses will benefit if certain

procedures for treating expenses are put into place by January 1, 2014. Some businesses will be better off if they start applying the new rules retroactively to the 2012 and 2013 tax years. Many of these decisions require advance planning. An annual election is made by filing a statement with the income tax return when filed.

#### PA UNEMPLOYMENT TAXABLE WAGE BASE

The taxable wage base for employer contributions will be increasing each year from 2013 through 2018 as part of the Act 60 amendments to the Pennsylvania Unemployment compensation law. At the same time, the maximum state adjustment factor has been decreased from 1.5% to 1.0% through 2016 and will decrease further thereafter. The following chart lists the taxable wage base and state adjustment factor amounts beginning in 2013.

<b>Calendar Year</b>	<b>Taxable Wage Base for Employer Contributions (per employee per year)</b>	<b>Maximum State Adjustment Factor</b>
2013	\$8,500	1.0%
2014	\$8,750	1.0%
2015	\$9,000	1.0%
2016	\$9,500	1.0%
2017	\$9,750	0.85%
2018 and thereafter	\$10,000	0.75%

#### LOCAL INCOME TAX WITHHOLDING

**All** employers with locations within Pennsylvania are required to withhold earned income taxes from their employees based upon the higher of two tax rates the employee can be subject to, i.e. the employee's resident tax rate or the employer jurisdiction's non-resident tax rate. The employer will be required to identify the rate for each employee and withhold and remit at the higher of the two rates. Act 32 required that all taxing bodies within each county choose one tax collector to administer the earned income tax for that county as of the 1<sup>st</sup> quarter of 2012, all employers/self reporting individuals are required to file the taxes due within the county's chosen administrator.

Employers must obtain from all existing and new employees a filled out certification form at their place of residence and the correct rate due. The form will also need to be updated if the employee moves. This form is available on our website.

Employers who employ 25 or more employees are required to file returns electronically. Please check with your county government to determine who your tax administrator will be.

The rate for Erie City residents (regardless of where they work) is 1.65%

#### LOCAL SERVICES TAX

If your business is located in a jurisdiction in which the *Emergency and Municipal Services Tax*, now called the *Local Services Tax*, exceeds \$10.00 annually, you should have received information regarding the method of withholding and payment of this tax. If you have any questions about this, please contact Berkheimer Associates at (814) 455-2710 or (866) 533-5219.

Sincerely,

DeMarco Wachter & Co.

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