

## **2023 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 \$168,600 effective January 1, 2024. 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 \$168,600 with an additional 1.45% tax (2.9% for self-employed individuals) on earnings over \$168,600. 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.

### **QUALIFIED BUSINESS INCOME DEDUCTION (Section 199A)**

Under the Tax Cuts and Job, Pass-through Entities (Sole Proprietorships, Partnerships and “S” Corporations) are allowed a 20% deduction for qualified business income. Limits on the deduction begin phasing in for taxpayers with income above \$182,100 (or \$364,200 for joint filers) in 2022.

### **“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 remains at \$ 7.25. The plan for Pennsylvania to increase its minimum wage to \$15.00 was abandoned in 2021. There are still exemptions for some employees. 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-NEC “Nonemployee Compensation”

For 2023, Form 1099-NEC is for reporting non-employee compensation to contractors. This form replaces “Box 7” on the 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.

## MILEAGE RATES

The official per-mile rate for business use of a car was 65.5 cents for the 2023 tax year. The mileage rate for the 2024 tax year is estimated at 66 or 68 cents.

## SECTION 179 EXPENSE AND VEHICLE DEPRECIATION

The Section 179 expensing provision now applies to both new and used equipment and is \$1,160,000 for 2023, with phase out threshold at \$2,700,000. For SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) placed in service in 2023 the expensing amount is limited to \$28,900 and \$30,500 for 2025

## BONUS DEPRECIATION

For qualified property acquired and placed in service after December 31, 2023, Bonus Depreciation is 80% of the cost of the property. For 2025, Bonus Depreciation is 60% of the cost.

## RETIREMENT PLAN CONTRIBUTIONS

The start of the \$6,500 (for singles) and \$13,000 (for MFJ) phase out for tax-deductible contributions to regular IRAs by "active participants" in employer-sponsored plans is \$68,000 AGI for singles and \$109,000 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>						
<b>Year</b>	<b>401(k)s</b>	<b>401(k)s for Taxpayers 50 &amp; over</b>	<b>IRAs *</b>	<b>IRAs * for Taxpayers 50 &amp; over</b>	<b>SIMPLEs</b>	<b>SIMPLEs for Taxpayers 50 &amp; over</b>
2023	\$22,500	\$30,000	\$6,500	\$7,500	\$15,500	\$19,000
2024	\$23,000	\$30,500	\$7,000	\$8,000	\$16,000	\$19,500

\*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 **defined contribution and defined benefit plans** is \$69,000 for 2024 and \$66,000 for 2025. The compensation used to determine contributions to qualified plans is \$345,000 for 2024 and \$330,000 for 2023.

## REVISED REPAIR/CAPITALIZATION RULES

The IRS 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.

## PASS-THROUGH ISSUES

Many business operations are not taxed on the entity level as corporations but, instead, pass through taxable profits and losses to their unincorporated owners or to their S corporation shareholders. Starting in 2013, these owners faced new year-end planning challenges in the form of an additional surtaxes on passive income by way of the net investment income surtax of 3.8 percent and the Additional Medicare Tax of 0.9 percent on compensation, both aimed at the "higher-income" taxpayers. Deferring some of this income, or harvesting losses to offset some of the income, are traditional year-end planning techniques that take on added value for the 2023 year-end tax year.

Business tax planning involves, not only economic planning for that year, but also making wise tax decisions that will benefit the business for years to come. Tax-saving strategies must take into account short-term and long-term goals so that decisions made for the current tax year also represent sound tax decisions in following years. Often, because business planning opportunities must be viewed in conjunction with personal tax planning, a taxpayer should also consider planning tips affecting their individual return and investment considerations when making business decisions.

## UNEMPLOYMENT TAXABLE WAGE BASE

The taxable wage base for employer contributions will remain at \$10,000 for 2023 as part of the Act 60 amendments to the Pennsylvania Unemployment compensation law. The withholding rate for employees will be .07%. The Federal Unemployment rate remains at .6% on wages up to \$7,000 for 2023.

## 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 with the municipality'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 Erie City withholding rate for residents and non-residents will remain at 1.65% for 2024.

## 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.

## **Employee Retention Credit**

The CARES Act added a refundable payroll tax credit equal to 50% of qualified wages. The credit is for qualified wages, including qualified health plan expenses allocable to the wages, paid by eligible employers from March 13, 2020, to Dec. 31, 2021. (The 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2021 only applies for recovery start-up Business.)

An employer is considered an Eligible Employer if:

- Their operations were fully or partially suspended due to a COVID-19-related shutdown order; or
- Their gross receipts declined by more than 50% in 2020 & 20% for 2021 compared to the same quarter of 2019.

- The employer remains an eligible employer in each quarter following the quarter in which their gross sales declined by more than 50% until their gross receipts exceed 80% of gross receipts compared to the same quarter of the prior year.

The credit is limited to 50% for 2020 and 70% for 2021 of the first \$10,000 of qualified wages paid to a particular worker. The credit excludes wage amounts used when calculating the family medical leave or sick leave credits under the Families First Coronavirus Response Act. The credit is also not available for the same wages used for a Small Business Interruption loan.

For employers who have more than 100 employees, qualified wages should only include either wages paid to their employees who are either not working because a COVID-19-related shutdown or their gross receipts declined by more than 50% compared to the same quarter of the prior year.

For employers who have 100 or less employees, qualified wages include wages paid during the period when operations were either fully or partially suspended because a COVID-19-related shutdown or their gross receipts declined by more than 50% compared to the same quarter of the prior year. Employers with 100 or fewer employees are eligible for their credit even if their employees remained at work during a partial shutdown.

Amended Payroll tax returns (941X) can be filed by April 30, 2024

Sincerely,



DeMarco Wachter & Co.

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