

2021 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 \$147,000 effective January 1, 2022. 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 \$147,000 with an additional 1.45% tax (2.9% for self-employed individuals) on earnings over \$147,000. 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 \$170,050 (or \$340,100 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 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 2021, a new form 1099-NEC is for reporting nonemployee 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 56 cents for the 2021 tax year. The mileage rate for the 2022 tax year has not been finalized yet and will be announced by the IRS.

SECTION 179 EXPENSE AND VEHICLE DEPRECIATION

The Section 179 expensing provision now applies to both new and used equipment and is \$1,080,000 in 2022, 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 2022 the expensing amount is limited to \$27,000.

BONUS DEPRECIATION

For qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023, Bonus Depreciation is 100% of the cost of the property.

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).

Retirement Plan Contribution Limits						
Year	401(k)s	401(k)s for Taxpayers 50 & over	IRAs *	IRAs * for Taxpayers 50 & over	SIMPLEs	SIMPLEs for Taxpayers 50 & over
2022	\$20,500	\$27,000	\$6,000	\$7,000	\$14,000	\$17,000
2021	\$19,500	\$26,000	\$6,000	\$7,000	\$13,500	\$16,500

*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 \$58,000 for 2021 and \$61,000 for 2022. The compensation used to determine contributions to qualified plans is \$290,000 for 2021 and \$305,000 for 2022.

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 2022 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 2022 as part of the Act 60 amendments to the Pennsylvania Unemployment compensation law. The withholding rate for employees will remain at .06%. The Federal Unemployment rate remains at .6% on wages up to \$7,000.

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 1st 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 Erie City withholding rate for residents and non-residents will remain at 1.65% for 2022.

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,

A handwritten signature in cursive script that reads "DeMarco Wachter & Co". The signature is written in black ink and is positioned above a thin horizontal line.

DeMarco Wachter & Co.

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