



Special Report

Payroll 2024 Year End

Information provided is current as of
November 15, 2024

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Tax

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Introduction

Year-end for payroll professionals generally starts when the next year's inflation-adjusted or indexed numbers are released in mid-October and ends after most reports and forms for the prior year are completed and filed in February. This time frame of fewer than five months encompasses two broad activities: successfully closing out the old year and establishing a strong start to the payroll process in the new year.

The steps and considerations involved in accomplishing the myriad tasks and activities inherent in a successful year-end are the focus of this special report, 2024 Payroll Year-End. This report has been prepared jointly by employment tax and benefit professionals at KPMG LLP and payroll editors at Bloomberg Tax.

This report covers a wide array of topics, including sections covering policy issues, remote workers, tax requirements related to 2024 and prior-year legislation, as well as common concerns at year-end that have been identified as historically problematic for employers. The writers have also highlighted frequent problems in correctly reporting items on Form W-2, *Wage and Tax Statement*, inclusive of the reporting treatment of such items as deferred compensation, health savings account contributions, multistate wage allocation, and accounting for fringe benefits, gifts, prizes, and awards.

A list of key 2024 federal and state wage base limits, state unemployment taxable wage bases, and health savings account limits are included in a special By the Numbers

section. The report also accompanies an interactive, two-page 2024 Year-End Checklist that payroll teams can share to track issues within their organization.

Payroll professionals know that starting the year-end process in October can bring unneeded pressure to the collecting of information that is needed to reconcile the current year's payroll and prepare for the new year. Instead, starting the next year-end planning process in February allows a payroll team to close out the year-end process on a high note.

Year-End Policy Issues

This is an election year, which provides us with very little change or movement on the legislative front. The 2024 year-end and the outlook for 2025 will be interesting. The recent presidential election could determine the fate of provisions in the Tax Cuts and Jobs Act, which will expire at the end of 2025. If legislation is not enacted in 2025, the provisions of the TCJA that have affected payroll will no longer be in existence, reverting to pre-TCJA treatment.

Keeping abreast of potential legislation while ensuring that reporting obligations for the current year requirements are met will keep payroll professionals busy during the 2024 year-end. Consider and investigate the items in this report to identify potential issues and hopefully mitigate, or at least minimize, any year-end surprises.

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Amended Returns and Pending Payroll Adjustments

Employee Retention Credit

As originally enacted by the CARES Act, the Employee Retention Credit provided a refundable payroll credit for eligible employers whose business had been affected by the Covid-19 pandemic for qualified wages paid between March 13, 2020, and Dec. 31, 2020. Subsequent legislation ultimately extended and expanded the ERC through Dec. 31, 2021.

However, the Infrastructure Investment and Jobs Act (enacted Nov. 15, 2021) amended the law so that the ERC applies only to wages paid before Oct. 1, 2021, unless the employer is a "recovery startup business."

Reporting Employee Retention and Paid-Leave Tax Credits

A high-level summary of the employee retention credit (ERC) and paid-leave tax credits under the FFCRA:

- Employers that are eligible for the ERC and paid-leave tax credits under the FFCRA can claim those credits on a quarterly basis by reporting the credits on Form 941-X, *Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund*.
- The claims for refund must be submitted via Form 941-X for the quarter in which the employee performed the services and wages were paid. The credits can be obtained by requesting a refund on Form 941-X or by submitting a request for the credit carry-forward to apply against any other outstanding liability.
- If a third-party payroll vendor is used for tax filing purposes, they may dictate whether they will process a credit or claim a refund check based upon the requirements of their software and filing systems.

An employer that claimed the credit for qualified sick and family leave wages for leave taken after March 31, 2020, and before April 1, 2021, and that makes any corrections on Form 941-X to amounts used to figure this credit, will need to refigure the amount of this credit using Worksheet 1. The employer will also use Worksheet 1 to figure this credit if claiming it for the first time on Form 941-X.

An employer that claimed the credit for qualified sick and family leave wages for leave taken after March 31, 2021, and before Oct. 1, 2021, that makes any corrections on Form 941-X to amounts used to figure this credit, will need to refigure the amount of this credit using Worksheet 3. The employer will also use Worksheet 3 to figure this credit if claiming it for the first time on Form 941-X.

An employer that claimed the employee retention credit for wages paid after March 12, 2020, and before July 1, 2021, that makes any corrections on Form 941-X to amounts used to figure this credit, will need to refigure the amount of this credit using Worksheet 2. The employer will also use Worksheet 2 to figure this credit if claiming it for the first time on Form 941-X.

Employers that claimed the employee retention credit for wages paid after June 30, 2021, and before Jan. 1, 2022, and makes any corrections on Form 941-X to amounts used to figure this credit, will need to refigure the amount of this credit using Worksheet 4. The employer will also use Worksheet 4 to figure this credit if claiming it for the first time on Form 941-X.

An employer that claimed the COBRA premium assistance credit and makes any corrections on Form 941-X to amounts used to figure this credit will need to refigure the amount of this credit using Worksheet 5. The employer will also use Worksheet 5 to figure this credit if claiming it for the first time on Form 941-X.

Credit claims for 2020 can no longer be submitted as the 2020 statute lapsed on April 15, 2024. Credit claims for 2021 can still be submitted through April 15, 2025.

Amended Returns

Due to the high volume of paper Form 941-X submitted to the IRS under the credit programs enacted during 2020, the IRS has experienced an unprecedented backlog in claims that have not yet been processed. This backlog includes claims submitted through payroll in the regular course of business.

Requesting an IRS transcript at year end if amended returns have been filed and not yet processed may be a beneficial exercise to determine if the returns are still in queue or if they have been accepted and are currently in process with the IRS.

Employers might find mismatches between Forms W-2C submitted to employees and the Form 941-X that has not yet been processed. Employees may have questions about their personal tax returns, and states might have questions when matching to federal tax returns. All of this remains an issue until the IRS clears out the Form 941-X backlog.

Section 139 Qualified Disaster Relief Payments

Under IRC Section 139, employers may provide payments or reimbursements to an employee for reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster. These payments may generally be

Multistate Reporting: Hybrid, Remote, and Traveling Workers

Hybrid and remote work situations are now commonplace and have led to a myriad of payroll reporting and taxation issues as well as other tax implications that payroll and tax professionals have struggled with throughout 2024. Employee travel is now approaching prepandemic levels, and the payroll tax consequences of short-term travel are issues to face in 2025.

An employee may now be subject to state income tax withholding in their new work location, and that worksite may be one where the company previously had no presence.

The general rule of thumb, established before the pandemic, is that state income tax withholding should be performed based upon the employee's work location. Many states have set thresholds for withholding purposes, dictating that once an employee has passed that threshold, withholding should be performed. For example, New York has a 14-day rule, while California expects state withholding on the first day. An employer should look to the state's rules for state income tax withholding as well as unemployment insurance based upon whether their employee is performing services as a temporary employee in the state, as a traveling employee into the state, as a telecommuter, or as a permanent employee in that jurisdiction.

"Convenience of the Employer" Rule

Under the "convenience of the employer" rule applied in Connecticut, Delaware, Nebraska, New Jersey, New York, and Pennsylvania, if employees work from home through the employer's necessity, the employee will be taxed in the employee's telecommuting location. If, however, the employee telecommutes for their own convenience, the employee's wages for those workdays will be classified as if the employee was working from the employer's physical office.

The Connecticut and New Jersey rules apply to employees who reside in other states that also impose convenience of the employer rules. Note that "convenience of the employer" rules do not override reciprocal agreements between states.

Employee Work-From-Home Expenses

As employees adjusted to their new remote work locations, they also started incurring expenses for new office setups. They may not have left their original state, but they now were working from home and needed computer monitors, printers, office supplies, internet connections, and other items necessary to function from a remote office. Some employers have offered employees an allowance or reimbursement to cover certain work-from-home expenses or provided additional equipment that can be used at the remote site. Whether these allowances, reimbursements, or the value of provided equipment should be included in employee income—and in what amount—generally depends on the facts and circumstances.

Additionally, other expenses that employers and employees often incur while operating in a business-as-usual mode may look different in the new post-pandemic work environment. For employees working from home, there likely are fewer group lunch meetings or recreational team activities. If an employer still would like to cover the cost of some meals for virtual meetings or happy hours, would that still be excludable from income? Employees who are traveling to the office may have additional expenses if they are relying more heavily on car-ride services or driving personal vehicles and parking to avoid public transportation. If an employer assists with the added expenses, can any portion be provided tax-free?

With the changes to the facts and circumstances around many expenses and benefits, employers have had to reconsider whether and to what extent they may continue to treat them in the same way. Certain expenses that are excludable from income when provided at the office or in a group setting may need to be run through payroll as wages if provided to employees working remotely or in a new environment.

Making matters even more challenging for payroll departments is that more employees are working from home and are now considering themselves either full-time remote or hybrid workers, working from one location several days during the week and then from the office for the remaining days of the week.

Hybrid and remote work arrangements may have withholding and reporting ramifications depending upon where the employee lives and works. This might in turn create income tax nexus issues for unwary employers that now find themselves in new jurisdictions.

Form W-2 Reporting for Hybrid, Remote, or Traveling Employees

Handling the wage and tax allocation/reporting at year-end for the cross-border business traveler may be onerous and technically challenging. Employers of multistate workers and their third-party providers need to effectively manage the overall compliance issues associated with state-to-state, short-term business travel.

When working through the complexities of multistate withholding, practitioners should also consider the different tax treatment of various types of income, such as base compensation, bonus payments, and equity compensation. Employers need to apply, by state, any de minimis treatment, reciprocity, telecommuting regulations, and specific compensation reporting methodologies.

Employers need to capture all the employee-level data detailing how many days each employee performed services in the states where work was performed. If the travel data was

tracked throughout the year and the employee's pay allocated accordingly, employers may want to review and make adjustments in December.

December also is a good time to communicate the issue of nonresident taxation to the affected employees.

Specific attention should be paid to local jurisdiction taxation. Localities have also faced changes with remote workforces, and some have instituted new guidelines on how they expect their tax to be implemented.

Reminder: Form W-2 has space to include wage and tax amounts for up to two states. If three or more states are involved, multiple Forms W-2 would be necessary. See the IRS instructions for Forms W-2 and W-3 for details.

Amounts in Box 16, State Wages, should take into account unusual reporting requirements. For example, New York requires the amount in Box 16 to be the same as the wages in Box 1. When reporting two states including New York, the total of both Box 16s will not match Box 1. This may confuse employees, and so employers should consider providing an explanation to employees when delivering Forms W-2.

The explanation also could be used to alert the employee that they may want to seek help from a tax adviser because they may need to file more than one state individual income tax return.

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
NY	XXXXXXXXXXXX	87000.00	9000.00			
ME	XXXXXXXXXXXX	120000.00	10000.00			

Form **W-2** Wage and Tax Statement **2024**

Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10134D

Items of Note

Expiring Tax Reform

Section 125 crossing years: Sometimes, after employees' returns from leaves of absence, money is owed to the employer for pre-tax medical benefits. If the deduction continues into 2025 for amounts owed on insurance coverage from 2024, it must be a post-tax deduction. The employee cannot pay for benefits on a pre-tax basis in a different year than the coverage.

State and local requirements: The focus at year-end for payroll involves the true-up not only for federal tax requirements but also applicable state taxes. While most states that have income taxes generally conform to federal definitions, there are some significant differences. **California** and **New Jersey**, for example, do not follow the federal exclusion for contributions to health savings accounts.

Several states continue to exclude from income some employer-paid moving expenses. These differences, if identified early enough, can translate to a smoother state year-end process and mitigate post-close issue identification and filings of Form W-2c, Corrected Wage and Tax Statement.

FUTA Credit Reductions for 2024

California, New York, and the US Virgin Islands have been assessed a Federal Unemployment Tax Act credit reduction for 2024. The credit reduction will be 0.9% in California and New York and 4.2% in the US Virgin Islands.

The reduction will cause employers to pay an effective federal unemployment tax rate of 1.5% in California and New York, or up to \$105 for each employee when applied to the federal unemployment-taxable wage base of \$7,000. In the US Virgin Islands, the reduction will result in a federal unemployment tax rate of 4.8%, or up to \$336 for each employee when applied to the \$7,000 wage base.

Employers in these locations must use Form 940 Schedule A to calculate their annual FUTA tax in light of the credit reduction. Form 940 is due by Jan. 31, 2025.

Keep in Mind

Moving expenses are still 100% taxable through 2025, except for active military members. However, state regulations on the taxability of these expenses may differ, so the relevant state income tax rules should be monitored and reviewed. Several states do not follow federal treatment on such expenses and may exclude taxes on the benefit.

Qualified transportation fringe benefits may still be provided tax-free to employees, except for bicycle commuting, up to stated monthly limits. Employers, however, may only take a deduction for most expenses related to providing this type of benefit in limited circumstances. As a result, some employers are amending their transportation benefits programs and policies, which may affect their taxability to employees. State treatment of these benefits differ. As a result, those should be reviewed for state unemployment and state income tax withholding purposes.

Family- and medical-leave credits may still be available for some employers, based on wages paid to qualifying employees while on leave that is not Covid-19 related. Specific conditions and requirements must be met. The credit has been extended through Dec. 31, 2025.

For other taxes related to payroll, several jurisdictions are using withholding on employee wages to fund paid-leave programs or, in the case of **Washington**, a payroll tax to fund the state's long-term care program.

At year-end, payroll professionals must also monitor and properly account for such items as minimum wage, paid-leave requirements, unemployment insurance, temporary disability, and workers' compensation, all of which are administered on a state and local basis.

Form W-2 Year-End Basics for 2024

The timely processing of accurate Forms W-2 is a key function of any payroll department. However, several potential pitfalls can easily derail the most basic requirements.

Form W-2 formatting: A common mistake is filing Forms W-2 labeled with the incorrect year. A 2024 form must be filed by Jan. 31, 2025. Entries for approved print copies must be in 12-point Courier font and black ink. Dollar amounts must have a decimal point and two decimal places, without a dollar sign or commas. No negative dollar amounts may be reported. The IRS cautions not to use a copy of Form W-2 downloaded from the IRS website, because it is not a scannable form.

Social Security numbers: Ensure that SSNs have nine digits. Since tax year 2022, the IRS lets employers truncate SSNs on employee copies (i.e., copies B, C, and 2). SSNs may not be truncated on Copy A, which is filed with the Social Security Administration, or on Copy 1, which is filed with the state, city, or local tax department.

Truncated SSNs may be displayed in either of two formats, which must display the last four digits. The truncated digits may be filled either with asterisks or the capital letter X (e.g., XXX-XX-1234 or ***-**-1234).

Employer Identification Numbers are not to be truncated on any copy of Form W-2.

Employee name: The SSA will not process Forms W-2 with misspelled names, incorrect formatting, and SSNs that do not match those in the SSA's system. Employers should consider using the SSA's Social Security Number Verification Service, which is fast, easy, and accurate.

Balance checks: Dollar limits exist for some boxes, including:

- Box 3, Social Security wages, is limited to \$168,600
- Box 4, Social Security tax withheld, is limited to \$10,453.20
- Box 12, Codes D and E is limited to \$23,000 for those younger than 50 and \$30,500 for those 50 and older

Codes: Codes for Box 12 may be a challenge. Report as Code DD the combined cost of the employer-provided health coverage, which includes both the employee and employer portions. Similarly, Code W is to include all employer contributions, including an employee's contributions through a cafeteria plan, to a health savings account. Ensure that earnings and deductions requiring Box 12 reporting include the correct code, especially after a system upgrade.

State and local reporting: Include state account numbers in Box 15 and follow special state reporting rules.

AccuWage Online: SSA can check Form W-2 files before submission for common problems and provide a report on issues that may prevent the submission from being accepted.

22222		VOID <input type="checkbox"/>	a Employee's social security number XXX-XX-0000		For Official Use Only OMB No. 1545-0008					
b Employer identification number (EIN)			1 Wages, tips, other compensation 175000.00		2 Federal income tax withheld 22750.00					
c Employer's name, address, and ZIP code NON-ENTRY ANYWHERE, USA			3 Social security wages 168600.00		4 Social security tax withheld 10453.20					
			5 Medicare wages and tips		6 Medicare tax withheld					
d Control number			7 Social security tips		8 Allocated tips					
			9		10 Dependent care benefits					
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12 D 7500.00		
f Employee's address and ZIP code			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b DD 8300.00					
			14 Other		12c 12d					
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name
NY XXXXXXXXXXXX		87000.00		9000.00						
ME XXXXXXXXXXXX		120000.00		10000.00						

Form **W-2** Wage and Tax Statement

2024

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Awards, Prizes, Gifts

The general nature of the federal tax code is to include the value of all items provided to employees as taxable compensation reported on Forms W-2, unless the items may be excluded by law, regulation, or agency position. Many employers get this wrong, especially at year-end.

Below is a synopsis of some of the items that may be excluded from taxable compensation and reporting.

Length-of-Service, Safety Awards, Gifts

The value of tangible employee achievement awards, such as length-of-service awards and safety awards, may be excluded from wages and reporting, provided requirements are satisfied and subject to limitations.¹ For example, the award must be presented in a meaningful ceremony and the circumstances must not indicate a likelihood that the award is disguised pay.

Awards are made under qualified or nonqualified plans, which have different requirements and carry different limitations. Awards to a single employee in a year are limited to \$400 if not made under a qualified plan; the cumulative amount of awards given to an employee under a qualified plan are limited to \$1,600 in one year, with the average cost of all awards made by the employer not exceeding \$400.

The Tax Reform and Jobs Act clarifies that cash and cash equivalents; gift cards, coupons, and certificates; vacations; meals; lodging; tickets to sporting events; stocks, bonds, and securities; or similar items are not excluded tangible property, and their value must be included as income.²

A **length-of-service award** must be in recognition of at least five years of service, provided the employee did not receive an award in the previous four years. Length-of-service awards given to retiring employees may be excluded from income if they meet the rules and limitations discussed above.

For **safety awards** to be considered tax-free to employees, no more than 10% of employees may qualify for the award. Awards to professional, administrative, and clerical employees are not eligible for tax-free treatment.

Awards for employee suggestions generally are taxable and subject to withholding and employment taxes.

Gifts to employees are included in income and reporting is required, with limited exceptions as described by the Internal Revenue Code and Treasury Department regulations. Gift cards or gift coupons that may be redeemed for cash amounts are considered taxable compensation by the IRS.³

Exceptions lie in terms familiar to payroll professionals - *de minimis* benefits or working-condition fringe benefits. Many tangible items provided by employers to employees may be excluded from taxability to the employee if:

- The item is of low value (IRS does not define the term).
- The benefit is occasional and not consistently awarded, and the item's value is difficult to determine or administratively impracticable to track and apply.

Many other items might remain *de minimis* despite not meeting all the criteria above, including traditional birthday or holiday gifts of property, excluding cash, with a low fair-market value. Additionally, flowers, fruit, books, or similar property may be provided to employees under special circumstances (e.g., illness, outstanding performance, or family crisis), according to Treasury regulations.⁴

Gift Cards/Coupons That Are Cash Equivalents

Employers must pay attention to gift-coupon arrangements. The IRS concluded that an employer-provided gift coupon with a defined face value of \$35 could not be excluded from income as a *de minimis* fringe benefit.⁵

As detailed by the IRS, an employer that previously provided employees with tax-free hams, turkeys, or gift baskets as annual holiday gifts instead distributed \$35 gift coupons redeemable for grocery products at select nearby stores.

The IRS ruled that the gift coupons were to be included as compensation and reported on Forms W-2 because such cash-equivalent fringe benefits have a readily determined value, regardless of whether they may be converted to cash. In short, it was not administratively impracticable to account for coupons that had a face value of \$35.

¹ I.R.C. Section 274(j).

² I.R.C. Section 274(j)(3)(A)(ii).

³ IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

⁴ Treasury Regulation Section 1.132-6(e)(1); IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

⁵ Technical Advice Memorandum 200437030.

Qualified Plans

Qualified deferred compensation plans generally refer to traditional retirement plans, such as 401(k) and pension plans.

The Internal Revenue Code details the limits of a defined contribution plan, including 401(k) plans, for all annual plan additions, such as employer contributions, employee contributions other than rollovers, and allocation of forfeitures. This limit is the lesser of \$70,000 in 2025 (\$69,000 in 2024) and 100% of the participant's compensation.¹

The participant's compensation must be determined under the IRC even if a different definition is used for the plan, such as when calculating the rate of employer contributions. Catch-up contributions for participants who have reached age 50 during the year are not included in the limit.

Note: The limitation year under the plan might not be the calendar year.

The elective deferral limit is \$23,500 in 2025 (\$23,000 in 2024).² Corrections are needed when there are excess deferrals, such as when an individual defers compensation exceeding the limit that may be applied as a catch-up contribution. Corrections generally take the form of distribution of the excess as well as any allocable earnings. Participants who are 50 and older at the end of the year can make an additional "catch-up" contribution up to \$7,500 in 2024 (no change from 2023). If excess deferrals are not corrected in a timely manner, the participant may have additional taxable income and the plan's tax qualification status may be at risk.

Under the IRC, there is another limit for defined benefit plans which, when expressed as an annual benefit, is the lesser of \$280,000 in 2025 (\$275,000 in 2024), and 100% of the participant's average compensation for three consecutive highest-paid years.³ A defined benefit plan's formula to determine annual benefits typically does not allow for a situation when the compensation limit would be exceeded, though the plan actuary still would likely monitor benefit payments for compliance.

For Form W-2 reporting, employers are to exclude from Box 1 wages, tips, other compensation, and the amounts deferred from pay by employees pre-tax into a qualified plan during the year, up to the annual limit. These amounts are not excluded for reporting wages in Box 3, Social Security wages, up to the wage base limit of \$176,100 in 2025 (\$168,600 in 2024), and must be included in Box 5, Medicare wages and tips. There is no wage base for Medicare contributions.

Box 12 includes codes to identify payments and deferrals. In Box 13, "Retirement plan" should be checked if the employee is an active participant in a qualified retirement plan for any part of the year. In other words, this box should be checked if the employee is covered for the tax year by a defined benefit plan, eligible to participate or covered by a defined contribution plan, and employer or employee contributions are added to the employee's account.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans		12a See instructions for box 12				
NON-PERSON ANYWHERE, USA					13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b				
					14 Other		12c				
							12d				
f Employee's address and ZIP code					15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement

2024

Department of the Treasury—Internal Revenue Service
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Cat. No. 10134D

¹ I.R.C. Section 415(c).

² I.R.C. Section 402(g).

³ I.R.C. Section 415(b).

Nonqualified Plans

Nonqualified deferred-compensation plans may require administering income tax and Federal Insurance Contributions Act taxes in different years.¹ This may apply to arrangements that provide a right to payment in a future year, such as excess benefit plans, supplemental executive retirement plans, salary and bonus deferral arrangements, restricted stock units, or phantom equity awards.

Nonqualified deferred compensation amounts generally are subject to FICA taxes in the year they become vested under the special-timing rule, but federal income taxation is generally delayed until amounts are paid or distributed.

Separate tracking may be needed for plans that provide for accelerated vesting upon a certain event, such as retirement, because participants may become vested and subject to FICA prior to the plan’s general vesting schedule. As a result, FICA taxes may be due before federal income tax.

Vesting provisions may require that deferrals become vested over a period of years. Such deferrals may be subject to FICA over multiple years, even if amounts under the plan are later paid out as a lump sum. Employers should consider whether plan amounts may vest and be paid in different years, and whether any amounts became vested but were not paid out in 2024.

For plan amounts that vested earlier this year and will be paid or distributed in future years, it might not be too late to act for 2024. Under the special timing rule, employers may choose to take a deferred amount into account for FICA tax purposes on any date later than, but within the same year

as, the date the amount was subject to FICA taxes. Once an amount is taken into account under the rule, later payments and earnings generally are not subject to FICA tax. In certain cases, the amount taken into account for FICA may be estimated within three months if interest is included. Box 11 of Form W-2 is used to explain discrepancies between Box 1 and Boxes 3 and 5 by reporting one of the following:

- The amount of a distribution that is included in Box 1 but was taken into account for FICA purposes in a prior year.
- The amount included in Boxes 3 and 5, although not yet subject to income tax.

Do not report amounts in Box 11 if there is a deferral and a distribution in the same year.

If nonqualified compensation amounts were vested in a prior year and not previously considered for FICA taxes, the approach for when and how to handle this may depend on when the amount became vested.

Additionally, employers may report current-year deferrals and earnings under nonqualified deferred-compensation plans subject to IRC Section 409A in Box 12 using Code Y. However, Code Y reporting remains optional for 2024. If any amount of nonqualified deferred compensation must be included in income because of a Section 409A failure, it should be reported in Box 12 using Code Z, in addition to Box 1.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans 11000.00		12a See instructions for box 12		
NON-PERSON ANYWHERE, USA					13 Statutory employee <input type="checkbox"/>		12b		
					Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>		
					14 Other		12c		
							12d		
f Employee's address and ZIP code									
15 State		Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.	
								19 Local income tax	
								20 Locality name	

Form **W-2** Wage and Tax Statement

2024

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Cat. No. 10134D

¹ I.R.C. Section 3121(v).

Supplemental Wages

Payroll professionals often handle special bonuses or other supplemental pay at year-end or early in the following year. Here are tips on how to be ready when word comes down that bonuses will be paid out.

For total supplemental pay up to \$1 million in a year for any employee, employers must use either the aggregate method of withholding or the optional flat rate withholding method. Employers should consistently apply that method for each individual. There is no penalty for changing methods, but allowing employees to decide can be administratively impracticable.

The aggregate method combines supplemental wages with regular pay and tax is withheld using the applicable withholding tables for the payroll period in which the aggregated wages are paid. Such additions to pay may mean the total amount is taxed at a higher-than-normal rate for that pay cycle.

Those applying the optional flat rate withholding method must use a 22% withholding rate. To use the flat-rate method, income tax must have been withheld from the employee's regular wages during the calendar year the supplemental pay

was paid or in the preceding year. The supplemental wage payment must either not be paid concurrently with regular wages or separately stated on payroll records.

For accumulated supplemental wages exceeding \$1 million, the employer must withhold at a rate of 37%. Employers may not use the aggregate method for amounts exceeding \$1 million. If the employees' accumulated supplemental amounts were less than \$1 million before a supplemental payment, and this payment would cause them to exceed the \$1 million threshold, the employer has two choices:

- Tax the amount that is less than \$1 million at 22% and the amount that exceeds \$1 million at 37%.
- Tax the entire amount at 37%.

The flat-tax rates were reduced starting in 2018 by the tax code overhaul. Employers should ensure their systems have been correctly applying the 22% and 37% rates.

Many states also allow flat rate withholding for supplemental pay. For state income taxation, see the state supplemental wage chart.

States With Flat Supplemental Wage Rates (2024)

State	Withholding Rate
Alabama	5%
Arkansas	4.4%
California	6.6 or 10.23%
Colorado	4.55%
Georgia	5.39%
Idaho	5.695%
Illinois	4.95%
Indiana	3.15%
Iowa	5.7%
Kansas	5%
Kentucky	4%
Maine	5%
Maryland	3.2 - 8.95%*
Michigan	4.25%
Minnesota	6.25%
Missouri	4.8%

State	Withholding Rate
Montana	5%
Nebraska	5%
New Mexico	5.9%
New York	11.7%
North Carolina	4.6%
North Dakota	1.5%
Ohio	3.5%
Oklahoma	4.75%
Oregon	8%
Pennsylvania	3.07%
Rhode Island	5.99%
South Carolina	6.2%
Vermont	6.6 - 11.1%*
Virginia	5.75%
Wisconsin	3.54 - 7.65%*

2024 Rates Listed are Subject to Change

* Rates Vary by Amount or Type of Payment

Health Savings Accounts

Health savings accounts, available only when qualified high-deductible health insurance plans are offered, provide a tax-favored savings mechanism to offset the costs of health care.¹ Although the basic rules on HSA contributions and reporting are fairly straightforward, these rules may cause some confusion at year-end in a few areas:

Form W-2 Reporting

Employers generally are required to report HSA contributions made in the year on the employee's Form W-2, in Box 12 with Code W.

Box 12 should report all employer contributions to the HSA in the applicable year, including employee contributions through an IRC Section 125 cafeteria plan and those designated as made for the prior year. Employee contributions made to an HSA outside of a Section 125 cafeteria plan are generally included in gross income and should be reported as wages on Form W-2 in Box 1. If the wrong amount is reported in Box 12, such as not counting employee contributions made through a cafeteria plan, Form W-2 should be amended to provide the correct amount.

Note that some states, including California and New Jersey, do not exempt contributions to HSAs from state income tax.

Maximum Annual Contribution

The tax-free limits on combined employer and employee HSA contributions are indexed for inflation.

The HSA contribution limits for 2025 are \$4,300 for self-only coverage and \$8,550 for family coverage. Those 55 and older can contribute an additional \$1,000 as a catch-up contribution.

Recovering HSA Contributions Made in Error

In general, employers may not recoup funds deposited into an employee's HSA. In some cases, employers may recover contributions made in error, but action generally must be taken before the end of the year.

Employer contributions inadvertently made to employees who were never considered eligible may be recovered through a request made to the relevant financial institution.

Employer contributions exceeding the maximum annual contributions allowed because of errors, including administrative mistakes and employee elections not processed on time, may be corrected by requesting that the funds be returned. To the extent not recovered by the end of the tax year, excess employer contributions must generally be reported as wages on the employee's Form W-2.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans			12a See instructions for box 12 W 6900.00								
NON-PERSON ANYWHERE, USA					13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>			12b								
					14 Other			12c								
								12d								
f Employee's address and ZIP code					15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax Statement **2024**

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¹ I.R.C. Sections 106(d), 223.

Group-Term Life Insurance

Employers generally are required to impute amounts as taxable income for employer-provided group-term life (GTL) plans that exceed \$50,000 in benefit value.¹ Although federal income taxes are not withheld for this income, FICA taxes generally must be withheld when the income is assigned, and these amounts are reportable on Form W-2. The cost of the additional benefit value, in addition to being added to taxable compensation on Form W-2 in Boxes 1, 3, and 5, must be reported in Box 12, using Code C. The amount included as wages is reduced by any amount paid by the employee with after-tax dollars for the insurance. These rules may be different for key employees if they are favored under the GTL plan.

While the basic calculation for employers providing GTL is not difficult, one area that often is forgotten is when employers offer employees the ability to purchase additional GTL coverage, often referred to as "optional life" or "supplemental life." When employees pay for the entire additional coverage, the employee-purchased coverage amount may need to be added to the calculation for the overall valuation of GTL.

Under the IRC, amounts carried directly or indirectly by the employer through arranged payments, negotiated rates, and other arrangements for the coverage to be available should be included when calculating the attributed income. These amounts may be figured using IRS Uniform Table 1, which is included in Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

More complexity occurs when supplemental term life insurance rates qualify under the "straddle test," in which case that coverage should be included in the overall GTL calculation. Under the straddle test, at least one employee is charged a rate lower than the IRS Uniform Table I rates and at least one employee is charged a rate higher than those in the IRS Uniform Table I.

If all age bracket rates charged to the employees are higher or are all lower than the IRS Uniform Table I rates, the amounts generally are not considered carried by the employer. Thus, the coverage should not be included in the overall group-term life calculation.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans		12a See instructions for box 12 C 1020.00	
NON-PERSON ANYWHERE, USA					13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
					14 Other		12c	
							12d	
f Employee's address and ZIP code					15 State		Employer's state ID number	
16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name

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¹ I.R.C. Section 79(a).

SECURE 2.0: Effective 2025

The SECURE 2.0 Act, a law designed to expand and improve retirement savings options, was signed into law in December 2022. Though some of the act's provisions have already taken effect or will take effect in the distant future, a few noteworthy ones will be rolled out in 2025.

401(k) Auto-Enrollment

Cash or deferred arrangement plans, like 401(k) plans, that are established on or after Dec. 29, 2022, must implement an automatic enrollment feature for plan years starting in 2025.

The initial enrollment rate must be at least 3% but no more than 10%. For each following year, the rate must rise by one percentage point until it reaches at least 10% (but no more than 15%). Employees may choose to opt out of the 401(k) plan at any time.

Merger and spin-off rules determine whether a 401(k) plan is a continuation of a preexisting plan or serves as an entirely new plan subject to SECURE 2.0's auto-enrollment requirements.

Certain types of employers are exempt from this requirement, including businesses with 10 or fewer employees and new businesses that have been operating for less than three years.

Part-Time Employee 401(k) Coverage

The original SECURE Act, SECURE 2.0's predecessor, established certain requirements for long-term part-time employees to be entitled to enroll in a 401(k) plan. However, Section 125 of SECURE 2.0 modifies these requirements starting for plan years beginning on or after Jan. 1, 2025.

Under Section 125 of SECURE 2.0, employees who perform at least 500 hours of service during each of two consecutive 12-month periods must be eligible to participate in the employer's 401(k) plan. However, service provided prior to 2023 is excluded from this calculation.

The original SECURE Act, which became effective for plan years beginning in 2024 or later, allowed employees to participate in 401(k) plans if they performed at least 500 hours of service during each of three consecutive 12-month periods, and service prior to 2021 was disregarded.

The new requirement under SECURE 2.0 also contains vesting rules. Employees who are enrolled in a 401(k) plan under this part-time eligibility rule must be credited with a year of vesting

service for each 12-month period in which they completed 500 hours of service, not counting service prior to 2021.

Section 125 of SECURE 2.0 does not apply to employees covered by a collective bargaining agreement, nonresident aliens who receive no earned income, and certain students.

Increased Catch-Up Contribution Limits

Starting in 2025, employees ages 60 to 63 will be able to make special catch-up contributions to retirement plans that exceed the current catch-up contribution limits for employees who are at least age 50.

The catch-up contribution in 2025 for employees ages 60 to 63 will be \$11,250 for 401(k), 403(b), and 457 plans and \$5,250 for SIMPLE plans. These increased catch-up contribution limits will be indexed for inflation after 2025.

The 2025 catch-up contribution for employees over age 50 remains \$7,500 for 401(k), 403(b), and 457 plans and \$3,500 for SIMPLE plans.

Long-Term Part-Time Employee Participation

SECURE 2.0 echoes the first SECURE Act's requirement that employer-sponsored plans allow long term part-time workers to participate. Section 125 of the act says employers maintaining a 401(k) plan that is not collectively bargained must include a dual-eligibility requirement under which a part-time employee must complete either one year of service with at least 1,000 hours of work or three consecutive years of service in which the part-time employee completes at least 500 hours of work. The three-year rule is reduced to two years for plan years beginning in 2025 and later.

Roth Employer Contributions

Section 604 of SECURE 2.0 allows plan sponsors to provide participants the option to receive matching contributions or nonelective contributions on a Roth basis. Notice 2024-02 confirms that a matching contribution or nonelective contribution must be designated as Roth no later than the time that the contribution is allocated to the participant's account. Designated Roth-matching contributions and designated Roth-nonelective contributions are not considered wages for federal income tax withholding purposes (i.e., FICA and FUTA taxes).

Wage and Hour: Federal Developments

Overtime Rule

The Department of Labor published a final rule in the spring of 2024 to expand the federal overtime-pay eligibility for millions of workers by raising the minimum salary threshold for exemption from overtime compensation.

The Fair Labor Standards Act exempts executive, administrative, and professional employees, as well as highly compensated employees, from its overtime-pay requirements if they earn at least a certain minimum salary and satisfy a job-duties test.

The final rule raises the minimum salary threshold for exemption in two phases. The first increase already occurred on July 1, 2024, when the minimum salary threshold rose to \$844 per week (\$43,888 per year) from \$684 per week (\$35,568 per year).

Highly compensated employees are subject to a separate minimum salary threshold, which rose on July 1 to \$132,964 per week, including at least \$844 per week paid on a salary or fee basis. Previously, the salary threshold for highly compensated employees was \$107,432 per year, including at least \$684 per week paid on a salary or fee basis.

The second phase of the overtime rule will go into effect on Jan. 1, 2025, when the minimum salary threshold will increase to \$1,128 per week (\$58,656 per year) for executive, administrative, and professional employees. The salary threshold for highly compensated employees will rise to \$151,164 per year, including at least \$1,128 per week paid on a salary or fee basis.

Once the Jan. 1, 2025, increases go into effect, the salary thresholds would be adjusted every three years starting Jan. 1, 2027.

Although the final rule affects the federal salary threshold within the US, it does not affect the minimum salary thresholds for exemption that apply in US territories, including American Samoa, Puerto Rico, Guam, the US Virgin Islands, and the Commonwealth of the Northern Mariana. Special, lower minimum salary thresholds apply in these territories, and the DOL intends to address them in a future final rule.

Similarly, employees in the motion picture industry can be exempt from FLSA overtime-pay requirements if they receive at least a weekly "base salary" of \$1,043. The final rule does not adjust this minimum amount for exemption.

The final rule does not change the job-duties test that workers must meet to be classified as executive, administrative, professional, or highly compensated employees.

The final rule has been subject to several legal challenges, although none so far have overturned the rule for private-sector employees.

Federal Contractor Minimum Wage

The minimum wage rates for certain federal contractors will increase to \$13.30 from \$12.90 effective Jan. 1, 2025.

The \$13.30 rate is established under Executive Order 13658 and only applies to nontipped employees. The rate for tipped employees working under federal contracts covered under EO 13658 will be \$9.30 for 2025, up from \$9.05 for 2024. EO 13658 covers contracts entered into, renewed, or extended prior to Jan. 30, 2022.

Under a separate executive order, the minimum wage that applies to newer federal contracts is scheduled to rise to \$17.75 from \$17.20 effective Jan. 1, 2025, although ongoing legal challenges might eliminate this minimum wage rate entirely.

The \$17.75 rate, which is established under EO 14026, applies to both tipped and nontipped employees and covers contracts that were entered into, renewed, or extended on or after Jan. 30, 2022. Although the DOL has calculated and annually adjusted the federal contractor minimum wage rates, EO 14026 has been subject to three separate legal suits, which have reached different federal circuit appeals courts and have resulted in opposite rulings.

The US Court of Appeals for the Tenth Circuit ruled in favor of EO 14026 on April 30, 2024, but the US Court of Appeals for the Ninth Circuit ruled against it on Nov. 5, 2024. A separate case is pending in the US Court of Appeals for the Fifth Circuit after a federal district court judge ruled against EO 14026 and blocked its enforcement in Louisiana, Mississippi, and Texas.

The plaintiffs challenging EO 14026 in the Tenth Circuit case are currently seeking the opinion of the US Supreme Court. In the Ninth Circuit, the case has been remanded to the federal district court, and EO 14026 might be struck down upon request from the plaintiffs, which include the states of Idaho, Indiana, Nebraska, and South Carolina.

Court Invalidates 2021 Tipped Worker Rule

On Aug. 23, 2024, the US Court of Appeals for the Fifth Circuit vacated a 2021 DOL rule that classified the different types of work tipped employees perform and used them to determine when employers could take a tip credit.

The 2021 rule reinstated and modified the DOL's 80/20 policy, which permits employers to claim a tip credit even when tipped employees perform nontipped work. However, the nontipped work may not exceed 20% of the tipped employee's work time in a workweek.

The DOL also established guidelines in the 2021 rule to determine whether work is tip-producing work or directly supporting work. Tip-producing work includes customer service work that generates tips, such as serving and interacting with customers. Directly supporting work, on the other hand, does not produce tips but assists with the tip-producing work. Some examples of directly supporting work include washing dishes and making coffee. Directly supporting work is in contrast to general nontipped work that does not assist with tip-producing work.

The 2021 rule modified the longstanding 80/20 policy by only permitting employers to take a tip credit for times when a tipped employee spent no more than 30 continuous minutes on directly supporting work. If more than 30 minutes is spent on directly supporting work, the employer may not take a tip credit for that time, even if the tipped employee spends no more than 20% of work time performing nontipped work in accordance with the 80/20 policy.

The court's decision eliminates the 80/20 rule and the DOL's definitions for the different types of work performed by tipped employees. It simplifies the requirement for employers, permitting them to claim a tip credit for the time a tipped employee spends on nontipped duties as long as they are performed immediately before or after tipped duties.

However, the ruling does not impact the DOL's dual-jobs regulation, which is distinct from the 80/20 policy. The dual-jobs regulation applies to workers who work two separate jobs for the same employer, one as a tipped employee and another as a nontipped employee. In this case, an employer must pay the full minimum wage during the time spent in the nontipped occupation and may not take a tip credit during that time.

Unlike the 2021 rule, which focused on the time an individual spent on nontipped work, the dual-jobs regulation addresses whether an employee is performing tasks that are unrelated to the tipped occupation. For example, an individual hired by an employer as both a janitor and a bellhop would be subject to the dual-jobs regulation, and the employer would have to pay the full minimum wage during the time the employee performs janitorial work.

State Payroll Developments

States across the country are preparing for significant changes in 2025 to several payroll-related laws, like **Delaware, Kansas, Maine, Maryland, Michigan, Minnesota,** and **Oregon.**

Delaware is replacing its benefit-wage-ratio method for calculating unemployment tax rates with the more common benefit-ratio method by 2027. Currently, only Delaware and Oklahoma use the benefit-wage-ratio method. Starting in 2027, under the benefit-ratio method, Delaware will calculate unemployment tax rates by dividing the amount of benefits charged to an employer's account over 12 calendar quarters by the amount of its taxable wages during the same period.

As Delaware transitions to the benefit-ratio method, it will establish special tax rate schedules for 2025 and 2026. The schedule in effect for those years will be based on the amount of unemployment benefits paid during the three highest years in the 20-year period ending two years before the current year.

Employers will also be subject to an operations and technology assessment, which will be 0.2% for 2025 and 2026.

New employers will have an initial tax rate of 1% for 2025 and 2026 in addition to the operations and technology assessment.

Delaware will also adjust its unemployment-taxable wage base in 2025. The wage base will be \$12,500 for 2025, \$14,500 for 2026, and \$16,500 from 2027 onward.

Kansas is also making substantive modifications to its unemployment insurance program. The state's tax rate schedules have been adjusted by 2025 by generally lowering rates for positive-rated employers and increasing rates for negative-rated employers. Additionally, seven new tax schedules will have a zero percent tax rate for the most positively rated employers.

The most negatively rated employers will be subject to the highest applicable tax rate for three consecutive calendar years. To avoid this, these employers will have to make a large enough voluntary contribution so that they are no longer the most negatively rated employers. Kansas extended the deadline for voluntary contributions to 90 days following the date that experience rate notices are mailed.

Tax rates for new employers will be lowered in 2025. The rate will be 1.75% for most new employers and 5.55% for those in the construction industry.

Kansas will continue to have a static \$14,000 unemployment-taxable wage base in 2025, but the wage base will be annually adjusted starting in 2026 as a percentage of the statewide average annual wage.

In addition to overhauling its unemployment insurance program, **Delaware** is preparing to begin collecting payroll contributions starting in 2025 for its family-leave insurance program. The initial total contribution rate, which will be in effect for 2025 and 2026, will be 0.8% and consist of 0.4% for medical leave, 0.32% for parental leave, and 0.08% for family caregiving. The total contribution rate will be applied to taxable wages up to the Social Security wage base, which will be \$176,100 for 2025.

Employers with at least 25 employees are subject to the total 0.8% contribution rate, while employers with 10 to 24 employees are only subject to the 0.32% parental leave rate. Employers with nine or fewer employees are exempt.

Employers must pay at least 50% of the contribution rate, and employees may pay up to 50%. The due date for the first family-leave insurance contributions is April 30, 2025.

Employees will be able to apply for family-leave insurance benefits starting Jan. 1, 2026.

Maine is also preparing to collect contributions for its family-leave insurance program starting in 2025. The contribution rate for employers with at least 15 employees is 1%, and they may withhold up to half of the rate from employees' wages. The rate for employers with 14 or fewer employees is 0.5%, and the entire rate may be withheld from employees' wages.

Employers size for 2025 is based on the number of Maine employees an employer has between Oct. 1, 2023, and Sept. 30, 2024. Within that period, employers must count the number of employees to whom wages were paid each week. Employers are subject to the 1% rate if they had at least 15 Maine employees paid in 20 or more weeks in the period.

In January 2025, employers must register in Maine's Paid Leave Portal. If applicable, employers can designate payroll providers during the registration process. Contributions and wage reports for the family-leave insurance program will be due at the end of the first quarter of 2025 and no later than April 30, 2025.

Maryland is postponing its family-leave insurance program for a second time to July 1, 2025, when employers and employees must start making contributions. The state previously delayed the program start date to Oct. 1, 2024, from Oct. 1, 2023.

The initial contribution amount will be 0.9% of taxable wages, up to the Social Security wage base, which will be \$176,100 for 2025. The rate will be in effect from July 1, 2025, to June 30, 2026. Employers and employees each pay half of the rate, or

0.45%. but employers with 14 or fewer employees need not pay the employer's half of the contribution.

Employers with state-approved private plans are exempt from making contributions but may not deduct more than half of the contribution amount from employees' wages to fund their plans. Previously, employers with private plans would have been able to deduct the full contribution amount.

Maryland also delayed the start of family-leave insurance benefits to July 1, 2026, from Jan. 1, 2026.

The Supreme Court of **Michigan** tossed out the state's current minimum wage law and is replacing it one that was previously approved by state voters. To comply with the court's ruling, the Michigan Department of Labor and Economic Opportunity calculated the state's minimum wage rates through 2028.

Notably, Michigan's minimum wage will increase twice in the first two months of 2025. The rate will rise to \$10.56 from \$10.33 on Jan. 1, 2025, and then to \$12.48 on Feb. 21, 2025.

The minimum hourly rate for tipped employees will increase to \$4.01 on Jan. 1, 2025, and to \$5.99 on Feb. 21, 2025. Employers may continue to pay 85% of the minimum wage to minors under age 18, so the minimum rate for minors will be \$8.98 effective Jan. 1, 2025, and \$10.61 effective Feb. 21, 2025.

Beginning on Feb. 21, 2025, the minimum wage will increase annually every Feb. 21. Starting Feb. 21, 2029, the minimum wage will be annually adjusted for inflation.

Minnesota, which currently uses a two-tiered minimum wage system, will transition to a single minimum wage rate for most employers starting Jan. 1, 2025.

The 2025 state minimum wage rate will be \$11.13 and will apply to all employees regardless of employer size or type of employee. Currently, Minnesota has one minimum wage rate for large employers and a second lower rate for small employers, minors, certain newly hired employees, and certain employees with visas.

However, a lower minimum wage rate of \$9.08 will apply for employees under age 20 during their first 90 consecutive days of employment.

The minimum wage will continue to be annually adjusted for inflation, but the increase may be as high as 5%. Prior to 2025, the minimum wage increase was capped at 2.5%.

Mississippi reduced the threshold for filing Forms W-2 electronically to 10 from 25 forms, starting with tax year 2024 forms filed in 2025.

Nebraska exempted nonresidents attending trainings or conferences in the state from income tax starting in 2025 as long as they meet two thresholds of both presence in Nebraska for up to seven days in a year and earning up to \$5,000 for those days.

In **Oregon**, the amount of disposable earnings that are exempt from garnishment will rise on Jan. 1, 2025, and on July 1, 2025.

An employer can generally withhold up to 25% of an employee's disposable earnings, but only if the garnishment does not result in the employee receiving less than a certain amount of net disposable earnings, under current state law.

Effective Jan. 1, 2025, through June 30, 2025, the exempt amount of net disposable income will rise to \$305 from \$254 for a period of one week or less, \$611 from \$509 for any two-week period, \$655 from \$545 for any semimonthly period, and \$1,309 from \$1,090 for a one-month period.

Effective July 1, 2025, through June 30, 2026, the exempt amount of net disposable income will rise to \$338 for a period of one week or less, \$675 for any two-week period, \$737 for any semimonthly period, and \$1,458 for a one-month period.

Notably, however, the increases in the exempt amount of disposable earnings will not apply for child and spousal support garnishments. Instead, the amounts in effect prior to Jan. 1, 2025, apply.

Additionally, Oregon's exempt amounts from garnishment do not apply for federal tax levies or bankruptcy orders.

International Payroll

The **UK's** fall 2024 budget included a 1.2 percentage point increase in the employer National Insurance rate, to 15% from 13.8% effective at the start of the 2025-26 tax year April 6, 2025. The secondary threshold, the amount of an employee's wages at which employers begin paying National Insurance contributions, is planned to decrease to 5,000 pounds (US\$6,504.97) annually, from 9,100 pounds.

The government is also planning to eventually create one minimum wage rate for all employees age 18 or over. For the increases taking effect in April 2025, the rate for employees age 18 to 20 will increase by a larger percentage than the standard rate for employees age 21 or over.

Ireland is planning to launch an auto-enrollment pension scheme in 2025. The scheme covers and automatically enrolls employees who earn at least 20,000 euros (US\$21,611.11) per year, are at least age 23 but under age 60, and are not part of another scheme. Employees that are age 18 to 22 can also opt into coverage. Covered employees can opt out at certain points starting six to eight months after joining but are automatically reenrolled two years after opting out if still eligible.

Ireland also increased Pay-Related Social Insurance employer and employee contribution rates by 0.1 percentage points each, on Oct. 1. Additional increases are planned to take effect each year through 2028. The weekly wages at which employers pay the higher of two contribution rates increased to 496 euros Oct. 1, but that figure is not planned to increase annually.

Australia updated its withholding methods effective July 1 for the first time since 2020 after changes were made to the country's income tax brackets.

Several **Australian** jurisdictions introduced portable long-service leave programs for the community services industry. Granting a period of leave generally after 10 years with an employer is a common employment benefit in Australia, so government-run portable programs provide leave in industries where it is uncommon for an employee to reach the service requirement with one employer. Employers of covered employees pay a levy on their wages to fund the programs, and employees' service in the industry follows them across employers and is tracked by the administering government.

New South Wales, the Northern Territory, and South Australia all established portable programs for the community services industry in 2024 that have not yet taken effect. The Northern Territory and South Australia programs would provide 13 weeks of leave after 10 years of service, while New South Wales would provide 6.1 weeks of leave after seven years of service.

The three jurisdictions' acts specify their definitions of the community services industry and set up the administering agency and requirements such as registrations and quarterly returns, but do not specify levy rates. The start dates and levy rates for the programs are to be determined by each government.

In October, **Greece's** government announced that changes to taxation of tips would take effect Nov. 1. Tips of up to 300 euros per month would no longer be subject to income tax and all tips would no longer be subject to employee or employer social taxes. If an employer reduces an employee's regular wages and simultaneously increases tipped wages by the same amount, it would be required to pay a contribution of 22% on that amount.

By the Numbers

Federal Limits

	2024	2025
Social Security (OASDI) Wage Base	\$168,600	\$176,100
Basic Deferral Limits		
Section 401(k), 403(b)	\$23,000	\$23,500
Catch-Up (Age 50 and older)	\$7,500	\$7,500
Catch-Up (Ages 60-63)	\$7,500	\$11,250
SIMPLE	\$16,000	\$16,500
Section 457	\$23,000	\$23,500
Defined Contribution Maximum Annual Addition	\$69,000	\$70,000
Defined-Benefit Plan Limits	\$275,000	\$280,000
Compensation Limits, Credits, and Triggers		
Qualified Plans	\$345,000	\$350,000
Highly Compensated Employee	\$155,000	\$160,000
Compensation Limit	\$505,000	\$520,000
Dollar Limit for Key Employee (Top-Heavy Plan)	\$220,000	\$230,000
Compensation Amount for Control Employee	\$135,000	\$140,000
Foreign-Earned Income Exclusion Limit	\$126,500	\$130,000
Adoption Assistance	\$16,810	\$17,280
Per Diem Rates		
Standard	\$166	\$178
High-Low Method	\$309, \$214	\$319, \$225
Health Plan Limits		
Health Flexible Spending Arrangements	\$3,200	\$3,300
Health Savings Account Contributions—Single	\$4,150	\$4,300
Health Savings Account Contributions—Family	\$8,300	\$8,550
Federal Vehicle Valuations		
<i>Mileage Rates (Per Mile)</i>		
Business	67 cents	TBA
Charitable	14 cents	14 cents
Medical	21 cents	TBA
Luxury Car Definition		
<i>(Ineligible for Cents-Per-Mile Use Valuation)</i>		
Fair-Market Value Greater Than Listed for Employer-Provided Vehicles First Made Available in 2024 and 2025	\$62,000	TBA
Tax-Free Transportation Benefits (Monthly)	\$315	\$325
Fleet Average Maximum Value		
Fair-Market Value (Before Averaging) Cars & Trucks	\$62,000	TBA

By the Numbers

2025 Hourly Minimum Wage Rates

Jurisdiction	Base Hourly Minimum Wage
Federal	\$7.25
Federal Contractor	\$13.30, \$17.75 *
Alabama	\$7.25
Alaska	\$11.91; \$13 eff. 7/1
Arizona	\$14.70
Arkansas	\$11
California	\$16.50
Colorado	\$14.81 (Proposed)
Connecticut	\$16.35
Delaware	\$13.25
District of Columbia	\$17.50
Florida	\$13; \$14 eff. 9/30
Georgia	\$5.15
Hawaii	\$14
Idaho	\$7.25
Illinois	\$15
Indiana	\$7.25
Iowa	\$7.25
Kansas	\$7.25
Kentucky	\$7.25
Louisiana	\$7.25
Maine	\$14.65
Maryland	\$15
Massachusetts	\$15
Michigan	\$10.56 eff. 1/1, \$12.48 eff. 2/21
Minnesota	\$11.13
Mississippi	\$7.25

Jurisdiction	Base Hourly Minimum Wage
Missouri	\$13.75
Montana	\$10.55
Nebraska	\$13.50
Nevada	\$12
New Hampshire	\$7.25
New Jersey	\$15.49, \$14.53, \$13.40 ‡
New Mexico	\$12
New York	\$16.50, \$15.50 ‡
North Carolina	\$7.25
North Dakota	\$7.25
Ohio	\$10.70
Oklahoma	\$7.25 **
Oregon	\$13.70, \$14.70, \$15.95 ‡ *
Pennsylvania	\$7.25
Puerto Rico	\$10.50
Rhode Island	\$15
South Carolina	\$7.25
South Dakota	\$11.50
Tennessee	\$7.25
Texas	\$7.25
Utah	\$7.25
Vermont	\$14.01
Virginia	\$12.41
Washington	\$16.66
West Virginia	\$8.75
Wisconsin	\$7.25
Wyoming	\$5.15

‡ Varies by Employer Size, Location, Benefits Provided

* Subject to Change

** Exceptions Apply

By the Numbers

Unemployment Insurance Wage Bases

State	2024	2025
Alabama	\$8,000	\$8,000
Alaska	\$49,700	TBA
Arizona	\$8,000	\$8,000
Arkansas	\$7,000	\$7,000
California	\$7,000	\$7,000
Colorado	\$23,800	\$27,200
Connecticut	\$25,000	\$26,100
Delaware	\$10,500	\$12,500
District of Columbia	\$9,000	\$9,000
Florida	\$7,000	\$7,000
Georgia	\$9,500	\$9,500
Hawaii	\$59,100	TBA
Idaho	\$53,500	TBA
Illinois	\$13,590	\$13,916
Indiana	\$9,500	\$9,500
Iowa	\$38,200	\$39,500
Kansas	\$14,000	\$14,000
Kentucky	\$11,300	TBA
Louisiana	\$7,700	TBA
Maine	\$12,000	\$12,000
Maryland	\$8,500	\$8,500
Massachusetts	\$15,000	\$15,000
Michigan	\$9,500	TBA
Minnesota	\$42,000	TBA
Mississippi	\$14,000	\$14,000
Missouri	\$10,000	\$9,500
Montana	\$43,000	TBA

State	2024	2025
Nebraska ¹	\$9,000, \$24,000	\$9,000, \$24,000
Nevada	\$40,600	\$41,800
New Hampshire	\$14,000	\$14,000
New Jersey	\$42,300	\$43,300
New Mexico	\$31,700	TBA
New York	\$12,500	\$12,800
North Carolina	\$31,400	TBA
North Dakota	\$43,800	TBA
Ohio	\$9,000	\$9,000
Oklahoma	\$27,000	TBA
Oregon	\$52,800	TBA
Pennsylvania	\$10,000	\$10,000
Puerto Rico	\$7,000	TBA
Rhode Island ¹	\$29,200, \$30,700	TBA
South Carolina	\$14,000	\$14,000
South Dakota	\$15,000	\$15,000
Tennessee	\$7,000	TBA
Texas	\$9,000	\$9,000
Utah	\$47,000	TBA
Vermont	\$14,300	\$14,800
Virginia	\$8,000	\$8,000
Washington	\$68,500	\$72,800
West Virginia	\$9,521	TBA
Wisconsin	\$14,000	\$14,000
Wyoming	\$30,900	TBA

Changes for 2025 are in **bold**.

Wage bases that decreased are in **bold italic**.

¹ In Nebraska and Rhode Island, experienced employers assessed the maximum unemployment tax rate are assigned a higher wage base.

By the Numbers

2025 Family-Leave Insurance Chart

Jurisdiction	Taxable Wage Base	Employer Contribution	Employee Contribution
California	N/A	N/A	1.2%
Colorado	\$176,100	0.45%, N/A ‡ *	0.45%
Connecticut	\$176,100	N/A	0.5%
Delaware	\$176,100	0.8% *	N/A
District of Columbia	N/A	0.75%	N/A
Kentucky±	N/A	Varies	Varies
Maine	\$176,100	1%, 0.5% ‡ *	N/A
Maryland (eff. 7/1)	\$176,100	0.45%, N/A ‡	0.45%
Massachusetts	\$176,100	0.42%, N/A ‡	0.46%
Minnesota (eff. 2026)	OASDI wage base	TBA	N/A
New Hampshire ±	N/A	Varies	Varies (no more than \$5 weekly)
New Jersey	TBA	N/A	0.09%
New York	\$1,757.19 per week per week	N/A	0.388%
Oregon	\$176,100	40% of contribution ‡	60% of contribution
Rhode Island	TBA	N/A	TBA
Vermont ± (eff. 7/1)	N/A	Varies	Varies
Virginia ±	N/A	Varies	Varies
Washington	\$176,100	28.48% of 0.92% premium	71.52% of 0.92% premium

* Employers may deduct part of the contribution from employees' wages

± Voluntary program

‡ Varies by employer size

By the Numbers

Local Minimum Wages

State	Locality	Previous Minimum Wage	2025 Minimum Wage
Arizona	Flagstaff	\$17.40	\$17.85
	Tucson	\$14.35	\$15
California	Alameda *	\$16.52	\$17
	Belmont	\$17.35	\$17.95
	Berkeley *	\$18.07	\$18.67
	Burlingame	\$17.03	\$17.48
	Cupertino	\$17.75	\$18.20
	Daly City	\$16.62	\$17.07
	East Palo Alto	\$17	\$17.45
	El Cerrito	\$17.92	\$18.34
	Emeryville *	\$18.67	\$19.36
	Foster City	\$17	\$17.40
	Fremont *	\$16.80	\$17.30
	Half Moon Bay	\$17.01	\$17.47
	Hayward ‡	\$16.90, \$16	\$17.36, \$16.50
	Los Altos	\$17.75	\$18.20
	Los Angeles *	\$16.78	\$17.28
	Los Angeles County *	\$16.90	\$17.27
	Malibu *	\$16.90	\$17.27
	Menlo Park	\$16.70	TBA
	Milpitas *	\$17.20	\$17.70
	Mountain View	\$18.75	\$19.20
	Novato ‡	\$16.86, \$16.60, \$16.04	\$17.27, \$17, \$16.42
	Oakland	\$16.50	TBA
	Palo Alto	\$17.80	\$18.20
	Pasadena *	\$16.93	\$17.50
	Petaluma	\$17.45	\$17.97
	Redwood City	\$17.70	\$18.20
	Richmond	\$17.20	TBA
	San Carlos	\$16.87	\$17.32
	San Diego	\$16.85	\$17.25
	San Francisco *	\$18.07	\$18.67
	San Jose	\$17.55	\$17.95
	San Leandro †	\$16	\$16.50
San Mateo	\$17.35	\$17.95	
San Mateo County	\$17.06	\$17.46	
Santa Clara	\$17.75	\$18.20	
Santa Monica	\$16.90	\$17.27	
Santa Rosa	\$17.45	TBA	
Sonoma ‡	\$17.60, \$16.56	\$18.02, \$16.96	
Sonoma County	\$18.10	TBA	
South San Francisco	\$17.25	\$17.70	
Sunnyvale	\$18.55	\$19	
West Hollywood	\$19.08	\$19.65	

2024 Payroll Year-End

Local Minimum Wages (cont'd)

State	Locality	Previous Minimum Wage	2025 Minimum Wage
Colorado	Boulder County	\$15.69	\$16.57
	Denver	\$18.29	\$18.81
	Edgewater	\$15.02	\$16.52
Illinois	Chicago *	\$15.80, \$15	\$16.20
	Cook County *	\$13.70	\$14.05
Maine	Portland	\$15	\$15.50
	Rockland	\$15	\$15.50
	Howard County ‡	\$15	\$16; \$15
Maryland	Montgomery County *‡	\$16.70, \$15, \$14.50	\$17.15, \$15.50, \$15
	Prince George's County †	\$15	\$15
	Minneapolis *	\$15.57, \$14.50	\$15.97
Minnesota	St. Paul *‡	\$15.57, \$14, \$12.25	\$15.97, \$14, \$12.25 eff. 1/1/25 \$15.97, \$15, \$13.25 eff. 7/1/25
	Albuquerque †	\$12	\$12
New Mexico	Bernalillo County †	\$12	\$12
	Las Cruces	\$12.36	\$12.65
	Santa Fe **	\$14.60	TBA
	Santa Fe County **	\$14.60	TBA
New York	New York City	\$16	\$16.50
	Nassau, Suffolk, Westchester counties	\$16	\$16.50
	Rest of the state	\$15	\$15.50
Oregon *	Nonurban counties	\$13.20	\$13.70
	Portland metro area	\$15.45	\$15.95
	Standard rate	\$14.20	\$14.70
	Bellingham	\$17.28	\$18.66 eff. 5/1/25
Washington	Everett	N/A	\$20.24, \$18.24‡ eff. 7/1
	King County ‡	N/A	\$20.29, \$18.29, \$17.29
	Renton ‡	\$20.29, \$18.29	\$20.90, \$18.90 eff. 1/1/25 \$20.90, \$19.90 eff. 7/1/25
	SeaTac	\$19.71	\$20.17
	Seattle	\$19.97, \$17.25	\$20.76
	Tacoma †	\$16.28	\$16.66
	Tukwila ‡	\$20.29, \$19.29	\$21.10, \$20.10 eff. 1/1/25 \$21.10 eff. 7/1/25

* Minimum wage rates effective July 1, 2024, through June 30, 2025

‡ Varies by employer size or other factors

† Minimum wage in effect is state minimum wage

** Rates are effective March 1 through Feb. 28

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