Mobility Matters

2024: Year-end is here again!

December 2024 | *by John Montgomery and Mindy Mayo, KPMG LLP (United States) (KPMG LLP in the United States is a KPMG International member firm)*

Employment tax and payroll professionals are faced with a plethora of end-of-year–as well as beginning-of-the-next-year–action steps that need to be taken to prepare for the onset of the 2024 tax busy season, but also to lay the foundation for the new calendar year that's coming. The one set of action steps should help to ensure an efficient, timely, and accurate compliance exercise for the 2024 tax year, and the other set should help position employers and employees–and their employment tax and payroll providers–to accurately and timely withhold, report, remit, track, and document (amongst other things) during 2025.

As 2024 draws to a close, employers continue to face uncertainty as they forge ahead in this remote and hybrid work environment and as new administrations take charge of policy and processes at the state and federal levels.

In this article, we will spotlight some of the key developments in 2024 impacting employers' employment tax and payroll systems, liabilities, and responsibilities; also, we will consider the impact of federal and state rules and practices this year and the concerns facing employers that have to do with matters such as change in employee residence and/or work locations, rules around telecommuting, the differing tax treatment of various types of income and taxation sourcing, the "convenience of the employer" doctrine in some states, and possible updating to company policies, which affect their tax and payroll obligations and practices, both federal and state.

Year-End Basics

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

- File with the correct year–too often the Form W-2 is labeled with the incorrect year.
- A 2024 form must be filed by January 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 U.S. Internal Revenue Service (IRS) cautions not to use a copy of Form W-2 downloaded from the IRS website, because it is not a scannable form.

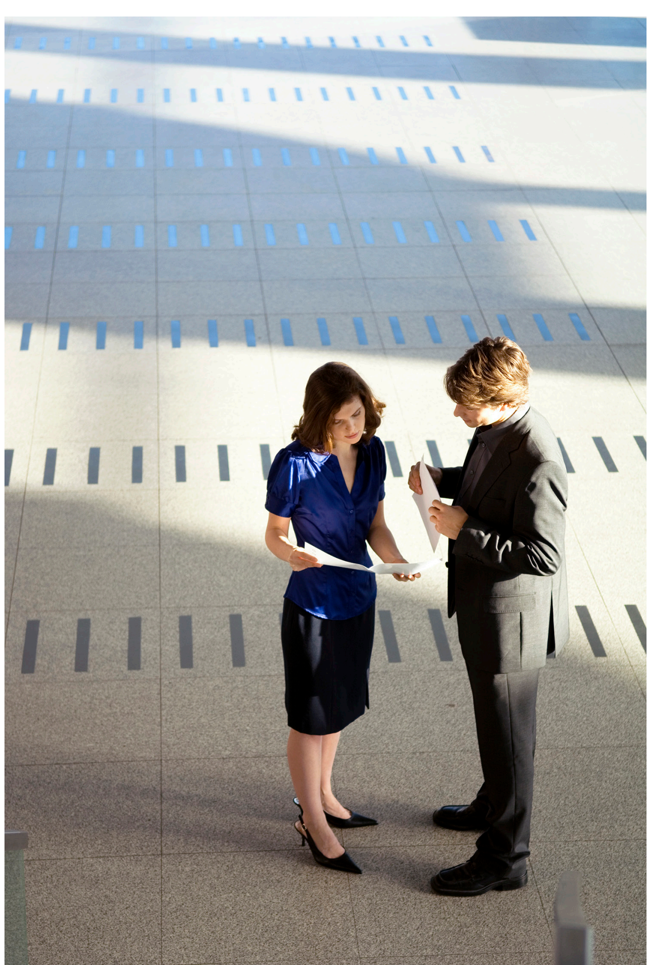
Additionally, the timely processing of accurate fourth-quarter Form 941, *Employer's Quarterly Federal Tax Return*, must be filed by January 31, 2025, if a balance is due, and February 10, 2025, if there is no additional balance due. Year-end payroll processing also includes the filing of federal Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, using the same filing schedule as the fourth-quarter Form 941. This is the time to determine if amendments are needed for periods that will lapse in April 2025 to prepare for timely filing, as the statute of limitations for 2021 amendments generally ends in April of 2025. During this time, employers should determine if any estimated tax deposits for adjusted payrolls are needed as year-end filings are quickly approaching. Any adjustments that affect employees should be completed before Forms W-2 are distributed.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS024424-4A

State and Local Considerations

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.

An exception to the general rule discussed is the "convenience of the employer" doctrine that is used by Connecticut, Delaware, Nebraska, New Jersey, New York, and Pennsylvania. Under the doctrine, 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 from home or a remote location for his or her own convenience, the employee's wages for those work-days will be classified as if the employee was working from the employer's physical office. The Connecticut and New Jersey rules only apply to employees who reside in other states that also impose the convenience of the employer rules.



Multi-State Reporting

Handling wage sourcing, tax allocation, and reporting at year-end for multi-state business travelers may be burdensome and technically challenging. Employers of multi-state workers and their third-party providers need to effectively manage the overall compliance issues associated with state-to-state remote, hybrid work as well as short-term business travelers. When working through the complexities of multi-state sourcing and withholding, practitioners should also consider the different tax treatment of various types of income, such as base compensation, bonus payments, and equity compensation.

Employers must 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.

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 instructions for details.

Amounts in Box 16, State Wages, should consider 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.

Supplemental Wages

Payroll professionals often handle special bonuses or other supplemental pay at year-end or early in the following year. 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.

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. Those applying the optional flat-rate withholding method must use a 22-percent withholding rate for supplemental wage payments less than $1 million. 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

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS024424-4A

preceding year. The supplemental wage payment if paid concurrently with regular wages, must be separately stated on the payroll records.

For accumulated supplemental wages exceeding $1 million, the employer must withhold at a rate of 37 percent. Employers may not use the aggregate method for amounts exceeding $1 million. If the employee's 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 percent and the amount that exceeds $1 million at 37 percent.

Tax the entire amount at 37 percent.

Other Considerations

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. 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 a qualified plan or nonqualified plan, 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 is limited to $1,600 in one year, with the average cost of all awards made by the employer not exceeding $400.

The *Tax Cuts and Jobs Act* (P.L. 115-97, hereinafter "TCJA") 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.

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 percent 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, IRS, and Treasury Department regulations. Gift cards or gift coupons that may be redeemed for cash amounts are considered taxable compensation by the IRS.

Exceptions exist 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 under these criteria:

- 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.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS024424-4A

What's New in 2025?

The big unknown heading into 2025 is the provisions of the TCJA. Most aspects of the TCJA have been in effect since the 2018 tax year. The TCJA will no longer be in effect as of December 31, 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 (generally, pre-2018) treatment.

The Social Security Administration (SSA) has announced an increase of the 2025 social security wage base, to $176,100, up from $168,600 in 2024. For 2025, the maximum Social Security tax payable by each employee will be $10,918.20, or 6.2 percent of the taxable wage base which is an increase of $465 from $10,453.20 in 2024. Employers will match with an equal contribution.

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 $70,000 for combined employee and employer contributions, or $77,500 for employees age 50 or older. The elective deferral limit is $23,500 in 2025 ($23,000 in 2024). 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.

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.

Conclusion

The reminders, heads up, and tips in this article should hopefully help employment tax and payroll professionals approach and achieve a successful year-end. As we always remind in our year-end articles (like this one) and conversations, having accurate and complete wage and tax reports will foster preparation for any employee questions or discrepancies regarding Forms W-2.

While we did not have time to get to these matters affecting employment tax and payroll in this article, it's important to remember that some states have implemented Paid Family and Medical Leave programs with several states imposing contributions to be paid by the employer and/or the employee. In addition, the IRS and state tax departments have placed a keen focus—in some cases performing audits—on the Employee Retention Credit, personal use of corporate aircraft, and employer-provided meals on premises.

Looking forward to 2025 and potential changes under new administrations at the state and federal levels, there could be a year of uncertainty, filled with challenges, that will see the landscape for employment tax and payroll professionals likely shift some more and require additional adjustments as the changes roll out.

Lastly, with set to expire Federal regulations, keeping abreast of potential legislation while ensuring that reporting obligations for the current-year requirements are met will keep payroll professionals busy throughout the year.

Related resources:

For additional related resources and information, see: 2024 Payroll Year-End Report and Checklist prepared jointly by KPMG Employment Tax and Bloomberg Tax & Accounting.

For more year-end (and other) communications and resources, explore the KPMG Employment Tax practice website.

To learn more about the KPMG Global Mobility Services practice, please visit: read.kpmg.us/GlobalMobilityServices.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS024424-4A