



# Payroll Insights

Employment tax news to guide you now and for the future

December 2024



## John's *fresh take*: 2024 Year-End is Upon Us

With the 2024 tax year end quickly approaching, now is the time to finalize all your year-end processes. Payroll departments should work with their compensation and benefits team to ensure that all fringe benefits are appropriately captured within payroll prior to the year closing, as well as prepare for Form W-2, Wage and Tax Statement, production. To avoid potential reporting issues, we recommend that employers reconcile Form W-2 previews against the payroll data for the same period in order to identify issues prior to occurring in production.

In addition, now is the time to prepare your payroll for 2025 updates, including but not limited to the following:

- Annual contribution limits, e.g., 401(k) and health savings account (HSA);
- Non-taxable Per diem limits.
- Minimum wage requirements-and
- State unemployment insurance (SUI) contribution taxable wage bases and rates.

To assist employers with the 2025 updates and prepare for the end of the 2024 tax year, KPMG and Bloomberg Tax & Accounting hosted a joint session on November 20, 2024. The replay of this session is now available for viewing. Additionally, the Payroll 2024 Year End Special Report is available and can be accessed [here](#).

Additionally, KPMG will be hosting a Year-end payroll webcast on December 10th. You can register for this webcast by clicking [here](#).

## Return to Work

On September 16, 2024, Amazon's chief executive officer (CEO) Andy Jassy announced that Amazon employees are required to report to an Amazon office five days per week, bringing an end to the current hybrid work structure. We have seen an increase in the number of employers that are requiring employees to perform services from an office either on a hybrid or full-time basis, rather than remotely.

The return of employees to an office not only impacts administrative issues, such as ensuring that employees have workspaces available to them, possible reinstatement of commuter benefit plans, etc., but also can impact employee tax profiles in your HCM software. Employers should consider the location(s) in which employees are performing services when determining where state employment taxes should be remitted.



An abrupt shift in an employee's current work location(s) could result in the requirement to suddenly shift the employee's tax profile due to the employment tax requirements.

We recommend consulting with your employment tax advisor to ensure that the correct employment taxes are being withheld and remitted based upon each employee's work arrangement.

## Federal updates

### 401(k) Contribution Limit Increase

The Internal Revenue Service (IRS) has announced an increase in the 401(k) contribution limit to \$23,500 for 2025, up from \$23,000 in 2024. The Individual Retirement Account (IRA) contribution limit remains at \$7,000. For more details, visit the [401\(k\) limit increases to \\$23,500 for 2025, IRA limit remains \\$7,000 | Internal Revenue Service](#).

### 2025 Healthcare FSA Contribution Limit Increased

The IRS has announced that for 2025, employees can [contribute up to \\$3,300 to Flexible Spending Arrangements \(FSAs\) during open enrollment](#). These contributions should be exempt from federal employment taxes and can be used for medical expenses not covered by other health plans. In addition, the 2025 maximum carryover amount has increased to \$660 for 2025, if the plan allows for it. This update provides an opportunity for taxpayers to manage healthcare costs more effectively.

### Employee Retention Credit (ERC) Updates

The IRS is actively sending letters to taxpayers disallowing improper ERC claims. Taxpayers in receipt of this letter have 30 days from the date of mailing to respond and protect their 2-year right of appeal. In general, taxpayers are provided 2 years to appeal the determination or file suit. When responding to the disallowance, the IRS will review any supporting documentation provided and reevaluate their determination before filing the appeal. The IRS provides detailed [guidance around explanations](#) and documents to provide based on the reason for disallowance noted in the 105-C letter.

### Increased FUTA Tax Costs for 2024: Impact on California, New York, and US Virgin Islands

The Federal Unemployment Tax Act (FUTA) provides for a tax of 6% of wages, up to an annual wage base of \$7,000. Payments for state unemployment insurance contributions can provide a credit against FUTA tax of up to 5.4%, resulting in a net FUTA tax rate of 0.6%. Sections 3302(c) and 3302(d)(3) of the Federal Unemployment Tax Act (FUTA) provide that employers in states that have an outstanding balance of advances under Title XII of the Social Security Act on January 1 for two or more consecutive years are subject to a reduction in those credits, if all advances are not repaid before November 10 of the taxable year. This credit reduction effectively increases the FUTA tax due.

The United States (U.S.) Department of Labor has released its [Final 2024 FUTA Credit Reductions](#) report, which provides that employers in California, New York, and the U.S. Virgin Islands will face increased unemployment tax costs due to FUTA credit reductions.

Both California and New York will experience a 0.9% credit reduction, costing the employer up to an additional \$63 per employee in those states. In addition, the U.S. Virgin Islands will see a 4.2% reduction, costing the employer up to an additional \$294 per employee.

### **IRS Publication 15-A, Employer's Supplemental Tax Guide**

The IRS has released its draft of the 2025 Publication 15-A. [IRS Publication 15-A](#) contains specialized and detailed employment tax information around, for example, worker classification and payments considered taxable wages, supplementing the basic information provided in IRS Publication 15, Employer's Tax Guide. IRS Publications should be referenced as support to interpret tax law and regulations in order to ensure compliance with current requirements.

### **Overtaken Overtime Updates**

In another setback for the Biden administration's [Department of Labor \(DOL\) rule](#) to update the minimum wage bases for determining if a worker is eligible for overtime pay under the FLSA, a Texas federal judge vacated the rule, citing that the rule exceeds the DOL's authority. The rule was slated to be in full effect January 1, 2025, and employers have been preparing for the implementation. Unless the judgment is overturned on appeal, employers may need to reverse their planned changes to policy and HRM software.

### **Foreign Per Diem Rates**

The U.S. Department of State has updated its foreign per diem rates, effective November 1, 2024. Foreign per diem rates are established monthly by the Office of Allowances as maximum U.S. dollar rates for reimbursement of U.S. Government civilians traveling on official business in foreign areas. Non-governmental employers may rely on these rates for purposes of determining nontaxable business expense reimbursements.

Maintaining accurate per diem rates, as well as adhering to accountable plan requirements, play an important role in avoiding the underreporting of taxable wages and consequently underpaid employment taxes. Employers should continually monitor the per diem rates being considered and paid, as well as ensure that accountable plans requirements are being satisfied.

## **State Updates**

### **Hurricane Helene Relief**

States such as Colorado, Idaho, Illinois and many others have provided tax return filing and remittance extensions to those that were impacted by Hurricane Helene. These include taxpayers that resided or had business located in Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia and Tennessee.

Relief may be available for tax types such as income tax, sales tax, fuels tax, income tax withholding, etc. If you or your business was impacted by Hurricane Helene and are unable to file tax returns or remit taxes timely, we recommend consulting each state tax authority's information releases and websites to determine the type of relief provided, if any, as well as instructions for filing returns or remitting taxes late. The Payroll Insights publications for October and November also contain information about relief in the affected states.

## Alaska Tax Filing Extension

The Internal Revenue Service (IRS) announced on October 25, 2024 that [tax relief](#) is being provided to individuals and business in Alaska that were impacted by flooding that began on August 5, 2024. Impacted taxpayers should now have until May 1, 2025, to file various federal individual and business tax returns and make payments.

## California Freelance Worker Pay Requirements

Effective January 1, 2025, California will enact the [Freelance Worker Protection Act](#), which requires hiring parties to pay a freelance worker the compensation reported on the agreed upon contract for professional services on or before the date specified by the contract. If the contract does not provide a specific payment date, then such payment for services is required to be made no later than 30 days after completion of services by the freelance worker. In addition, a contract between the hiring party and freelance worker, in writing, will be required, and the hiring party must retain such contract for at least 4 years.

As provided by California Senate Bill No. 988, a freelance worker is defined as a person, as specified, that is hired or retained as a bona fide independent contractor by a hiring party to provide professional services in exchange for an amount equal to or greater than \$250. The Act details the information required to be in the written contract and the penalties for failure to comply.

## Iowa Flat Withholding Rate

In response to the 3.80% flat income tax rate, effective January 1, 2025, the Iowa Department of Revenue has updated both its 2025 withholding formula and the Form IA W-4, Employee Withholding Allowance Certificate. Employees are encouraged to complete new [Forms IA W-4](#) for accurate withholding amounts.

## Maine Releases 2025 Income Tax Withholding Tables

Maine has released its [2025 Withholding Tables](#) for Individual Income Tax that should be consulted when calculating state income tax withholding from wages paid in 2025.

## Minimum Wage

Minimum wage requirements vary from state to state, as well as locality to locality. We recommend reviewing your obligations with a labor law consultant in order to ensure that you are compliant. The list below is non-exhaustive but does provide some updates that we recommend considering for 2025:

### California

- Effective January 1, 2025, [California's minimum wage](#) will increase to \$16.50 per hour.
- Effective January 1, 2025, [Half Moon Bay, California's minimum wage](#) will increase to \$17.47 per hour.
- Effective January 1, 2025, [Belmont, California's minimum wage](#) will increase to \$18.30 per hour.
- Effective January 1, 2025, [San Jose, California's minimum wage](#) will increase to \$17.95 per hour.

- Effective January 1, 2025, [South San Francisco, California's minimum wage](#) will increase to \$17.70 per hour.
- Effective January 1, 2025, [Dale City, California's minimum wage](#) will increase to \$17.07 per hour.
- Effective January 1, 2025, [Redwood City, California's minimum wage](#) will increase to \$18.20 per hour.
- Effective January 1, 2025, [Hayward City, California's minimum wage](#) will increase to \$17.36 per hour for large employers (defined as those with 26 or more employees) and \$16.50 per hour for small employers.
- Effective January 1, 2025, [Novato, California's minimum wage](#) will increase to \$17.27 per hour for very large employers (defined as those with 100 or more employees), \$17.00 for large employers (defined as those with 26–99 employees), and \$16.42 per hours for small employers.

### Minnesota

- Effective January 1, 2025, [Minnesota's minimum wage](#) will increase to \$11.13 per hour.

### Vermont

- Effective January 1, 2025, [Vermont's minimum wage](#) will increase to \$14.01 per hour. In addition, the minimum wage for tipped employees will increase to \$7.01 per hour.

## Contact us

**John Montgomery**  
**National Employment Tax Lead Partner**  
 T: 212-872-2156  
 E: [jmontgomery@kpmg.com](mailto:jmontgomery@kpmg.com)

**Manan Shah**  
**Partner, Employment Tax**  
 T: 404-739-5247  
 E: [mananshah@kpmg.com](mailto:mananshah@kpmg.com)

**Mindy Mayo**  
**Senior Managing Director, Employment Tax**  
 T: 408-367-5764  
 E: [mindymayo@kpmg.com](mailto:mindymayo@kpmg.com)

**Reagan Aikins**  
**Managing Director, Employment Tax**  
 T: 703-286-6596  
 E: [raikins@kpmg.com](mailto:raikins@kpmg.com)

**Samantha-Jo Marciliano**  
**Managing Director, Employment Tax**  
 T: 212-954-3841  
 E: [smarciliano@kpmg.com](mailto:smarciliano@kpmg.com)

**Jon Stone**  
**Managing Director, Employment Tax**  
 T: 408-367-1983  
 E: [jwstone@kpmg.com](mailto:jwstone@kpmg.com)

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](https://www.kpmg.com)

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 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. USCS023998-2A