



# Payroll Insights

Employment tax news to guide you now and for the future

November 2024



## John's fresh take: Overview of the 2024-2025 Priority Guidance Plan by the Department of the Treasury and IRS

Each year, the Department of the Treasury (DOT) and Internal Revenue Service (IRS) issue a joint notice of priorities for July of the current year (2024) through June of the following year (2025). This year's Priority Guidance Plan (PGP) includes 231 projects that have been identified, with solicitation from the public, as needing action and resources. The projects cover all aspects of federal taxes and the Internal Revenue Code (IRC). The PGP provides insight on items that are more likely to receive clarity or change this year and items that might trigger IRS scrutiny. In our review of the PGP, we note several project topics that may affect your department:

- Student loan payments, qualified retirement plans, and Section 403(b) plans
- Final regulations for exceptions from the Section 413(e) multi-employer plans
- Final regulations under Section 3405 related to distributions made to persons outside the U.S.
- Regulations related to the following benefits:
  - Section 86 for lump-sum elections
  - Sections 119 and 132 for employer-provided meals
  - Section 409A income inclusion
- Guidance on contributions to and benefits received from paid family medical leave programs

We will keep you updated on any IRS news releases and other changes as they occur throughout the year.

### Year-End with KPMG and Bloomberg Tax & Accounting

Year-end is quickly approaching as is the annual joint presentation between KPMG's Employment Tax professionals and Bloomberg Tax & Accounting. Join us on November 20 at 2:00 pm EST for **"Preparing for Payroll Year End 2024"**. This informative session will provide you with key updates for 2025 as well as prepare you for a smooth end to 2024. [Register here.](#)



### IRS Hurricane Relief Now Applies to All of Florida

The six counties that previously did not qualify for relief as a result of Hurricane Debby or Hurricane Helene will now be receiving disaster relief as a result of Hurricane Milton. The relief comes in the form of a filing and payment extension to May 1, 2025. This includes all quarterly filings and payments, even those due in March and April of 2025, and returns for valid 2023 extensions. The postponement period was set as October 5, 2024, to May 1, 2025, meaning that all returns and payments due within the timeframe set forth by the agency are now due May 1 for the entire state of Florida. A comprehensive list of disaster relief announcements can be found at: [Tax relief in disaster situations | Internal Revenue Service](#).

### Individuals and Businesses Affected by Watch Fire Granted Relief

The IRS announced on Friday, October 11, that individuals and businesses within the disaster relief area for the Arizona watch fire, as recognized by [FEMA](#), will be provided an extension to file returns and make payments. The postponement period was announced to be July 10, 2024, when the fire began, until February 3, 2025, which will be the new deadline for all relevant filings and payments.

The filings and payments include any filings for entities which were granted an extension to their 2023 federal return. However, this will not apply to any payments related to the extended 2023 federal return. The extension also includes quarterly payroll and excise tax filings, with due dates of July 31, October 31, and January 31, 2025. All filings and payments should still be made within the postponement period, prior to February 3, 2025.

The disaster relief area includes the San Carlos Apache Tribe in Arizona, along with all affected areas designated by FEMA.

### Georgia Announces Tax Filing Extension as a Result of Hurricane Helene

On October 3, the [Georgia Department of Revenue](#) announced that due dates for state income tax returns for individuals and businesses has been moved to May 1, 2025. An extension to November 20, 2025, is also available for sales and use and excise tax returns due in October for businesses located within the FEMA Disaster Declaration areas and certain other counties.

Any paper returns filed after the original return due date and within the extension period should be marked with "Hurricane Helene" across the top of the form.

### North Carolina Announces Tax Filing Extension as a Result of Hurricane Helene

The [North Carolina Department of Revenue](#) issued a notice on October 11, advising that certain individuals and businesses in North Carolina will be eligible for penalty and/or interest relief due to the impact of Hurricane Helene. At the time of this release, taxpayers located in "disaster counties," as listed in the notice, are eligible for interest relief for payments due with the September monthly payroll tax return, if made by November 15, payments due with the October monthly payroll tax return, if made by December 15, and payments due with the 3rd quarter return, if made by November 30. To claim interest relief, the business should file Form NC-5502, *Special Penalty and Interest Waiver*, and write "Hurricane Helene" in the explanation section.

### South Carolina Announces Tax Filing Extension as a Result of Hurricane Helene

On October 7th, the [South Carolina Department of Revenue](#) issued an information letter advising that individuals and businesses in South Carolina will have an extension for filing returns due on or after September 25, 2024, to May 1, 2025. Payroll tax returns normally due October 31, January 31, and April 30 are also due May 1, 2025.

### Tennessee Announces Tax Filing Extension as a Result of Hurricane Helene

[Governor Bill Lee announced](#) that due dates for franchise and excise tax returns for businesses located in designated disaster areas has been moved to May 1, 2025. The disaster area in Tennessee includes 8 counties: Carter, Cocke, Greene, Hamblen, Hawkins, Johnson, Unicoi, and Washington. The Governor's announcement also announced that additional extensions for other tax types will be considered on a case-by-case basis.

### Section 139 Qualified Disaster Relief Payments

Section 139 provides that qualified disaster relief payments are not includible in income. These qualified disaster relief payments can include tax-free payments made by an employer to an employee if the section 139 rules are satisfied. Determining whether a payment is a qualified disaster relief payment involves three steps:

- Is the disaster a "qualified disaster"?
- Is the employee within the qualified disaster zone?
- Are the payments made for expenses as a result of the disaster and considered qualified under section 139?

A qualified disaster includes a federally declared disaster under section 165(i)(5)(A) (i.e., a disaster subsequently determined by the President of the United States to warrant assistance by the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act). A federally declared disaster usually relates to a natural disaster, such as a hurricane or tornado. Qualified disaster relief payments can be paid to an affected employee who resides in the area that has been listed under the federally declared disaster area. When the emergency is due to a natural disaster, there is a specified limited area that qualifies as the disaster zone.

A qualified disaster relief payment is any amount paid to or for the benefit of an individual to reimburse or pay reasonable and necessary:

- Personal, family, living, or funeral expenses incurred as a result of the qualified disaster; or
- Expenses incurred for the repair or rehabilitation of a personal residence, or repair or replacement of its contents to the extent that the need for the repair, rehabilitation, or replacement is attributable to a qualified disaster.

Any payment or reimbursement for an amount otherwise compensated by insurance is not a qualified disaster relief payment.

Providing assistance through section 139 has advantages: employees are not required to substantiate their costs and payments to employees are not taxable. Section 139 allowed employers to provide employees with reasonable assistance for additional costs associated with the declared emergency.

### IRS Releases Tax Inflation Adjustments for 2025

On October 22, 2024, the IRS released its annual adjustments to various income and deduction thresholds to use in the following calendar year. These amounts should be updated in your payroll system effective January 1, 2025. Items of note:

- Standard deduction will increase to \$15,000, up from \$14,600 in 2024 (\$22,500 for head of household and \$30,000 for married, filing jointly)
- 37% top marginal rate will apply to incomes in excess of \$626,350 for single taxpayers and \$751,600 for married taxpayers filing jointly
- Earned income tax credit will increase to \$8,046, up from \$7,830 in 2024
- Monthly limit for pre-tax qualified transportation fringe benefits will increase to \$325, up from \$315 in 2024
- Limits on contributions to flexible spending arrangements increase to \$3,300, up from \$3,200 in 2024 (maximum carryover of \$660, if permitted by the plan)
- For self-only coverage, the minimum annual deductible for eligibility for a medical savings account increases to \$2,850, and the maximum annual deductible increases to \$4,300 (up from \$2,800 and \$4,150 from 2024, respectively). The maximum out of pocket expense amount increases to \$5,700, up from \$5,550 in 2024
- For family coverage, the minimum annual deductible for eligibility for a medical savings account increases to \$5,700, and the maximum annual deductible increases to \$8,550 (up from \$5,500 and \$8,350 from 2024, respectively). The maximum out of pocket expense amount increases to \$10,500, up from \$10,200 in 2024

### Continued Focus on Personal Use of Airplanes

Earlier this year, the IRS announced an increase in audits of personal use of company aircraft, which includes company-funded charters of private jets. Bloomberg Law recently obtained redacted copies of an audit through a Freedom of Information Act request. The acquired documents include the Information Document Request provided to a taxpayer at the start of an audit and guidance to the auditor as to items to consider and calculating the fair value of the aircraft.

The audit reviews records like the number of occupied seats on the flights, passengers' relationships to the business, purpose of the trip, and flight logs to determine the value of the nonqualified business and personal use of company aircraft. The value is then compared to the amount of imputed taxable wages to the employee and the appropriateness of business expenses reported. Because the audits cover both employment tax and corporate income taxes (business expense and bonus depreciation validations), it is important to coordinate between departments to make sure all required documentation is retained and the proper analysis of the cost of qualified business use versus personal use is performed.

### Social Security Announcements for 2025

The [Social Security Administration](#) announced a 2.5% cost-of-living adjustment effective December 31, 2024. There were also updates to the Social Security wage base as the taxable maximum increased to \$176,100. Those who are younger than the full retirement age will see the earnings limit increase to \$23,400 while individuals who will reach their full retirement age in 2025 will see their earnings limit increase to \$62,160.

### IRS Provides Filing Extension for Exempt Entities

The IRS released [Rev. Proc. 2024-39](#) which grants an automatic six-month extension for exempt organizations filing the Form 990-T. Entities which did not file the Form 8868, *Application for Extension of Time To File an Exempt Organization Return*, will still be granted the six-month extension.

The announcement is a result of the Department of the Treasury and IRS's recognition of the struggles that exempt entities had when trying to understand the process of filing a Form 990-T, as the filing and extension process is unfamiliar to most. This resulted in a lack of timely-filed Forms 990-T's.

The extension also applies to any schedules and forms related to the Form 990-T that would be submitted as attachments.

### Expiration of PFML Credit

[Internal Revenue Code Section 45S](#) is entering its final year. The tax credit, which is meant to assist employers who provide Paid Family and Medical Leave to their employees, applies to wages paid between December 31, 2017, and January 1, 2026. It will be important for employers to be attentive of this change throughout 2025, with the knowledge that, once the calendar year ends, so too will Section 45S.

### Report of IRS Compliance with Levy Guidelines Released

Each year, the Treasury Inspector General for Tax Administration (TIGTA) audits the IRS's compliance with the 1998 rules for notifying taxpayers of their rights with respect to [Collection Due Process \(CDP\) hearings and levy action](#). For the 2024 audit period, July 1, 2022 – June 30, 2023, the TIGTA reviewed levies issued for 48,000 taxpayers and found that the IRS was compliant approximately 96% of the time. The majority of the noncompliance events were procedural errors, such as the CDP levy notice not being sent to the taxpayer's authorized representative.

TIGTA made 9 recommendations for improvement, including programming fixes and contacting taxpayers who were not properly provided the opportunity to request a CDP hearing.

The procedures for appealing a collections notice can be cryptic for taxpayers, and there are often time limits for following the procedures before certain appeals options expire. The TIGTA's findings acknowledge that the IRS does not consistently follow its own procedures, so it is important for taxpayers to understand their rights for appeal of tax assessments and levies and to consult with advisors as soon as these notices are received.

### Employee Retention Credit updates

#### Legislation to Repeal the Employee Retention Credit Receives Bipartisan Support

[Legislation](#) introduced by Mitt Romney, Joe Manchin, and Thom Tillis on September 18, 2024, intends to disallow the processing of Employee Retention Tax Credit claims made after January 31, 2024. The legislation also includes increased penalties for fraud. Senator Romney cited widespread fraud and the cost of the credit to taxpayers as reasons for the legislation to be passed. The credit has surpassed expectations in terms of claims filed and cost, prompting leaders on both sides of the aisle to support the effort to repeal the credit earlier than the typical statute of limitations permits.

#### IRS Ramps Up Processing of Employee Retention Credit Claims

The Internal Revenue Service issued a news release regarding [Employee Retention Credit claims](#) on October 10th, stating that it is currently processing roughly 400,000 claims worth around \$10 billion. The credit, which arose from the pandemic, has been cumbersome for the IRS and employers alike, as the agency received an immense amount of claims. This announcement from the IRS should provide some relief to employers hoping to have their credits processed in the near future.

### Indiana Releases Tax Overpayment and Underpayment Interest Rates, Effective January 1, 2025

The Indiana Department of Revenue recently [published Departmental Notice #3](#), which includes the interest rates for tax overpayments and underpayments for 2025. Interest rates for both underpayments and overpayments, which were at 4% for 2024, will increase to 6% for 2025.

### New Jersey Minimum Wage Increase

On October 8th, a press release from the New Jersey Department of Labor & Workforce Development announced that the statewide [minimum wage](#) will be increased from \$15.13 to \$15.49, effective January 1, 2025.

Similar to previous increases in minimum wage in the state, seasonal and small business employers, along with agricultural workers, will have a different timetable to match the increases in order to mitigate the effects on the business in those sectors. Seasonal and small employers will see an increase from \$13.73 to \$14.53 for 2025 while agricultural employers will see an increase from \$12.81 to \$13.40.

### Changes to Nevada Voluntary Disclosure Program

The Nevada Tax Commission has adopted a [new regulation regarding voluntary disclosure](#) via LCB File No. R152-22. This regulation shifts the initial responsibility for determining voluntary disclosure from the Nevada Tax Commission to the Department of Taxation. It also expands the previous regulation regarding voluntary disclosure to include, the modified business tax, taxes on gold and silver mining business, transportation network companies, and peer-to-peer car sharing programs.

The regulation outlines specific requirements for taxpayers or their representatives to meet within 90 days after the Department accepts an application for voluntary disclosure, including filing delinquent tax returns and paying estimated owed taxes. Lastly, the regulation removes the “good faith effort” language and mandates that the Department assess penalties and interest if it determines that the tax liability was not voluntarily disclosed.

### South Dakota Minimum Wage Increase

Beginning January 1, 2025, the [South Dakota minimum wage](#) will increase from \$11.20/hr to \$11.50/hr. The minimum wage for tipped employees will increase from \$5.60/hr to \$5.75/hr.

### Vermont Minimum Wage Increase

Beginning January 1, 2025, the Vermont minimum wage will increase from \$13.67 to \$14.01 per hour. The minimum wage for tipped employees is set to 50% of the general minimum wage rate, which will come to \$7.01 per hour in 2025.

### Vermont’s Guide to the Health Care Fund Contribution Assessment

Vermont released a comprehensive [guide to the Health Care Fund Contribution Assessment](#). The Health Care Fund Contribution was established by Vermont legislature in 2006 and requires all employers who do not offer insurance to their employees to contribute to the fund. The guide, released on October 9th, includes due dates, the calculations for the assessment, helpful definitions, and exemptions.

### Vermont Releases 2025 Wage Base for Unemployment Insurance

The [Vermont Department of Labor](#) announced that the taxable wage base for 2025 will be \$14,800. This is an increase of \$500 from the 2024 wage base of \$14,300.

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