

2024-2025 Payroll Guide

Contents

2025 PAYROLL INFORMATION 2

 FEDERAL INCOME TAX 3

 PENNSYLVANIA INCOME TAX..... 3

 LOCAL INCOME TAX 4

 LOCAL SERVICES TAX (LST) 4

 2025 941 PAYROLL TAX DEPOSIT RULES - ELECTRONIC FEDERAL TAX DEPOSIT REQUIREMENTS 4

 FEDERAL UNEMPLOYMENT TAX (FUTA)..... 5

 PA UNEMPLOYMENT COMPENSATION (PUC)..... 6

 NEW HIRE REPORTING..... 6

 EMPLOYMENT ELIGIBILITY VERIFICATION FORM I-9..... 6

 PENNSYLVANIA (PA) MINIMUM WAGE..... 7

 FAIR LABOR STANDARDS ACT (FLSA) 7

DISABILITY PAY..... 10

FRINGE BENEFITS..... 11

2024 FORM W-2 INFORMATION..... 13

 2024 W-2 REPORTING 14

CONTACT US..... 14

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This document highlights important 2025 payroll, tax deposit, W-2, and other general information changes available at the time of publication, however, make sure you consult with your CPA or Payroll Provider to ensure that you are aware of all federal, state and local tax changes.

More detailed information is available in Circular E, Employer's Tax Guide (Pub. 15); Employer's Supplemental Tax Guide (Pub. 15-A); Employer's Tax Guide to Fringe Benefits (Pub. 15-B); Circular A, Agricultural Employer's Tax Guide (Pub. 51); and Household Employer's Tax Guide (Pub. 926). Please contact our office at **717-569-2900** if you have any questions or need additional information about the following material.

2025 PAYROLL INFORMATION

The rate of employee Social Security tax withholding for 2025 will remain at 6.2%.

FICA (Social Security and Medicare Taxes)

Withhold and pay 2025 FICA taxes as follows:

Social Security Wage Base	\$176,100
Employee Withholding Rate	6.2%
Employer Withholding Rate	6.2%
Medicare Wage Base (Single Filers)	\$200,000
Employee Withholding Rate	1.45%
Employer Withholding Rate	1.45%
Medicare Wage Base (Single Filers with Wages Earned over \$200,000)	.9%
Employee Withholding Rate	2.35%
Employer Withholding Rate	1.45%

Self-Employed

Social Security Earnings	\$176,100
Rate of Tax	12.4%
Medicare Earnings	.9%
Rate of Tax	2.9%

FEDERAL INCOME TAX

Employees can still claim exemption from withholding, but it is not on the face of the form. Employees will write "Exempt" in the space under Step 4(c). Any employee who claimed "exempt" from withholding in 2024 must complete a new Form W-4 before February 17, 2025, to remain exempt in 2025.

Federal withholding on separately reported supplemental wage payments (such as bonuses, commissions, overtime pay, and fringe benefits) can be calculated in two ways. First, supplemental wages may be added to regular wages and withholding calculated on the combined amount using the employee's W-4 and the federal withholding charts. Also, use this method if supplemental wages are paid with regular wages but not separately stated.

The second option is to withhold federal tax at the supplemental tax rate, disregarding the W-4 form information. The supplemental tax rate is 22% for the years 2018 through 2025. The supplemental tax rate for individual supplemental wage payments over one million dollars in a year is equal to the highest income tax rate in effect for that year. The current highest marginal tax rate is 37%. Withholding on these payments may not be based on the W-4 form or any other withholding rules.

PENNSYLVANIA INCOME TAX

For 2025, withhold at the rate of 3.07% for PA state income tax withholding. All employers are required to file and pay employer withholding online through myPATH. [myPATH](#) is the online portal that has replaced many of the Department of Revenue's online services. myPATH provides many self-service options, such as registering a new tax account, accurately and securely filing returns, making payments, managing your accounts, and interacting with the department.

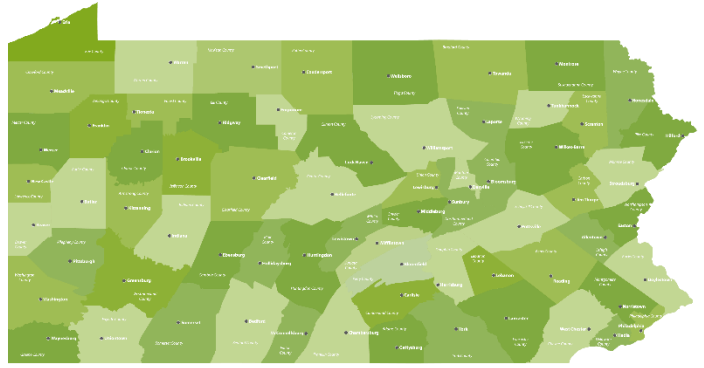
Effective with the 2024 filing year, the US Department of Treasury and Internal Revenue Service announced final regulations that reduced the threshold for filing information returns electronically. Based on these changes most businesses will now be required to electronically file their tax forms, including W-2s and 1099's electronically. The new directive states that the company must file electronically if the combined total of **all forms exceeds ten**.

The due date for 2024 W-2s is January 31, 2025. Details are available at www.revenue.pa.us. Access is available at www.mypath.pa.gov or by calling **1-800-748-8299**.

For 2025, employers whose aggregate withholding is \$5,000 or greater per quarter (\$20,000 per year) are required to pay withholding on the Wednesday following each payday if the payday falls on a Wednesday, Thursday, or Friday. Employers whose payday falls on a Saturday, Sunday, Monday, or Tuesday must pay withholding on the Friday after payday. Employers whose aggregate withholding is reasonably expected to equal at least \$1,000 but less than \$5,000.00 per quarter must pay their withholding on a semi-monthly basis, with payment due within three banking days of the semi-monthly period. Employers whose aggregate withholding per quarter is reasonably expected to equal at least \$300 but less than \$1,000 are required to pay withholding on a monthly basis, with payment due by the fifteenth day of the following month from January through November and on the last day of January for the month of December. Employers whose aggregate withholding is reasonably expected to equal less than \$300 per quarter may pay withholding quarterly, with payment due on or before the last day for filing quarterly returns.

LOCAL INCOME TAX

Employers with worksites located in Pennsylvania are required to withhold and remit Local Earned Income Tax on behalf of their employees working in Pennsylvania. Examples of worksites include, but are not limited to: factories, warehouses, offices, and residences of home-based employees. Employees should complete a Certificate of Residence form so that employers can determine the appropriate rate of local tax to withhold. The current rates for Lancaster County residents are available at www.lctcb.org. Rates and tax collector information for other municipalities are available at www.newPA.com. Employees under 16 years of age are not subject to withholding if they are Lancaster County residents.



Employers are required to file quarterly payroll tax returns directly through the tax collector's website and include the employee's social security number, name, state taxable wages, local income tax withheld, current address, and political subdivision code (PSD Code). Quarterly filings and remittances are due within 30 days after the end of each calendar quarter.

Box 20 (Locality) on Form W-2 must **contain the employee's full six-digit work location PSD code.** If the employer reports statewide to a single PA local tax collector, **then the employee's six-digit work location PSD Code, plus the two-digit county code of the collector the withholdings were remitted to** by the employer are required to be reported.

All employers are required to file year-end reconciliations via electronic or direct submission, whichever you use to file quarterly or monthly data. Visit their website for more detailed information.

LOCAL SERVICES TAX (LST)

The total LST paid by any individual in a calendar year is limited to \$52 regardless of the number of political subdivisions in which the individual works. Employers may collect the tax in a lump sum if the tax is \$10 or less. For amounts greater than \$10, employers must collect the tax on a pro rata basis calculated by dividing the LST by the number of payroll periods in the calendar year, rounding the amount to the nearest one-hundredth of a dollar. For example, for a \$52 tax, deduct \$1 per pay for a weekly payroll but deduct \$4.33 per pay for a monthly payroll.

Exempt employees must [complete an exemption certificate](#) and the form must be filed with the political subdivision collector and the employer each year. Employers must always make this form available to employees and new hires during the year. This is a brief overview of the requirements for collecting the LST tax. Please review the information provided by your tax collector. Rates and tax collector information are available at www.newPA.com. An annual reconciliation is not required for LST.

2025 941 PAYROLL TAX DEPOSIT RULES - ELECTRONIC FEDERAL TAX DEPOSIT REQUIREMENTS

Prior to the beginning of each calendar year, employers must determine if they are a monthly or semi-weekly depositor on Form 941 payroll tax liabilities. This is determined by totaling the 941 liabilities for four quarters in a "look-back period." For 2025, the look-back period is September 2023 through June 2024. If your liability was less

than \$50,000 during that period, you are a monthly depositor. If your total taxes during your look-back period were more than \$50,000, you are a semi-weekly depositor for 2025.

There are three exceptions to the preceding rules. The first exception applies if your accumulated payroll taxes are less than \$2,500 at the end of a quarter. If so, you may remit the taxes with your quarterly 941 returns. However, if you are unsure that you will accumulate less than \$2,500, you should deposit your taxes monthly to avoid possible deposit penalties. The second exception applies any day your un-deposited payroll tax liability during a deposit period exceeds \$100,000. If your deposit exceeds \$100,000, you must deposit the tax by the next banking day, regardless of your filing status. If a monthly depositor is required to make a \$100,000 deposit, the monthly depositor automatically becomes a semi-weekly depositor for the remainder of the current year and for the following calendar year. The third exception applies to employers notified by the IRS that the employer must file and remit taxes annually using Form 944 because their expected tax liability **for the year** is \$1,000 or less. If the IRS notifies you that you are to file Form 944, and your taxes are over \$2,500 for the year, you must deposit your taxes under the monthly or semi-weekly rules even though you will file the annual Form 944 for that year. More specific guidelines are provided in Circular E, Employer's Tax Guide (Pub. 15).

Generally, the rules concerning constructive receipt dictate when you are liable for your payroll taxes. Be aware that distributing payroll checks prior to the check issue date or not giving employees access to the funds until a date after the check issue date could affect the due date of your payroll tax liability.

Employers should remit all federal tax deposits by electronic funds transfer (EFT). Those employers without a computer may pay by telephone using the ACH debit option. Businesses unwilling or unable to use the system should arrange for a third party to make the deposits on their behalf. Deposits must be initiated one business day prior to the due date. All federal tax deposits, including payroll, corporate income taxes, and various excise taxes, must be made electronically. Penalties of 10% will be assessed to employers who fail to deposit correctly.

Persons completing an SS-4 form to apply for an employer identification number for a new entity and indicate that they will have employees will automatically be registered to pay by EFTPS and will receive a PIN number via mail. All others who want to register to pay taxes using EFTPS should register online at www.eftps.gov or call **1-800-555-4477** to be mailed Form 9779. Your employer PIN, which you need to process your payment, will be mailed separately. In addition, the IRS will send you a confirmation package after your application is received and processed, which contains specific instructions for using EFTPS and customer assistance information.

An additional resource on this topic is the [2025 Taxbrief®](#).

FEDERAL UNEMPLOYMENT TAX (FUTA)

The first \$7,000 of wages of each employee is subject to employer tax. The rate of tax is .6% (.006) if all state unemployment taxes are paid by January 31 of the following year. Due to the mass unemployment that resulted from the COVID-19 Pandemic, many states were required to borrow from the Federal Government in order to pay the resulting unemployment benefits. As a result, the following states have outstanding loans resulting in higher FUTA rates due to credit reduction as these loans have not been repaid - California, New York, and the Virgin Islands. Before filing, you should review the instructions for [Form 940](#). Schedule A must be filed with Form 940 to report credit reduction information.

PA UNEMPLOYMENT COMPENSATION (PUC)

For 2025, each employee's gross wages (no cap) are subject to PUC withholding at the rate of .07% (.0007).

For 2025, each employee's first \$10,000 of wages is subject to employer tax. The PUC office will notify employers of their 2025 employer tax rate on a contribution notice, Form UC-657. Employers have 90 days from the mailing date of Form UC-657 to appeal their contribution tax rate.

Reports are required to be filed electronically through the Unemployment Compensation Management System (UCMS). Employers with less than 100 employees can file using the online filing method, where names and social security numbers will be pre-populated. Employers with 100 employees or more must file wage data electronically via file upload or file transfer protocol (FTP). Payment can be made electronically, or you can print out a payment coupon and mail a check if the total liability is under \$5,000. Employers are required to pay Unemployment Compensation (UC) contributions and reimbursement statements of account electronically if the total liability owed equals or exceeds \$5,000 for a payment period. Once this threshold is met, all subsequent payments must also be submitted electronically, even if amounts due for subsequent periods are less than \$5,000. To access UCMS, go to www.uctax.pa.gov.

NEW HIRE REPORTING

Under the PA New Hire Reporting Program, Pennsylvania employers are required to report their business name, address, federal identification number, and the name and telephone number of a contact person as well as the name, address, social security number, date of birth (optional), and date of hire of all newly hired employees within 20 days of the date of hire. You need to report this information for all newly hired employees regardless of age, wage, or length of service. If a former employee is rehired following termination or separation or is returning to work following a layoff or following a requested leave of absence without pay of greater than 30 days, the new hire information must be resubmitted. The new hire information can be filed online, by electronic file, or by paper/fax. In Pennsylvania, you do not need to report this information for independent contractors that you hire.

If you outsource your company's payroll, please confirm with your payroll vendor or specialist that the provider is filing this new hire report on your behalf.

Pennsylvania Career Link – Report New Hires

- Website: www.pacareerlink.pa.gov/jponline/Common/LandingPage/ReportNewHires
- Phone Number: 1-888-724-4737

If you have employees in more than one state, you may electronically report new hires to only one state. Multi-state employers must notify the Secretary of Health and Human Services in writing as to which state they are going to report all new hires. Employers may change the state they are reporting to at any time by notifying the Secretary of Health and Human Services.

EMPLOYMENT ELIGIBILITY VERIFICATION FORM I-9

Form I-9 verifies an individual's identity and eligibility to work in the United States. For each employee hired after November 6, 1986, an I-9 form must be completed within three days of the hire date and kept on file for as long as the employee is active. If an employee terminates employment, retain the I-9 form for three years following their date of hire, or one year after the of termination, whichever is later. The current version of the Form I-9 that was

revised and released on August 1, 2023 by the U.S. Citizenship and Immigration services will now expire on May 31, 2027 after a recent extension.

<https://www.uscis.gov/sites/default/files/document/forms/i-9.pdf>

PENNSYLVANIA (PA) MINIMUM WAGE

Although the PA minimum wage and the federal minimum wage are currently the same at \$7.25 per hour, it's important to note this is not always the case. The state minimum wage can differ from state to state, and employers are required to pay the higher wage, whichever is the one most advantageous to the employee.

Tipped Employees

The PA minimum wage for tipped employees is \$2.83 per hour for any employee receiving tips of at least \$135 per month. Employers must make up the difference if the sum of the employee's tips and the \$2.83 per hour wage do not meet the minimum wage.

The [final regulations](#) also cover five primary areas for tipped employees: definition of tipped employee, tip credits, tip pooling, credit card fees, and service charges.

FAIR LABOR STANDARDS ACT (FLSA)

The FLSA is the act that addresses the federal wage and hour laws, including overtime. Under the FLSA, employees are classified as exempt or nonexempt for the purpose of overtime. The FLSA requires employers to pay nonexempt employees overtime for all hours worked in excess of 40 hours in a workweek.

Currently, to be exempt from overtime, employees must meet one of the executive, administrative, or professional definitions and be paid at least \$684 a week or \$35,568 a year. Employers are permitted to use nondiscretionary bonuses and incentive payments (including commissions) paid at least annually to satisfy up to 10% of the standard salary level. If the requirements of these exemptions are not met, employees would be considered non-exempt and overtime must be paid for all overtime hours worked. Pennsylvania's Overtime Rule was published in the Pennsylvania Bulletin on October 3, 2020. It ensures that the duties of executive, administrative, and professional workers align more closely with federal overtime regulations to make it easier for employers and employees to know whether a worker is exempt from overtime.

GENERAL INFORMATION

- For the taxable year 2025, salary reduction contributions by an employee to a **Health Flexible Spending Arrangement (FSA)** is limited to \$3,300. If the employer's plan permits carryover of unused health FSA amounts, employees can carryover up to \$660.00 in 2025. A plan may also provide for a "grace period" of up to 2½ months after the close of the plan year, where participants with a balance remaining in their FSA at the end of the plan year will be able to use the balance within the stated grace period following the end of the plan year. A plan cannot have both a carryover and a grace period.



- **Health Savings Accounts (HSAs)** were designed so that individuals covered by high deductible health plans could save for qualified medical and retiree health expenses on a tax-free basis. Individuals covered by a high-deductible health plan may establish HSAs.

Contribution and Out-of-Pocket Limits for Health Savings Accounts (HSA) and High-Deductible Health Plans (HDHP)			
	2024	2025	Change
HSA contribution limit (employer + employee)	Self-only: \$4,150 Family: \$8,300	Self-only: \$4,300 Family: \$8,550	Self-only: +\$150 Family: +\$250
HSA catch-up limit (age 55 or older)	\$1,000	\$1,000	No change
HDHP minimum deductibles	Self-only: \$1,600 Family: \$3,200	Self-only: \$1,650 Family: \$3,300	Self-only: +50 Family: +100
HDHP maximum out-of-pocket amounts (deductibles, co-payments, and other amounts, but not premiums)	Self-only: \$8,050 Family: \$16,100	Self-only: \$8,300 Family: \$16,600	Self-only: +\$250 Family: +\$400

The **maximum contribution an employee may elect to defer to a 401(k) cash or deferred arrangement** in 2024 is \$23,000. The amount will increase to \$23,500 in 2025. Individuals 50 years old and over may be eligible to make additional “catch-up” contributions to employer-sponsored defined contribution plans. Employers must deposit participant contributions as soon as it is reasonably possible to separate them from the company’s assets, but no later than the 15th business day of the month following the payday.



Under a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in these plans. For 2025, this higher catch-up contribution limit is \$11,250 instead of \$7,500.

In addition, the catch-up contribution limit that generally applies for employees aged 50 and over who participate in most SIMPLE plans remains \$3,500 for 2025. Under a change made in SECURE 2.0, a different catch-up limit applies for employees aged 50 and over who participate in certain applicable SIMPLE plans.

For 2025, this limit remains \$3,850. With a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in SIMPLE plans. For 2025, this higher catch-up contribution limit is \$5,250.

- The 2024 and 2025 pension plan dollar limits are as follows:

QUALIFIED BENEFIT PLAN	2024	2025
Maximum limitation for the annual benefit under Section 415(b)(1)(A) for defined benefit plans	\$275,000	\$280,000
Maximum limitation for defined contribution plans under Section 415(c)(1)(A)	\$69,000	\$70,000
Limitations on exclusion for elective deferrals under Section 402(g)(3) (applies to 401(k) plans, 408(k)(6) and salary reduction SEPs)	\$23,000	\$23,500
Section 403(b) tax sheltered annuities, non-profit employers	\$23,000	\$23,500
Section 457 public employers	\$23,000	\$23,500
Section 408(p) SIMPLE plans	\$16,000	\$16,500
Section 414(v) "Catch-up" contribution 401(k), 403(b), 457, and SEP plans if age 50 or over	\$7,500	\$7,500
Section 414(v) "Catch-up" contribution SIMPLE plan if age 50 or over	\$3,500	\$3,500
Limitations used in the definition of highly compensated employee under Section 414(q)(1)(B)	\$155,000	\$160,000
Annual compensation limit under Sections 401(a)(17), 404(1), and 408(k)	\$345,000	\$350,000
Annual compensation limit under Section 408(k)(2)(C) for SEP compensation qualification	\$750	\$750

- Plan administrators are required to inform recipients within a reasonable period of time about their options concerning **distributions from qualified retirement plans**. All qualified plans must allow recipients to directly transfer plan distributions to an IRA or other qualified plan unless the distribution is one of a series of equal payments made over the lives of the participants and beneficiaries or over a specified period of ten or more years. If an employee does not elect to transfer directly but chooses to receive the distribution and personally transfer it to an eligible plan within the 60-day time limit, the payer must withhold and deposit 20% for federal income tax. Distributions from pensions, annuities, retirement pay, profit-sharing plans, IRAs, and SEPs must be reported on Form 1099-R. This applies to both total and periodic distributions.
- Use **Form 945, Annual Return of Withheld Federal Income Tax**, to report backup withholding and income tax withheld from non-payroll payments such as pensions, annuities, IRAs, military retirement, and gambling winnings. As a general rule, all income tax withholding reported on Form 1099 and Form W-2G must be reported on Form 945.

Only file Form 945 for those years non-payroll withholding tax liabilities are incurred. Form 945 is an annual form and must be filed by January 31 of the following year. In addition, semi-weekly and next-day depositors are required to file **Form 945A, Annual Record of Federal Tax Liability**, with Form 945.

- **Backup withholding** is required on certain non-wage payments made to payees for whom Form 1099 information returns are filed with either a missing or incorrect employer identification number or social security number. The **backup withholding rate** for 2025 remains at 24%.

DISABILITY PAY

- When an employee becomes eligible for disability pay, the employee is often paid under a plan set up with a third-party administrator. Employee contributions made with after-tax dollars reduce the taxable portion of disability pay. FICA and Medicare taxes must be withheld on taxable **third-party sick pay** payments made to the employee during the first six calendar months after the calendar month the employee last worked for the employer. If the employee files Form W-4S with the third-party administrator, federal taxes will also be withheld. Generally, the third-party administrator remits the taxes collected to the IRS and informs the employer of the amounts withheld and deposited for each employee. The employer is required to report the third-party sick pay wages and deposit the employer's share of the FICA taxes with the corresponding quarter's 941 form. An adjustment should be taken on line 8 of Form 941 for the FICA taxes remitted by the third-party administrator. The employer does not report on their 941 form any federal income taxes that were deposited by the third-party administrator.
- All **third-party sick pay** is considered wages for federal purposes, although withholding is not required. For FICA, PUC, and FUTA purposes, payments made through the first six calendar months following the last calendar month the employee performed services are taxable. Third-party sick pay payments are not considered wages for Pennsylvania and Lancaster County and are exempt from these withholding taxes. The employer and the third-party administrator need to determine who is filing the W-2 form for the employee. If the employer is filing the W-2 form, all taxes withheld are shown on the W-2 form. If federal income tax was withheld, the employer must also show this amount on the W-3 form in box 14 (income tax withheld by the third-party payer). The IRS will use the box 14 information as a reconciling item, as amounts reported for federal income tax withheld on the employer's 941 forms will not match their W-2 totals. **Form 8922, Third-Party Sick Pay Recap**, is required to be filed with the IRS to reconcile employment tax returns with Forms W-2 when third-party sick pay is paid.



FRINGE BENEFITS

- The federal standard **mileage allowance** for 2024 was 67 cents per mile for all business miles driven. The allowance for 2025 has not yet been released. Reimbursements in excess of the standard allowance are taxable wages and are subject to withholding and payroll taxes.
- If an employer allows an employee to use a **company vehicle**, any personal use or personal expenses incurred by the employee, but paid by the employer, must be included as wages on Form W-2. These wages are subject to federal, FICA, PUC, and FUTA taxes, but not PA state or local withholding. The methods available for calculating the value of personal use are the general valuation rule, the annual lease valuation rule, the vehicle cents-per-mile valuation rule, or the vehicle commuting valuation rule. Certain restrictions apply to each of these rules, and you should review each option before determining which valuation method to use.
- **“S” Corporations:** If you pay **health and accident insurance premiums for a shareholder owning more than 2% of the Corporation’s stock**, you must include the amount of the premiums paid in the shareholder’s federal wages, Form W-2, box 1 only. Separately listing these premiums in box 14 of the W-2 form is helpful in tax return preparation.



A shareholder owning more than 2% of a Corporation’s stock may not participate in a cafeteria plan, nor may any of the shareholder’s family members who work for the Corporation.

- If an employer provides group-term life insurance coverage over \$50,000 or dependent life insurance over \$2,000 to employees under a nondiscriminatory plan, the **value of group-term life insurance over \$50,000 and dependent life insurance over \$2,000** (including the cost of the first \$2,000) are considered wages to the employee, but only for federal and FICA purposes and reported on Form W-2 in boxes 1, 3, 5, and 12 with Code C. Coverage over \$50,000 provided to retired and terminated employees is also taxable in the year coverage is provided. Although calculated amounts are considered federal income, employers are not required to withhold income tax on these amounts. The taxable value is calculated using an IRS table, the age of an employee, and a cost associated with that age. If an employee pays part of the cost of the insurance, the employee’s contribution reduces the taxable income amount. The current rates are as follows:





Current Table I Rates - Cost per \$1,000 of protection for a one-month period

AGE	COST	AGE	COST
Under 25	.05	50 - 54	.23
25 - 29	.06	55 - 59	.43
30 - 34	.08	60 - 64	.66
35 - 39	.09	65 - 69	1.27
40 - 44	.10	70 and above	2.06
45 - 49	.15		

- **Business expenses** paid under an accountable plan are exempt from withholding and payroll taxes if there is a business connection, if any amount paid in excess of the expenses incurred is returned to the employer, and if

there is substantiation of the expenses. For business expenses such as travel, entertainment, and gifts to qualify for tax-exempt employer reimbursement, the IRS requires an original receipt for any expense of \$75 or more. Business expenses paid under a non-accountable plan are considered wages and are subject to withholding, payroll taxes, and W-2 reporting.

- Reimbursements for **moving expenses** made to employees or paid directly to third parties on and after January 1, 2018, and through December 31, 2025, are included in wages subject to federal income tax, Social Security and Medicare taxes, and federal unemployment. An exception to this provision applies to members of the Armed Forces on active duty moving pursuant to a military order and incident to a permanent change of station. 
- The **educational assistance plan exclusion provided under Section 127** of the IRS code allows employers to exclude from wages up to \$5,250 per year of employer provided non-job-related educational expenses for both undergraduate and graduate-level courses if paid under a qualified plan. The CARES Act expands the definition of expenses qualifying for the exclusion to include employer payments of student loan debt made before January 1, 2021. The Consolidated Appropriations Act, 2021 extends these provisions through 2025. There must be a separate written plan exclusively for employees that does not discriminate in favor of highly compensated employees or owners and does not allow cash in lieu of educational assistance. Employees must be given reasonable notice of the plan. 
- **Educational courses** may be considered **job-related expenses** and be excludable from income as a working condition fringe benefit if the education maintains or improves the skills required by an individual's employment and/or is a condition of employment. However, if the courses are required to meet the minimum educational requirements of an employee's job or will qualify the employee for a new trade or business, the educational payments are included in gross wages and are subject to withholding. Job-related expenses include refresher courses, current development courses, academic, and vocational courses. Expenses for tuition, books, supplies, lab fees, travel costs from work to school, and other miscellaneous educational costs can be excluded from income but only if they are paid under an accountable plan.
- If an employer gives **prizes and awards** to employees, the value of the award is generally considered taxable income to the employee and is subject to withholding. There are exceptions to this rule for some safety and length of service awards; however, cash, gift certificates, and other items considered cash equivalents are always taxable.

Any time an employer gives an employee cash, gift certificates, or gift cards, it is considered wages.

- If an **employee or shareholder received loans from their employer totaling more than \$10,000 and interest was charged at a rate below market**, a taxable event has occurred. For employees, imputed interest is taxable and must be included as compensation on Form W-2. For C-Corporation and some S-Corporation shareholders, imputed interest is taxable as a dividend and must be reported on Form 1099-DIV. If the employer forgives the debt or the employee is not expected to repay the loan for any other reason, the loan balance becomes taxable.
- The Revenue Reconciliation Act of 1993 gives **food and beverage establishments a tax credit** equal to the amount the employer pays in FICA taxes on employee tip income over the amount treated as wages for minimum wage purposes. Employers may claim this credit by filing **Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips**, with their Corporate, Partnership, or Individual tax return.

- **Wages of domestic employees** that exceed \$2,700 for 2024 and \$2,800 for 2025 are subject to Social Security and Medicare taxes. Domestic employers will report and pay the taxes with their 1040 return on Schedule H. Wages of domestic employees are subject to PUC and FUTA for the entire year if the wages exceed \$1,000 in any quarter of the year.

2024 FORM W-2 INFORMATION

Employers prepare Form W-2 to provide employees with annual wage and tax withholding information. Forms and publications are available from the IRS website at www.irs.gov or by calling **1-800-829-3676**. Review the W-2 and W-3 instructions before preparing your year-end tax forms for 2024 to ensure you comply with IRS rules.

You must furnish 2024 Form W-2 to your employees by January 31, 2025. Prepare and file your forms alphabetically by your employees' last names or numerically by your employees' Social Security numbers. Before filing, verify employee names, Social Security numbers, and addresses. The employee's name and Social Security number must match the information on your employee's Social Security card.

Employers can verify employees' Social Security numbers in several ways, including via the SSA Business Services Online website, <http://www.socialsecurity.gov/bsa/bsowelcome.htm> (pre-registration required). Through this website, employers can verify up to ten names and numbers and get immediate results or upload a file in the format mandated by the SSA with up to 250,000 names and numbers and receive next day results.

The deadline to file 2024 Forms W-2 and W-3 with the Social Security Administration is January 31, 2025, whether filing on paper or electronically. Do not fold your forms when mailing. Do not staple or tape your forms together. Common W-2 errors per the IRS instructions include the following:

- Omitting the decimal point and cents from entries
- Using ink that is too light
- Making entries that are too large or too small for the boxes
- Adding dollar signs to the money amount boxes
- Inappropriately checking the retirement plan check box
- Incorrectly formatting the employee's name

Try to avoid these errors, as they may delay the processing of your W-2 forms.

Beginning with the 2023 tax year, regulations lowered the threshold to 10 for which employers must file certain information returns electronically, including Form W-2. To determine whether they must file information returns electronically, employers must add together the number of information returns (see the list below) and the number of Forms W-2 they must file in a calendar year. If the total is at least 10 returns, they must file them all electronically. The new threshold was effective for information returns **required to be filed** in calendar years beginning with 2024.

The following information return forms must be added together for this purpose: Form 1042-S, the Form 1094 series, Form 1095-B, Form 1095-C, Form 1097-BTC, Form 1098, Form 1098-C, Form 1098-E, Form 1098-Q, Form 1098-T, the Form 1099 series, Form 3921, Form 3922, the Form 5498 series, Form 8027, and Form W-2G.

Failure to comply with the new electronic filing regulations would fall under the IRS “intentional disregard penalty”. For 2023, the penalty amount is \$660.00 per information return (1099/W-2).

2024 W-2 REPORTING

Under the Affordable Care Act, employers filing more than 250 W-2 forms are required to report the cost of coverage under an employer-sponsored group health plan unless specifically excluded. The reporting is for informational purposes only in box 12, code DD. For 2024, and until the issuance of further guidance, an employer is not subject to the reporting requirement for any calendar year if the employer was required to file fewer than 250 W-2 forms for the preceding calendar year.

NEW PENNSYLVANIA ABLE TAX CREDITS FOR EMPLOYERS

Starting in January, employers who contribute to their employees’ PA 529 and PA ABLE accounts can get a 25 percent tax credit on up to \$500 in matching contributions per employee per year. Read the PA [News Release](#).

CONTACT US

For questions or assistance, please reach out to Nikelle Druck (general inquiries) or Kristen O’Connell, CPP (payroll inquiries).

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