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Don't miss this month's insights—Taxable wages for paid family and medical leave insurance

Top stories

IRS releases 2024 inflation adjustments for fringe benefits

In Revenue Procedure 2023-34, the IRS announced the 2024 inflation adjustments that will apply to certain fringe benefits and to Form W-2/1099 information reporting penalties.

—[Read more about this development in EY Tax Alert 2023-1878](#)

Ernst & Young LLP's 2023 payroll year-end checklist is now available

From tax filing to taxability, there is so much to consider when closing the year and starting anew, and, with federal, state and local rules constantly changing, preparing a year-end payroll checklist is no simple task. To get you started, we have compiled a sample checklist of items to consider for 2023 and 2024, and state charts to guide you through the federal and state Form W-2 and electronic filing requirements that apply.

Our 2023 payroll year-end checklist includes:

- A sample year-end checklist
- 2024 federal holidays
- 2023 federal Forms W-2/1099 electronic filing requirements
- 2023 state Form W-2 filing requirements
- Year-end employment tax reporting compliance

—[Download the 2023 year-end checklist](#)

US employment tax rates and limits

Our 2023 edition of US employment tax rates and limits includes, as of November 25, 2023, the following:

- Social Security wage base for 2023

- Qualified pension plan limits for 2022 and 2023
- Health Savings Account limits for 2022 and 2023
- Fringe-benefit inflation adjustments and Form W-2 penalties for 2023
- Federal mileage rates and luxury vehicle limits for 2023
- Per diem rates under high-low substantiation method for 2023
- 2021 and 2022 FUTA credit reduction
- State unemployment insurance wage bases and tax rates for 2023
- Disability and paid family leave insurance wage base and rates for 2023
- Federal income tax withholding for 2023
- State income tax withholding tables, supplemental withholding, and the highest withholding tax rates for 2023

—[Download the latest report](#)

Federal developments

A FUTA credit reduction to apply in three jurisdictions; New York lowers its employer interest assessment

The US Treasury Department shows that for 2023, a FUTA credit reduction applies to three jurisdictions (California, New York and the Virgin Islands).

—[Read more about this development in EY Tax Alert 2023-1919](#)

State unemployment insurance

California law allows employers to provide electronic employee notices for Earned Income Tax Credit, unemployment insurance

Under California [AB 1355](#), enacted in 2023 and effective January 1, 2024 through December 31, 2029, California employers are allowed to send required notices about the California and federal Earned Income Tax Credit (EITC) and unemployment insurance to employee email accounts.

—[Read more about this development in EY Tax Alert 2023-1978](#)

Local developments

Campbell County, Kentucky announces significant Occupational License Tax changes for 2024

Campbell County, Kentucky [announced](#) that effective January 1, 2024, its Occupational License Tax (OLT) withholding rate, currently 1.05% of taxable wages, will be split into three separate components for (1) senior citizens, (2) mental health and (3) general.

While the total Campbell County OLT withholding rate will remain at 1.05%, the maximum annual withholding per employee will increase substantially, from \$406 in 2023 to \$1,711 in 2024.

—[Read more about this development in EY Tax Alert 2023-1972](#)

Salem, Oregon voters strike down new Safe Salem payroll tax

On November 7, 2023, over 81% of Marion County, Oregon's voters [voted against](#) the City of Salem's new payroll tax, which was set to go into effect July 1, 2024.

—[Read more about this development in EY Tax Alert 2023-1901](#)

Bill watch (tracking the status of legislation proposed in 2023)

Alabama

HB 217	Status: Passed House and Senate, 6-6-2023. Became law 6-6-2023 (See <i>Tax Alert 2023-1282</i>)	Topic: Wages subject to state income tax
Exempts overtime pay for hours worked over 40 hours per week from state income tax.		

Alabama

SB 65	Status: Read second time in House of Origin, 3-21-2023; indefinitely postponed, 5-31-2023 (legislature adjourned 6-14-2023) Bill did not pass before session adjournment	Topic: Local tax rate control, make clear local tax applies only for work carried on within the locality (convenience of the employer rule)
Would have done the following: reduce any municipal occupational license tax greater than 1% based on an annual reduction in the tax until the tax would be 1%; provide that any occupational license tax levied by any municipality does not apply to any person performing an occupation in the police jurisdiction of the municipality or on any property annexed into the municipality after January 1, 2023; provide for a referendum under certain conditions in certain counties in which two or more municipalities levied an occupational tax greater than 1% on January 1, 2023; prohibit a municipality from levying a new occupational license tax or increasing the rate of any existing municipal occupational license tax; provide for certain exceptions from any occupational taxes for certain temporary workers and for severance pay; specify the power of a municipality pursuant to Section 11-51-90 of the Code of Alabama 1975, to license an exhibition, trade, business, vocation, occupation, or profession only within the corporate limits and jurisdiction of the municipality, provide for refunds and collections of the license fees and taxes, and provide that these provisions are retroactive and declaratory of existing law.		

Georgia

SB 160	Status: Approved by Governor, May 1, 2023 (See <i>EY Tax Alert 2023-1258</i>)	Topic: Unemployment insurance tax rates
Changes the unemployment tax rate for new employers to 2.64% through 2026, increasing to 2.7% after 2026. Institutes a 0.06% administrative assessment tax in effect from 2024 through 2026 that applies to new employers and employers with an experience rating; however, reimbursing employers and those employers paying the minimum or maximum unemployment tax rate are subject to the assessment. The administrative assessment is not reported as contributions on the Form 940 and is repealed entirely effective January 1, 2027.		

Illinois

HB 3129	Status: Approved by Governor, August 11, 2023	Topic: Equal Pay Act wage transparency
Expands the state's current Equal Pay Registration Certificate process by requiring that Illinois employers with more than 15 employees include pay scale and benefits information in all open job postings.		

Indiana

SB 419	Status: Approved by Governor, May 4, 2023 (See <i>EY Tax Alert</i> 2023-0871)	Topic: Nonresident income tax, de minimis exemption
Simplifies individual income tax filings and reduces employers' withholding and reporting burdens related to employees working less than 30 days in Indiana.		

Kansas

H.B. 2420	Status: Referred to House Committee on Taxation, 2-15-2023 (legislature adjourned) Bill did not pass before session adjournment	Topic: Nonresident income tax, de minimis exemption
Would have established a 30-day safe harbor before nonresident employees traveling into the state for work duties are subject to income tax in Kansas and their employers to corresponding withholding obligations. This safe harbor would have been available only if the nonresident's work state offered a substantially similar 30-day threshold and related provisions.		

Maine

LD 1638	Status: (legislature adjourned June 21, 2023) Bill did not pass before session adjournment	Topic: State personal income tax rate decrease
Would have reduced the state's individual income tax rates for tax years 2023 and 2024 from 5.8%, 6.75% and 7.15% to 5.2%, 6.3% and 7.05%, respectively. Starting with the 2025 tax year, the rates would have been reduced to 5%, 6% and 7%, respectively.		

Maine

LD 1946	Status: Referred to Committee on Taxation Voted Ought Not to Pass , 5-31-2023 (legislature adjourned June 21, 2023)	Topic: Expand the state personal middle income tax bracket
Would have, effective January 1, 2023, increased the taxable income subject to the 6.75% and 7.15% tax rates.		

Maryland

S.B. 828	Status: Approved by Governor, 5-3-2023 (See <i>EY Tax Alert</i> 2023-1029)	Topic: Paid family and medical leave insurance
Delays the start date for employer/employee contributions to the state paid family and medical leave insurance plan from October 1, 2023, to October 1, 2024; prohibits a total contribution rate of more than 1.2% to be paid 50% by employers and employees; changes the definition of taxable wages.		

Minnesota

SF 2346	Status: Referred to Taxes, introduction and first reading, 3-1-2023 (legislature adjourned May 22, 2023) Bill did not pass before session adjournment	Topic: Nonresident income tax, de minimis exemption
Would have established a 30-day safe harbor before nonresident employees traveling into the state for work duties are subject to income tax in Minnesota and their employers to corresponding withholding obligations. This safe harbor would have been available only if the nonresident's work state offered a substantially similar 30-day threshold and related provisions.		

Minnesota

H.F. 442	Status: Introduction and first reading, referred to Taxes, 1-17-2023 (legislature adjourned May 22, 2023) Bill did not pass before session adjournment	Topic: State personal income tax rate increase
Effective retroactive to January 1, 2023, would have established a new tax rate of 10.85% on incomes over \$600,000 for single filers; over \$800,000 for heads of household; and over \$1 million for joint filers. The bill would also have raised the income thresholds for the existing income tax brackets for all filers.		

Minnesota

HF 2	Status: Approved by Governor 5-25-2023 (See <i>EY Tax Alert</i> 2023-1111)	Topic: State paid family and medical leave insurance
Establishes a state paid family and medical insurance program with contributions and benefits beginning January 1, 2026, with employer quarterly wage detail reports starting July 1, 2025. The premium rate is 0.7% for an employer participating in both family and medical benefit programs; 0.4% for an employer participating in only the medical benefit program with an approved private plan for the family benefit program; and 0.3% for an employer participating in only the family benefit program with an approved private plan for the medical benefit program. Contributions are paid up to the Social Security wage limit; however, small employers pay at a lower wage limit based on number of employees. Employers may deduct up to 50% of the contributions from employees' wages.		

Minnesota

SF 3035	Status: Approved by Governor 5-24-2023 (See <i>EY Tax Alert</i> 2023-1088)	Topic: Earned sick and safe leave (ESSL)
Effective January 1, 2024, provides covered employees up to 48 hours of earned ESSL for a variety of purposes. The state ESSL law does not preempt local ESSL laws.		

Montana

H.B. 447	Status: Approved by Governor, 5-18-2023 (See <i>EY Tax Alert</i> 2023-0919)	Topic: Nonresident income tax, de minimis exemption
Establishes a 30-day safe harbor before nonresident employees traveling to the state for work are subject to income tax in Montana and their employers to corresponding withholding obligations. The provision includes a "key employee" exception for employees who earn over \$500,000 in compensation in the prior year.		

Nebraska

LB 416	Status: Notice of hearing 2-15-2023 (legislature is adjourned) Bill did not pass before session adjournment	Topic: Nonresident income tax, convenience of the employer rule
Would only have imposed the convenience of the employer rule if the employee were present in Nebraska for more than 30 days in the tax year.		

Nebraska

L.B. 173	Status: Notice of hearing 2-23-2023 (legislature is adjourned) Bill did not pass before session adjournment	Topic: Nonresident income tax, de minimis exemption
Would have established a 30-day safe harbor before nonresident employees traveling into the state for work duties were subject to income tax in Nebraska and their employers to corresponding withholding obligations.		

Nebraska

L.B. 754	Status: Approved by Governor, 5-31-2023 (See <i>EY Tax Alert</i> 2023-1362)	Topic: Personal income tax decrease
Collapses the current personal income tax brackets to three and lowers the rates in stages over four years starting in 2024.		

New Jersey

AB 4694/ SB 3128	Status: Approved by Governor, 7-21-2023 (See <i>EY Tax Alert</i> 2023-1291)	Topic: Convenience of the employer rule
Provides that, retroactive to January 1, 2023, if another state in which an employee resides imposes tax on the income of an employee who works out-of-state for an in-state employer due to the convenience of the employee, that same rule will apply to a person who works for a New Jersey employer but who resides and works outside of New Jersey at the employee's convenience. This means that if an employee's state of residence determines the source of income of nonresidents by a "convenience of the employer test," and the employee works for a New Jersey employer from a location in the employee's state of residence for the employee's own convenience, then the New Jersey employer is required to include those days as days worked in New Jersey and withhold income tax accordingly.		

New York

SB 5572/AB 6796	Status: Approved by Governor, 9-15-2023	Topic: Salary threshold for exempt employees
Effective March 13, 2024 (180 days from September 15, 2023), raises New York State's salary threshold for salaried-exempt employees from \$900 per week to \$1,300 per week, indexed each year for inflation.		

North Carolina

HB 490	Status: Referred to Committee on Finance, 3-28-2023 Bill did not pass before session adjournment	Topic: Wages subject to state income tax
Would have exempted certain bonuses and overtime pay for hours worked over 40 hours per week from state income tax.		

Pennsylvania (currently impacts Philadelphia)

S.B. 671	Status: Referred to House finance, 5-5-2023 (legislature adjourns December 31, 2023)	Topic: Convenience of the employer rule
Would prohibit imposing the Philadelphia wage tax on nonresidents working for employers within the city if the employee performs all duties or services outside of the city and makes clear that the tax can only be imposed for services physically provided by nonresidents within the city.		

South Carolina

HB 3450	Status: Referred to Committee on House Ways and Means, 1-10-2023 (legislature adjourned 5-11-2023) Bill did not pass before session adjournment	Topic: Wages subject to state income tax
Would have exempted certain bonuses and overtime pay for hours worked over 40 hours per week from state income tax.		

Vermont

H. 217	Status: Passed by House and Senate, 5/12/2023, House and Senate overrode the Governor's veto, 6-20-2023 (See <i>EY Tax Alert</i> 2023-1338)	Topic: Payroll tax to fund childcare
Requires that, effective July 1, 2024, employers pay a Child Care Contribution of 0.44% of covered wages (0.11% of self-employed income). Allows employers to withhold a maximum of 25% of the contribution from employees' wages.		

This month's insights

The taxable wage definition for paid family and medical leave insurance varies by state

States have been adopting laws to create paid family and medical leave (PFML) insurance programs at a steady pace. As of November 30, 2023, 14 states and the District of Columbia are now, or will soon be, operating PFML programs.

Although PFML programs are generally administered by state unemployment agencies, it cannot be assumed that state unemployment insurance (SUI) and PFML have the same taxable wage definition. For example, while [Massachusetts](#) and [Minnesota](#) use the same wage definition for SUI and PFML, that is not the case for [Colorado](#) and [Maine](#).

When PFML does not conform to the SUI taxable wage definition, challenges can arise. For instance, Colorado defines PFML taxable wages as "gross wages" yet severance pay and disability benefits paid by a third-party are exempt from taxation.

Key takeaway

In preparing for 2024, employers should consider a careful review of their payroll system tax configurations for PFML, ensuring that PFML does not automatically default to SUI.

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