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[Don't miss this month's insights— Pennsylvania law exempting dependent care assistance from income tax applies to most local payroll taxes](#)

## Top stories

### US employment tax rates and limits

Our 2024 edition of US employment tax rates and limits includes, as of January 25, 2024, the following:

- Social Security wage base for 2024
- Qualified pension plan limits for 2023 and 2024
- Health Savings Account limits for 2023 and 2024
- Fringe-benefit inflation adjustments and Form W-2 penalties for 2024
- Federal mileage rates and luxury vehicle limits for 2024
- Per diem rates under high-low substantiation method for 2024
- 2022 and 2023 FUTA credit reduction
- State unemployment insurance wage bases and tax rates for 2024
- Disability and paid family leave insurance wage base and rates for 2024
- Federal income tax withholding for 2024
- State income tax withholding tables, supplemental withholding, and the highest withholding tax rates for 2024

—[Download the latest report](#)

## Federal developments

### Penalties for failing to offer affordable health care minimum coverage decrease for 2025

The IRS has issued the indexing adjustments for calculating employer shared responsibility payments (ESRPs) under the Affordable Care Act (ACA) for 2025 ([Revenue Procedure 2024-14](#)). Under the new calculations, the 2025 ESRPs will be less than for 2024.

—[Read more about this development in EY Tax Alert 2024-0412](#)

IRS announces continuation of pilot program giving qualified retirement plan sponsors chance to review and correct plan documents and operations

IRS Employee Plans [announced](#) on February 7, 2024, that it has started the second phase of its pilot Pre-Examination Retirement Plan Compliance Program. In the second phase, the IRS is continuing to notify retirement plan sponsors that their plan was selected for examination and giving them 90 days to review and correct any mistakes in their plan documents or operations, without a comprehensive audit. According to the IRS, 72% of the 100 plan sponsors notified during the first phase responded.

—[Read more about this development in EY Tax Alert 2024-0448](#)

Employers seeing increased Affordable Care Act penalties for 2021, this trend may continue in subsequent years

EY has become aware that several employers have received ACA audit letters (Letters 226-J) from the IRS with higher ESRP assessments for the 2021 tax year as compared to prior years. This could be due to more employees participating in the ACA health insurance marketplace program over the last four years and receiving a premium tax credit (PTC). Employers with health plan offerings that do not meet an affordability safe harbor could see increased exposure to ESRP IRC Section 4980H(b) assessments if the premium they offer for coverage does not meet one of the ACA affordability safe harbors.

—[Read more about this development in EY Tax Alert 2024-0442](#)

## State income tax withholding

Ohio Supreme Court upholds temporary city taxation of remote workers during COVID-19 pandemic

In its long-awaited decision in *Schaad v. Alder*, the Supreme Court of Ohio upheld a temporary state law allowing cities to collect income tax from non-resident individuals working remotely during the COVID-19 pandemic.

—[Read more about this development in EY Tax Alert 2024-0435](#)

## Local tax

Pennsylvania law excludes dependent care assistance benefits from state income tax and withholding

Recently enacted [Act 34](#), Section 202.3 (HB 1300), which is effective retroactive to January 1, 2023, excludes up to \$5,000 per year of benefits under an IRC Section 129 dependent care assistance program from Pennsylvania income tax and withholding. For information concerning the implications on Pennsylvania's local payroll taxes, see [This month's insights](#).

—[Read more about this development in EY Tax Alert 2024-0586](#)

Bill watch (tracking the status of legislation proposed in 2024)

Georgia

<a href="#">HB 1015</a>	Status: Sent to the Governor (4-1-2024)	Topic: Personal income tax rates
Would, retroactive to January 1, 2024, lower the personal income tax rate from 5.49% to 5.39%. The tax rate would be reduced by 0.10% annually if certain revenue benchmarks are met, effective January 1, 2025, until the rate reaches 4.99%.		

Illinois

<a href="#">SB 2981</a>	Status: Introduced (1-31-2024)	Topic: Personal income tax on overtime pay
Would, effective immediately, create a deduction of the amount of any overtime wages paid to the taxpayer during the tax year.		

Iowa

<a href="#">HF 2638</a>	Status: Passed House, submitted to Senate subcommittee (4-2-2024)	Topic: Taxation of nonqualified deferred comp
Would exclude nonqualified deferred compensation income from individual income tax retroactive to January 1, 2023.		

Kansas

<a href="#">HB 2284</a>	Status: Governor vetoed (1-29-2024) Veto sustained (2-20-2024)	Topic: Income tax rate
Would have, among other things, implemented a flat tax of 5.25%, exempt Social Security benefits from state income tax and increase the standard deduction by a cost-of-living adjustment.		

Kansas

<a href="#">HB 2420</a>	Status: Introduced to the House Committee on Taxation (2-15-2024)	Topic: Nonresident income tax, de minimis exception
Would exempt nonresident employees performing work in Kansas from income tax for the first 30 days.		

Mississippi

<a href="#">HB 224</a>	Status: Died in Ways and Means Committee (3-27-2024)	Topic: Personal income tax on overtime pay
Would exclude overtime compensation from gross income effective January 1, 2024.		

Missouri

<a href="#">HB 2315</a>	Status: Read second time (1-9-2024)	Topic: Personal income tax on overtime pay
Would authorize an income tax subtraction for work in excess of 40 hours in the workweek.		

#### New Jersey

<a href="#">AB 2621</a>	Status: Referred to Assembly Labor Committee (1-9-2024)	Topic: Personal income tax on overtime pay
Would exclude the overtime pay of certain employees from gross income tax.		

#### South Carolina

<a href="#">HB 4811</a>	Status: Referred to Committee on Ways and Means (1-10-2024)	Topic: Personal income tax on overtime pay
Would exclude overtime income from personal income tax.		

#### Wisconsin

<a href="#">AB 938</a>	Status: Introduced (1-12-2024)	Topic: Personal income tax on overtime pay
Would exclude overtime income and certain bonuses from personal income tax.		

#### West Virginia

<a href="#">HB 5296</a>	Status: Sent to House Finance Committee (1-29-2024)	Topic: Personal income tax on overtime pay
Would exclude overtime income from personal income tax for three years.		

### This month's insights

Pennsylvania law exempting dependent care assistance from income tax applies to most local payroll taxes

Effective retroactive to January 1, 2023, Pennsylvania [Act 34](#) excludes up to \$5,000 per year of benefits under an IRC Section 129 dependent care assistance program from Pennsylvania income tax and withholding. Because the law was enacted in late December 2023, the Pennsylvania Department of Revenue has provided instructions for correction of Box 16 of the 2023 Pennsylvania Form W-2. (See [Tax Alert 2024-0586](#).)

Under Section 501 of the [Local Tax Enabling Act](#), taxable wages for purposes of the local Earned Income Tax and Local Services Tax are those wages subject to Pennsylvania state income tax. All Pennsylvania localities are governed by the Local Tax Enabling Act except for Philadelphia, which is governed by the Sterling Act. Under Philadelphia's [regulations](#), dependent care assistance benefits continue to be subject to its [Wage Tax](#).

Accordingly, the reduction for dependent care assistance benefits should also be made to Box 18 of the 2023 Pennsylvania Form W-2 for the Earned Income Tax and Local Services Tax but no adjustment should be made for Philadelphia's Wage Tax.

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