2024 employment tax year in review

December 10, 2024

The better the question. The better the answer. The better the world works.

EY

Shape the future with confidence

Disclaimer

- EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.
-
- Views expressed in this presentation are those of the speakers and do not necessarily represent the views of Ernst & Young LLP.
- This presentation is provided solely for the purpose of enhancing knowledge on tax matters. It does not provide accounting, tax, or other professional advice because it does not take into account any specific taxpayer's facts and circumstances. Furthermore, all structures and transactions depicted are for discussion purposes only. Consult your tax advisor regarding your specific facts and circumstances.
- Neither EY nor any member firm thereof shall bear any responsibility whatsoever for the content, accuracy, or security of any third-party websites that are linked (by way of hyperlink or otherwise) in this presentation.
- Transcription and closed captioning are generated by third-party AI software and may inadvertently include grammatical, syntax and other interpretive errors. Please disregard these errors.

CPE eligibility

We will launch at least three polls per CPE credit; participants must attend the full session and participants must answer at least three polls per CPE credit to receive full credit.

Course description and learning objectives

Course description

- A review and discussion of significant payroll year-end topics

Learning objectives

- Identify federal and state rates and limits for 2024 and 2025
- Discuss the top payroll challenges facing employers in 2024
- Recognize important federal and state payroll developments affecting 2024 and 2025

Meet the panel

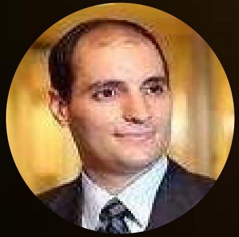
Moderator

Kristie Lowery
Employment Tax
Advisory Services
kristie.lowery@ey.com
Ernst & Young LLP

Panelists

Jennie DeVincenzo
Employment Tax
Advisory Services
jennie.devincenzo@ey.com
Ernst & Young LLP

Ken Hausser
Employment Tax
Advisory Services
kenneth.hausser@ey.com
Ernst & Young LLP



Gino Petrozzi
Employment Tax
Advisory Services
gino.petrozzi@ey.com
Ernst & Young LLP

Martin Rule
Employment Tax
Advisory Services
martin.rule@ey.com
Ernst & Young LLP

Debera Salam
Employment Tax
Advisory Services
debera.salam@ey.com
Ernst & Young LLP

Agenda

Click on the section number or topic to navigate to that section. Click on the home icon to return to this agenda.

1 2025 rates and limits

- Federal
- State disability and paid family and medical leave insurance
- State unemployment insurance

2 Disaster relief

- Disaster assistance payments
- Leave sharing
- Disaster unemployment insurance

3 Payroll developments

- State income tax withholding
- State unemployment insurance
- Other payroll developments
- Looking ahead to 2025

4 Top 2024 challenges

- Remote workers and business travelers
- Payroll system tax set-up errors
- Payroll system taxability errors
- Governmental payroll tax audits

5 Payroll year-end checklist

- Top three year-end checklist items
- Ernst & Young LLP special reports
- Federal Form W-2 resources

1

2025 rates and limits

Federal rates and limits for 2025

2024 and 2025 rates and limits

Category	Measure	2024 limit	2025 limit	Compared to 2024
Social Security wage base	Year	$168,600	$176,100	**UP**
Salary reduction to qualified retirement plan (e.g., 401(k))	Year	$23,000	$23,500	**UP**
Qualified parking	Month	$315	$325	**UP**
Commuter highway vehicle/transit pass	Month	$315	$325	**UP**
Adoption assistance	Per adoption	$16,810	$17,280	**UP**
Health flexible spending account (FSA) employee pretax contribution	Year	$3,200	$3,300	**UP**
Business cents per mile	Mile	$0.655	Pending	
Relocation cents per mile (relevant only to military)	Mile	$0.220	Pending	
Federal unemployment insurance wage base	Year	$7,000	$7,000	**No change**

2024 and 2025 health savings accounts

Limit type	2024	2025
Contribution*		
Self	$4,150	$4,300
Family	$8,300	$8,550
Out-of-pocket		
Self	$8,050	$8,300
Family	$16,100	$16,600
High-deductible health plan (HDHP)		
Self	$1,600	$1,650
Family	$3,200	$3,300

Keep in mind

The combined total of annual employer contributions plus employee pretax contributions must be reported on Form W-2, box 12, code W.

Errors in box 12, code W create tax return filing issues for employees.

*An additional contribution of $1,000 is permitted for individuals aged 55 and older. An individual enrolled in Medicare may not contribute to an HSA. For plan years beginning in 2025, the maximum amount that may be made newly available for the plan year for an excepted Health Reimbursement Arrangement (HRA) under Treas. Reg. Section 54.9831-1(c)(3)(viii)(B)(1) is $2,150.

Information reporting penalties
(Forms W-2 and 1099 filed in 2025)

Section 6721: Failure to timely file an accurate information return with IRS/SSA (for returns required to be filed in 2025)				
Filed/corrected on or after	**On or before**	**Penalty**	**Maximum**	**Maximum small employer**
1/1	1/31	$0	N/A	N/A
2/3	3/3	$60	$664,500	$232,500
3/3	8/1	$130	$1,993,500	$664,500
8/2	N/A	$330	$3,987,000	$1,329,000
	Intentional disregard	$660	No limit	No limit

Section 6722: Failure to furnish correct payee statements (for statements required to be furnished in 2025)				
Filed/corrected on or after	**On or before**	**Penalty**	**Maximum**	**Maximum small employer**
1/1	1/31	$0	N/A	N/A
2/3	3/3	$60	$664,500	$232,500
3/3	8/1	$130	$1,993,500	$664,500
8/2	N/A	$330	$3,987,000	$1,329,000
	Intentional disregard	$660	No limit	No limit

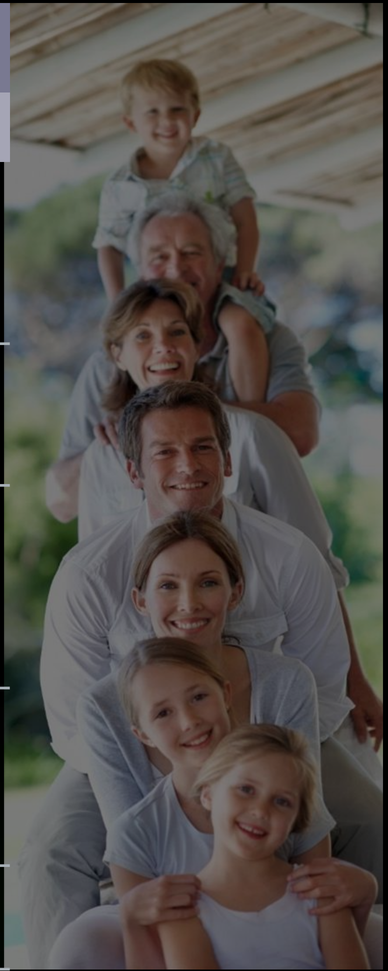
Information reporting penalties
(Forms W-2 and 1099 filed in 2026)

Section 6721: Failure to timely file an accurate information return with IRS/SSA (for returns required to be filed in 2026)				
Filed/corrected on or after	**On or before**	**Penalty**	**Maximum**	**Maximum small employer**
1/1	1/31	$0	N/A	N/A
2/3	3/5	$60	$683,000	$239,000
3/3	8/1	$130	$2,049,000	$663,000
8/2	N/A	$340	$4,098,500	$1,366,000
	Intentional disregard	$680	No limit	No limit
Section 6722: Failure to furnish correct payee statements (for statements required to be furnished in 2026)				
Filed/corrected on or after	**On or before**	**Penalty**	**Maximum**	**Maximum small employer**
1/1	1/31	$0	N/A	N/A
2/3	3/5	$60	$683,000	$239,000
3/3	8/1	$130	$2,049,000	$663,000
8/2	N/A	$340	$4,098,500	$1,366,000
	Intentional disregard	$680	No limit	No limit

State paid family and medical leave insurance for 2025

State disability and paid family and medical leave insurance for 2025

State disability and paid family and medical leave insurance contribution rates for 2025			
State/jurisdiction	**Employee contribution (% of taxable wages)**	**Employer contribution (% of taxable wages)**	**Taxable wage limit if applicable**
California Disability Paid family medical leave insurance	1.2% Included in disability contribution	None N/A	None Included in disability contribution
Connecticut Paid family medical leave insurance	0.5%	None	$176,100 (2025 Social Securitywage limit)
Colorado Paid family medical leave insurance	50% of 0.9% (if employer has 10 or more employees; if fewer than 10 employees, employees pay 100%)	50% of 0.9% (if employer has 10 or more employees; if fewer than 10 employees, employers pay 0%)	$176,100 (2025 Social Security wage limit)
Delaware Paid family medical leave insurance 2025 Contributions start in 2025	Employers may deduct up to 50% of premium from employees' wages	Medical: 0.4%; family leave: 0.8%; parental leave: 0.32% (employers with 10 to 24 employees are subject only to parental leave and employers with nine or fewer employees are completely exempt)	$176,100 (2025 Social Security wage limit)
District of Columbia Paid family medical leave insurance	None	0.75%	None, payroll tax is on total wages



State disability and paid family and medical leave insurance for 2025

State disability and paid family and medical leave insurance contribution rates for 2025			
State/jurisdiction	**Employee contribution (% of taxable wages)**	**Employer contribution (% of taxable wages)**	**Taxable wage limit if applicable**
Hawaii Disability	50% of cost but not more than 0.5% of covered weekly wages up to a maximum weekly contribution of $6.87) *	Difference between cost and worker's contribution	For 2024, $1,374.78 (weekly)
Maryland Paid family medical leave insurance Effective July 1, 2025 2025	50% of 0.9%	50% of 0.9%	$176,100 (2025 Social Security wage limit)
Maine Paid family medical leave insurance Effective January 1, 2025	50% of 1.0% (100% if employer has fewer than 15 employees)	50% of 1.0% (0% contribution if employer has fewer than 15 employees)	$176,100 (2025 Social Security wage limit)
Massachusetts Paid family medical leave insurance	25 or more employees: medical, .42%, family, 0% Fewer than 25 employees: none	25 or more employees: medical, .28%, family, .18% Fewer than 25 employees: Medical: .28%, family, .18%	$176,100 (2025 Social Security wage limit)
Minnesota Paid family medical leave insurance Contributions start January 1, 2026 2026	50% of rate which is to be determined	50% of rate which is set to be determined	Social Security wage limit (a lower wage base applies to employers with fewer than 30 employees with the lowest premium available to those with 1 to 9 employees)

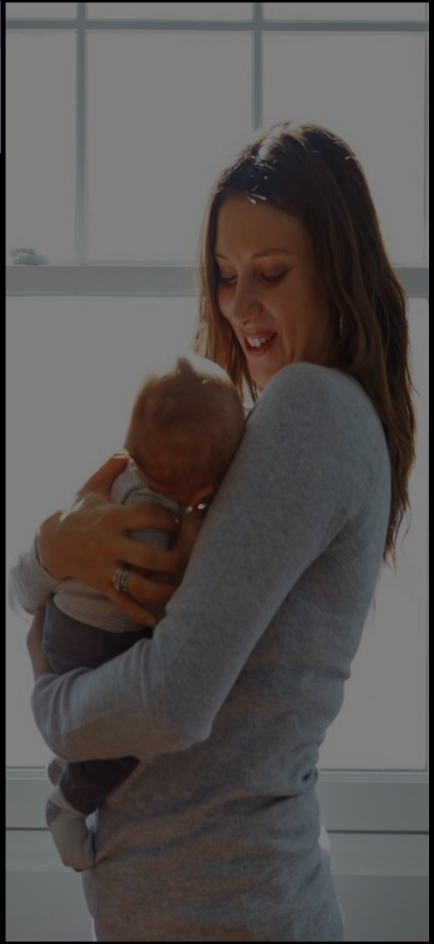
*2025 rates not yet available

EY

State disability and paid family and medical leave insurance for 2025

State disability and paid family and medical leave insurance contribution rates for 2025			
State/jurisdiction	**Employee contribution (% of taxable wages)**	**Employer contribution (% of taxable wages)**	**Taxable wage limit if applicable**
New Hampshire			
Paid family medical leave insurance	Employees may opt into the state's Granite State Paid Family Leave Fund (FMLI)	Employers that choose to participate in the FMLI program will be entitled to a tax credit, allowed against FMLI premiums due, of 50% of the premium that the employer paid for FMLI coverage for the tax period at issue	N/A
New Jersey			
Disability	0.23%	New employers pay 0.5% of taxable wages if in state plan; otherwise, experience rating applies; for other employers, experience rates range from 0.1% to 0.75%	$43,300
Paid family medical leave insurance	0.33%	None	$165,400
New York			
Disability	0.5% up to: $0.14 daily $0.60 weekly $1.20 biweekly $1.30 semi-monthly $2.60 monthly	Balance of costs over employee contributions necessary to provide benefits	None
Paid family medical leave insurance	0.373% (maximum of $333.25 per year)*	None	$89,343.80

*2025 rates not yet available



State disability and paid family and medical leave insurance for 2025

State disability and paid family and medical leave insurance contribution rates for 2025			
State/jurisdiction	**Employee contribution (% of taxable wages)**	**Employer contribution (% of taxable wages)**	**Taxable wage limit if applicable**
Oregon Paid family medical leave insurance	60% of 1.0% if employer has 25 or more employees; otherwise, employee pays 100% *	40% of 1.0% if employer has 25 or more employee; otherwise, employer pays 0% *	$168,600
Puerto Rico Disability	0.3%	0.3%	$9,000
Rhode Island Disability Paid family medical leave insurance	1.2% * Included in disability contribution	None N/A	$87,000 (maximum contribution of $1,044) Included in disability contribution
Vermont Paid family medical leave insurance Effective July 1, 2024	Employees may opt into the voluntary plan	Employers with two or more employees may participate in the voluntary plan	N/A
Washington Paid family medical leave insurance	71.52% of 0.92% if employer has more than 50 employees; otherwise, 100%	28.48% of 0.92% if employer has 50 or more employees; otherwise, 0%	$176,100 (2025 Social Security wage limit)
Long term care insurance	0.58% of gross wages	None	None

*2025 rates not yet available

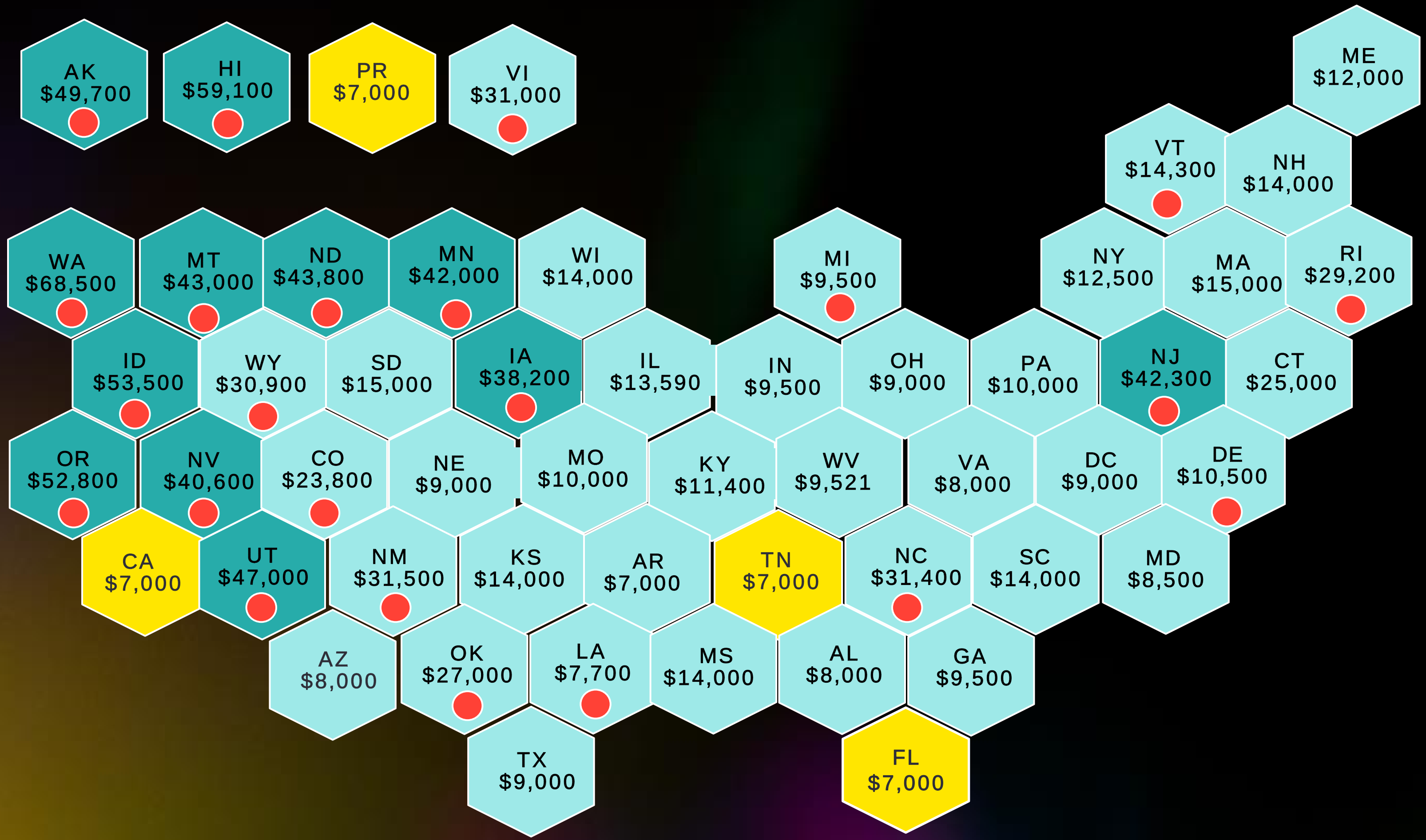
Polling question

Has your organization experienced layoffs this year?

a. Yes
b. No
c. We anticipate layoffs in the future
d. Don't know
e. Not applicable (EY, faculty, other)

State unemployment insurance (SUI) 2024

2024 SUI wage bases



Federal minimum base

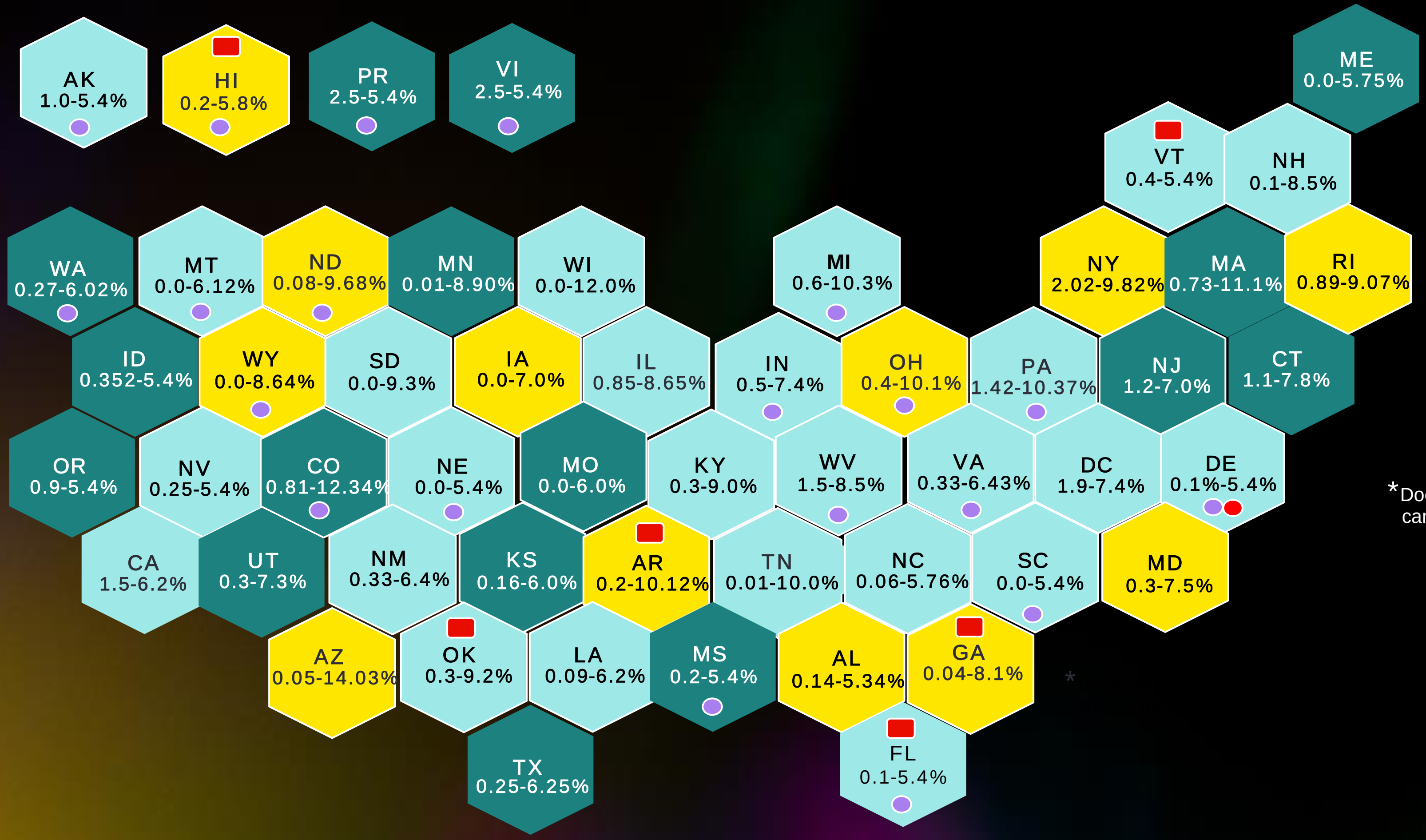
Wage base of $7,001 to $34,800

Wage base of $34,801 to $68,500

Wage base is adjusted annually

Ernst & Young LLP survey results, 10/1/2024

2024 experience-rated SUI base tax rates*



*Does not include surcharges that can further increase cost

SUI base tax rates decreased from 2023

SUI base tax rates unchanged from 2023

SUI base tax rates increased from 2023

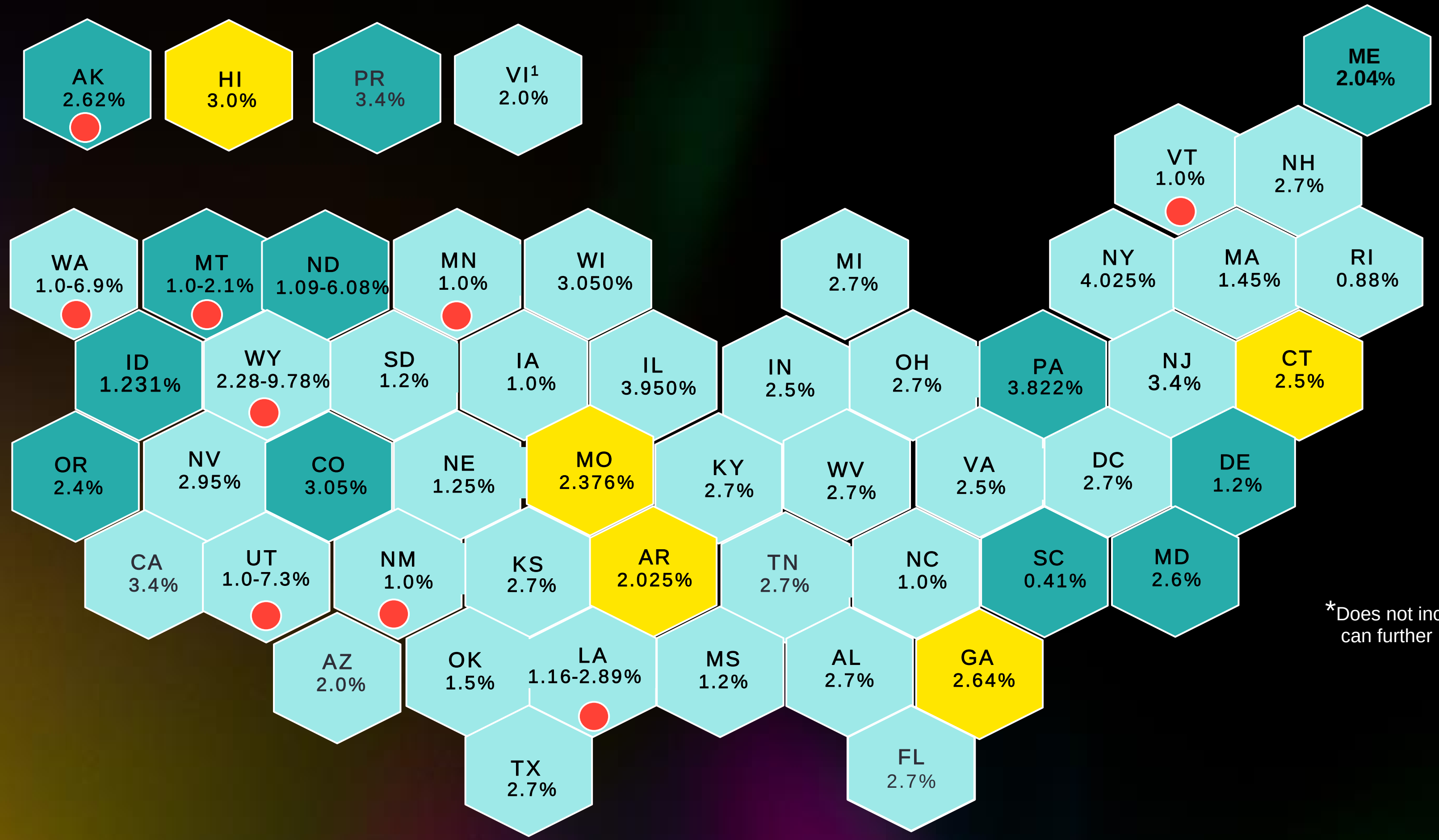
Action taken to lower 2024 SUI tax rates

A higher penalty rate applies to delinquent employers

2024 SUI tax rate notice reissued

Ernst & Young LLP survey results, 10/1/2024

2024 new employer SUI base tax rates*



New employer rate decreased from 2023

New employer rate unchanged from 2023

New employer rate increased from 2023

New employer rates are based on an industry average

*Does not include surcharges that can further increase cost

Ernst & Young LLP survey results, 10/1/2024

EY

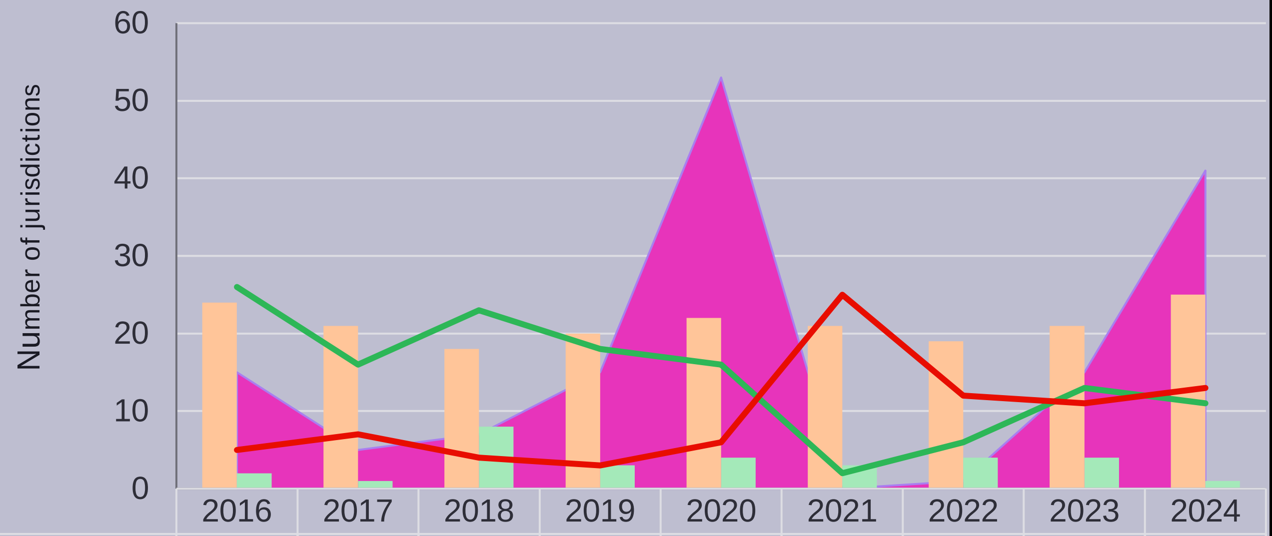
2024 SUI cost trends

States whose jobless rates exceeded the October 2024 average of 4.1%*	October 2024 jobless rate
Delaware	4.2%
New Mexico	4.2% (↑)
West Virginia	4.2% (↑)
Indiana	4.3% (↑)
New York	4.4% (↑)
Michigan	4.5% (↑)
Ohio	4.5% (↑)
South Carolina	4.5% (↑)
Alaska	4.6% (↑)
Rhode Island	4.6% (↑)
New Jersey	4.7% (↑)
Washington	4.8% (↑)
Kentucky	4.9% (↑)
California	5.3% (↑)
Illinois	5.3% (↑)
Puerto Rico	5.5% (↓)
Nevada	5.6% (↑)
District of Columbia	5.7% (↑)

* Source: US Bureau of Labor Statistics
Increase (↑) decrease (↓) from 2023

SUI wage base, tax rates and jobless rates

Comparison 2016–2024**



	2016	2017	2018	2019	2020	2021	2022	2023	2024
States with increase in jobless rate	15	5	7	15	53	0	1	15	41
Increase in wage base	24	21	18	20	22	21	19	21	25
Decrease in SUI wage base	2	1	8	3	4	3	4	4	1
Decrease in SUI base tax rates	26	16	23	18	16	2	6	13	11
Increase in SUI base tax rates	5	7	4	3	6	25	12	11	13

** Source: Ernst & Young LLP survey 11/20/2024

Federal unemployment insurance (FUTA) credit reduction states for 2024

FUTA credit reductions for 2024

Loan balances as of November 13, 2024, per Treasury Direct

State	First year of federal SUI loan	Federal SUI loan balance as of 11-15-2024	2024 FUTA credit reduction	2024 2.7 add-on	Net 2024 FUTA rate (credit reduction + .09%)	Is there an employer surtax to repay interest on the federal SUI loan?
California	2020	$20,515,450,996	0.9%	N/A	1.5%	No
New York	2020	$5,971,174,304	0.9%	N/A	1.5%	Yes For 2024 the interest assessment is 0.12% (or $15 per employee)
Virgin Islands	2009	$79,963,562	4.2%	0.9%	5.1%	Yes $25 per employee applies

Employers will be subject to a FUTA tax rate of 1.5% for tax year 2024 for the above states because they had outstanding loan balances on November 10, 2024 (and for two or more consecutive years). The Virgin Islands has a higher net FUTA rate because it has had a loan balance since 2009. The BCR add-on for the Virgin Islands was waived for 2024. (*U.S. Department of Labor, FUTA Credit Reduction 2024; EY tax alert 2024-2121*)

FUTA credit reduction for unpaid federal loans

2020

- State receives federal loan to pay unemployment insurance benefits

2021

- Interest accrues starting Sept. 6, 2021, with payment due each year by Sept. 30 (and state may create an SUI surcharge to collect cost back from employers)
- Virgin Islands has a FUTA credit reduction for unpaid loans dating back to 2009; therefore, the 2023 FUTA tax rate for Virgin Islands wages is 4.5%

2022

- FUTA credit reduction of 0.3% applies if loan balance exists on Nov.10 (paid with the 2022 Form 940)
- Interest due by Sept. 30

2023

- FUTA credit reduction of 0.6% applies if loan balance exists on Nov. 10 (paid with the 2023 Form 940)
- Interest is due on Sept. 30 (and the state may create a surcharge to collect interest from employers)

2024

- FUTA credit reduction of 0.9% applies if loan balance exists on Nov. 10 (paid with the 2024 Form 940)
- Interest is due on Sept. 30
- Additional FUTA credit reduction is triggered under the 2.7[1] add-on

2025

- FUTA credit reduction of 1.2% applies if loan balance exists on Nov. 10 (paid with the 2025 Form 940)
- Interest is due Sept. 30

- Additional BCR FUTA credit reduction is triggered
- Or, additional 2.7[1] add-on to FUTA credit reduction is triggered

2026

- FUTA credit reduction of 1.5% applies if loan balance exists on Nov.10 (paid with the 2026 Form 940)
- Interest is due Sept. 30

- Additional Benefit Cost Rate (BCR) FUTA credit reduction is triggered
- Or, additional 2.7[1] add-on to FUTA credit reduction is triggered

[1] This is not a percentage

Source: Code of Federal Regulations, Part 606

Polling question

Have you experienced an increase in your SUI tax rates over the last two years?

a. Yes
b. No
c. We anticipate increases in the future
d. Don’t know
e. Not applicable (EY, faculty, other)

2

Disaster relief

Timeline of federal disaster tax relief

Top 2024 major disasters

- Tropical Storm Debby
- Hurricane Beryl
- Hurricane Helene
- Hurricane Milton

[Federal Emergency Management Agency (FEMA)]

[IRS disaster relief main page]

1 President approves emergency at request of state, FEMA declaration is posted for individual assistance

- IRC Section 139 Disaster relief payments are tax-free in declared states (counties) for expenses incurred in connection with the declared (often impending) disaster

No emergency declaration? IRC Section 139 disaster relief assistance also applies to a major disaster area

2 President approves major disaster area at request of state – FEMA declaration is posted for individual assistance*

- Leave sharing is allowed for qualified major disaster areas of the state
- Disaster unemployment assistance is available through the state workforce agencies

3 IRS announces tax relief based on FEMA major disaster declaration*

- Tax filing extensions and abatement of payroll deposit penalties
- Leave-based donations to charities
- Qualified retirement plan relief

* Congress may also enact legislation to allow for an employee retention and/or hiring tax credit. To date, the IRS has not announced the availability of leave-based donations or qualified retirement plan relief for any of the 2024 major disasters.

Tax-free employer-provided disaster relief assistance payments

Disaster relief assistance payments give employees in qualified emergency/major disaster areas tax-free cash for qualified disaster-related expenses under IRC Section 139 with no requirement for gathering receipts to substantiate expenses or losses. There are no Form W-2 or Form 1099 reporting requirements *(Revenue Ruling 2003-29)*

1. Applies only to employees who live or work in emergency or major disaster areas eligible for FEMA individual assistance
2. Applies only to those expenses and losses specified in IRC Section 139
3. Not available for expenses or losses already covered by insurance, FEMA or charities; thus, signed employee statements are recommended
4. May be paid directly to employees or to third parties on behalf of employees

IRC Section 139 covered expenses*

Necessary expenses that are connected with a qualified disaster and are…

reasonable and necessary:

- Personal, family, and living expenses
- Funeral expenses
- Temporary housing and transportation expenses
- Repair or rehabilitation of a personal residence
- Repair or replacement of contents of personal residence

* No IRS announcement is required for this relief to apply

Leave sharing

Leave sharing provides employees impacted by a presidentially declared major disaster with paid time off donated by other employees with no direct cost incurred by the employer. No IRS announcement is required for this relief to apply. *(IRS Notice 2006-59; 2006-28 IRB 1.)*

1. A written plan is required; if only select groups are eligible to participate, confirm ERISA compliance
2. Leave is taxable to recipient and not the donor employee
3. A deduction for the charitable leave donation is not available to the donor employee
4. Leave cannot be converted to cash and can be used only for the current major disaster

Leave sharing plan requirements

1. Leave donors cannot specify who will receive the paid leave
2. Leave donations cannot exceed the maximum amount an employee normally accrues for the year
3. Plan must specify the period in which leave must be used
4. Plan must specify how much leave each recipient may receive
5. Unused leave must be returned to donors in the same proportion as the amount of leave donated by the leave donor to the total leave donated
6. Leave recipients may use donated leave to eliminate a negative leave balance arising from the major disaster

State disaster unemployment assistance

Disaster unemployment assistance (DUA) is available to employees and self-employed individuals displaced by a major disaster. These benefits are federally-funded, managed by the state workforce agency, are not charged to employers' unemployment insurance accounts and have no impact on the SUI tax rate.

2024 DUA states

- Florida
- Georgia
- North Carolina
- South Carolina
- Tennessee

Polling question

Have you provided disaster relief payments to your employees impacted by a 2024 major disaster?

a. Yes
b. No
c. We plan to
d. Don’t know
e. Not applicable (EY, faculty, other)

3

Payroll developments

State income tax withholding

Retroactive to January 1, 2024

- Arkansas. Lowered the state's personal income tax rate from 4.4% to 3.9%.
- Georgia. Lowered the state's personal income tax rate from 5.49% to 5.39%.
- Idaho. Lowered the state's personal income tax rate from 5.8% to 5.695%.
- Kansas. Reduced the personal income tax brackets from three to two with the highest tax rate lowered from 5.7% to 5.58%. The law also increased the personal exemption and standard deductions.
- Pennsylvania. Act 34. Effective retroactive to January 1, 2023, Section 202.3 (HB 1300) excludes up to $5,000 per year of benefits under an IRC Section 129 dependent care assistance program from Pennsylvania income tax and withholding. Employers must issue Forms W-2c for tax year 2023.
- South Carolina. Lowered the state's personal income tax rate from 6.4% to 6.2%.
- Utah. Lowered the state's personal income tax rate from 4.65% to 4.55%.

Effective January 1, 2025

- Iowa. Legislation enacted in 2024 collapses the personal income tax brackets from three to a single tax rate of 3.8%. Alternative tax computation methods apply to a married person filing jointly, head of household or surviving spouse.
- Missouri. The governor announced that the state's income tax rate will be lowered from 4.8% to 4.7% because revenue goals were reached.
- West Virginia. Legislation enacted in 2024 reduces the personal income tax rates to range from 2.22% to 4.82% (currently, they range from 2.36% to 5.12%).

Nebraska law eases nonresident income tax rules for remote workers

Effective January 1, 2025, LB1023 provides some relief from nonresident income tax by amending 316 Neb. Admin. Code Section 22-003.01C as follows:

- Convenience of the employer rule
  Wages for services provided by a nonresident for a Nebraska employer are subject to Nebraska income tax and withholding if all of the following apply:
  - Services are provided outside of the state for the employee's own convenience.
  - Services could be performed within the state.
  - Employee is present in the state for more than seven days during the tax year in which the compensation was earned.

- De minimis exemption for meetings and training
  Wages paid for a nonresident's presence in the state to attend meetings, conferences or training events are excluded from wages subject to Nebraska income tax and withholding if all of the following are met:
  - The employee is present in the state for seven or fewer employment duty days during the tax year.
  - The individual performed employment duties in more than one state during the tax year.
  - Total compensation for meetings/training within the state does not exceed $5,000 in the tax year.

- *Board of directors*
  Compensation paid to a nonresident individual serving on the board of directors or similar governing body of a business for services relating to board or governing body activities within Nebraska does not constitute income from sources derived within Nebraska

State unemployment insurance

Idaho

- Effective January 1, 2024, legislation staves off a large increase in SUI tax rates by lowering the multiplier from 1.3 to 1.2 in determining the size of the unemployment insurance (UI) trust fund.

The reduction in the multiplier to 1.2 lowered the 2024 SUI tax increase by 20%, resulting in net savings to employers of $44 million. It is anticipated that employer tax savings will be $117 million by the end of five years.

Kansas

- Starting in 2026, the current fixed SUI wage base of $14,000 will be adjusted annually as a percentage of the statewide average annual wage. The percentage will increase progressively through 2030.
- Starting in 2025, the current SUI rate schedules will be revised to include a 0% rate group for employers with the highest positive rating and SUI tax rates will be lowered for all positive-rated employers. Starting in 2026, changes will also be made to solvency and credit rate adjustments in conformity with the adjustments to the SUI wage base. Also starting in 2025, the SUI rate for new employers will decrease from 6% to 5.55% for construction industry employers, and from 2.7% to 1.75% for all other employers.
- Effective with the 2025 rating year, the deadline for employers to make voluntary contributions for the purpose of potentially reducing their SUI tax rate is extended from 30 to 90 days following the date the SUI rate notice for the upcoming year is mailed.

State unemployment insurance

Nebraska

- Legislation enacted in 2024 lowers the SUI tax rates for 2025 through 2029 by reducing the average tax rate by 5%. The average tax rate is used in determining the individual SUI tax rates assigned to employers.
- The Nebraska Department of Labor (Department) anticipates that this law change will result in a decrease in employer SUI contributions of 5%.

Other payroll developments

Federal judge blocks increase in the salary threshold for exempt employees. A federal judge in the Eastern District of Texas blocked the Biden Administration's increase in the salary threshold for exempt employees. Accordingly, the salary threshold remains at the amount set in 2019--$35,568 per year ($683 per week). (*US District Court, Eastern District of Texas, Case 4-24-cv-00499, 11-15-2024*.) This announcement could affect state-specified salary thresholds for exempt employees. For instance, see Maine.

Connecticut law expands paid sick leave requirement. Effective legislation extends the requirement that employers provide up to 40 hours of paid sick leave each year to all employers. The requirement will be gradually phased in between 2025 and 2027.

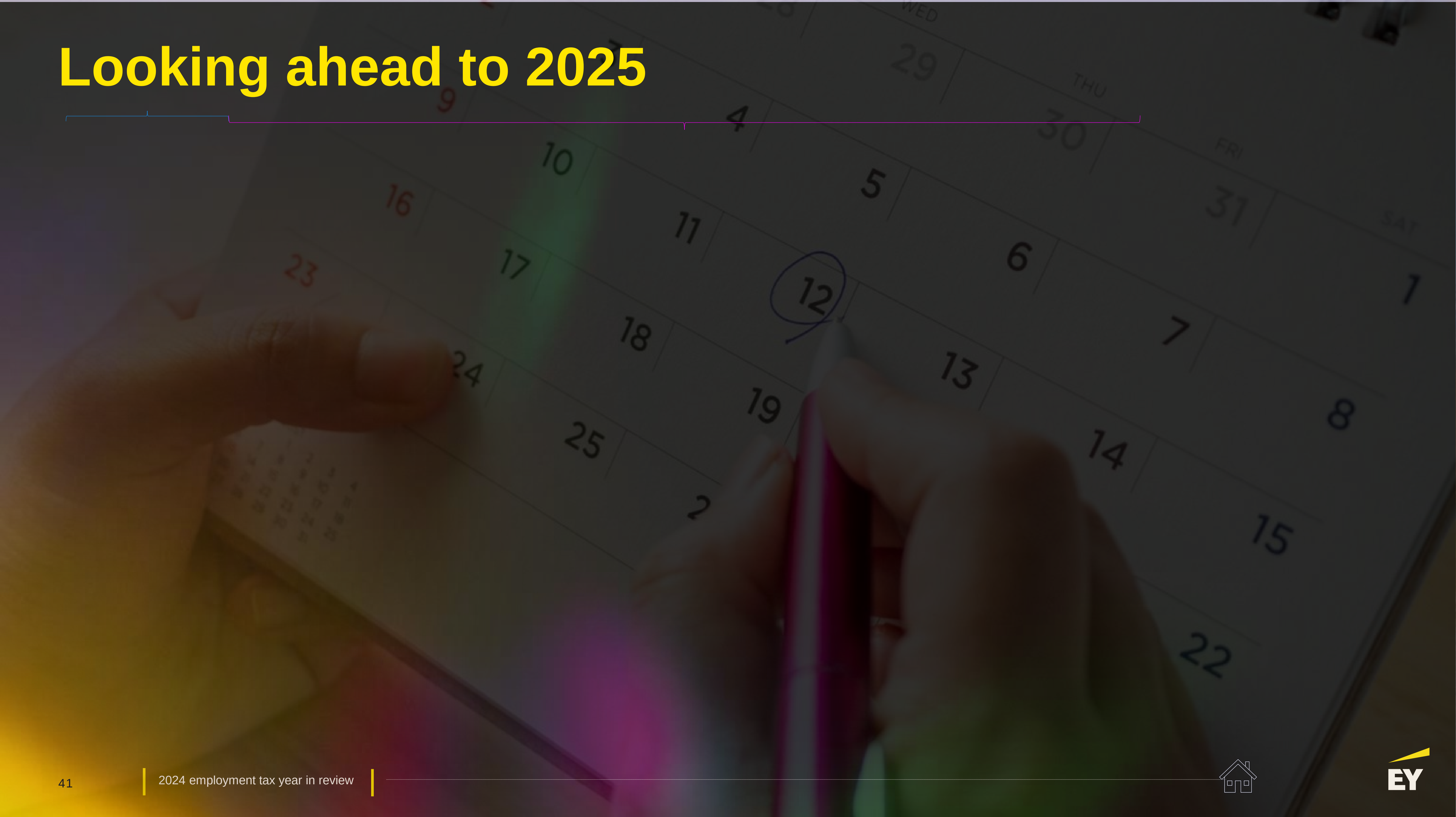
Hawaii enacts wage transparency law. Effective January 1, 2024, employers with 50 or more employees must include job advertisements with the hourly rate and salary range that reasonably reflects the applicable compensation.

Louisiana law expands requirements for employee payment of final wages. Effective August 1, 2024, compensation available in the form of commissions, incentive pay or bonuses must be paid at the time of separation if earned by the employee and not modified by the employer's written policy. The regular wages of a separated employee must be paid on or before the next regular payday or no later than 15 days following the date of separation, whichever occurs first.

New Hampshire increases wage amount that can be directly paid to decreased employees' survivors. New Hampshire Governor Chris Sununu signed into law H.B. 1201, which, effective September 10, 2024, increased from $300 to $3,000 the wage amount that employers can directly pay to the descendants of deceased employees in the absence of a probate proceeding notice.

Vermont enacts wage transparency law. Effective July 1, 2025, requires that most written job advertisements include information concerning the type and range of monetary compensation the employer expects to offer the job applicant. The requirement applies to both internal and external job applicants and to positions into which employees can be promoted or transferred.

Looking ahead to 2025



The president-elect's income tax proposals

Make expiring provisions of the Tax Cuts and Jobs Act (TCJA) permanent (current expiration is 12-31-2025)

- Lowered tax rates above the 10% tax bracket with the supplemental withholding rate lowered to 37%
- Suspended personal allowances resulting in the significant redesign of the Form W-4 and the income tax withholding formula
- Suspended tax-free status of the bicycle commuting benefits
- Limited the tax-free status of qualified moving expense reimbursements to Armed Forces on active duty

Other income tax proposals

- No federal income tax on tip income
- No federal income tax on overtime pay required under the federal Fair Labor Standards Act

Polling question

Do you suggest that employees review their State Form W-4 elections where there is a retroactive change in the state's personal income tax rate(s)?

a. Yes
b. No
c. We are considering this practice
d. Don't know
e. Not applicable (EY, faculty, other)

4

Top 2024 challenges

Remote workers and business travelers

Nonresident income tax withholding: key considerations

01 Sourcing wages to the correct jurisdictions

To which jurisdictions do income tax and unemployment insurance apply? Pursuant to state income tax, does a reciprocal agreement apply?

02 Convenience of the employer rule

Does the state/locality where the employee reports impose the convenience of the employer rule?

03 De minimis "short-stay" exemptions

When the employee works in the state or locality for short periods, does nonresident income tax apply?

04 Apportionment

How is the portion of taxable wages that is sourced to the nonresident state apportioned for income tax and withholding purposes?

05 Trailing compensation

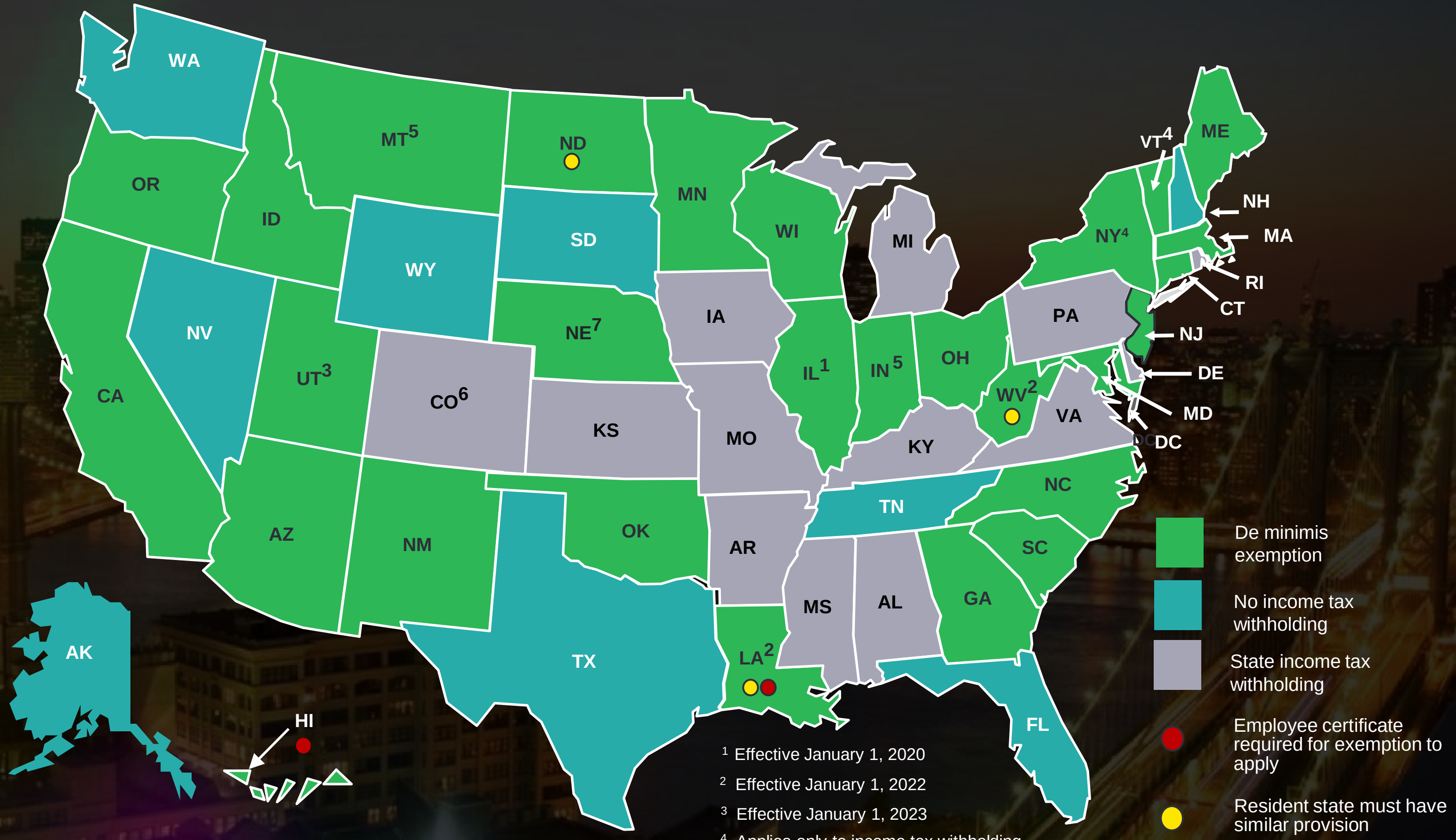
Does the state require income tax based on where wages were earned for compensation that accrues over more than one payroll period?

06 Income tax withholding

Does the resident state allow for reduction of income tax withholding for income tax withheld in the nonresident state? What employee withholding certificates are required?

Nonresident income tax “short-stay” exceptions

- It is the normal rule that all wages paid for services provided in the nonresident state are subject to nonresident income tax withholding.
- 28 states currently exempt wages from nonresident income tax/withholding based on short stays or low earnings (de minimis exemption).
- Exceptions to nonresident income tax withholding also apply under reciprocal agreements and in those states that impose the convenience of the employer rule.
- Company policies that blanketly withhold nonresident income tax only when an employee’s time in the state exceeds a set number of days could expose the company to liability for underwithholding, penalties and interest.



Source: Ernst & Young LLP *US payroll tax factfinder*, Rev. August 2024

[1] Effective January 1, 2020
[2] Effective January 1, 2022
[3] Effective January 1, 2023
[4] Applies only to income tax withholding
[5] Effective January 1, 2024
[6] Repealed in 2018
[7] Effective January 1, 2025

Convenience of the employer rule (remote work)

- In most states, the default rule is that employees who are residents of one state (State A) but work for an employer in another state (State B), are taxed by State B only on wages earned for days the employee is physically present in State B.
- However, if State B has a convenience of the employer rule, a State A resident working from home for his/her own convenience within State A for an employer in State B is subject to State B nonresident income tax for all wages earned in State A and State B despite not being physically present to work in State B.
- Generally, the convenience of the employer rule applies if, for their own convenience, and not the necessity of the employer, employees are performing services from their homes within their resident states, rather than the locations of their employers in nonresident states.
  - New York has a more elaborate "test" as set forth in TSB-M-06(5)I.
  - Alabama applies the rule if an employee is working from home outside of Alabama for an Alabama employer (no reference to convenience of employee or necessity of employer).

States that impose the convenience of the employer rule

Arkansas (reversed effective April 30, 2021)
Legal Opinion No. 20200203

Alabama
Alabama Tax Tribunal ruling, March 8, 2023, and May 19, 2023

Connecticut*
Conn. Gen. Stat. Section 12-711(b)(2)(C)

Delaware
Del. Code. Tit. 30, Section 1124(b)(1)(b)

Nebraska (applies if seven days in the state in the year)
316 Neb. Admin. Code Section 22-003.01C(1)

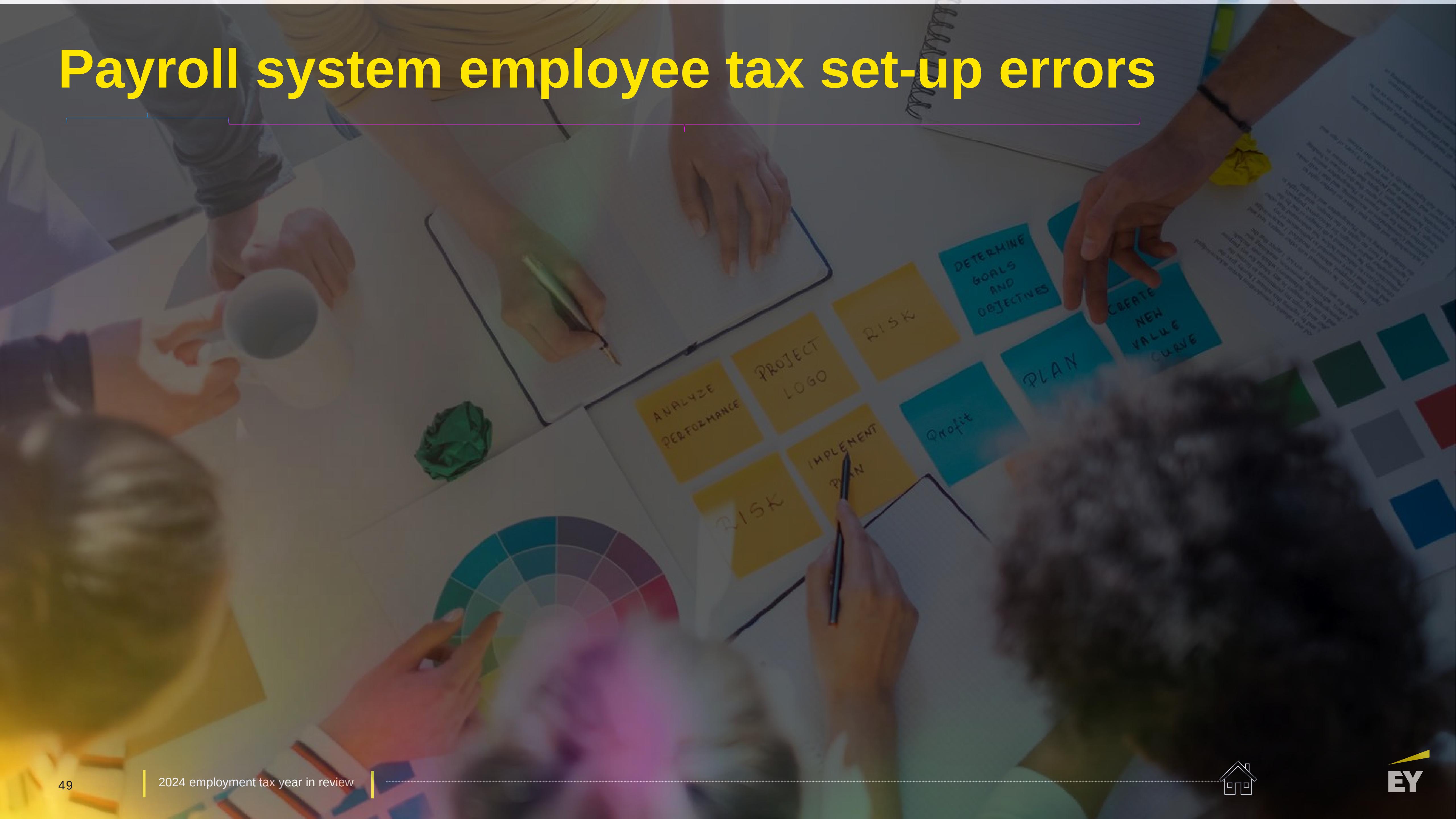
New York (applies if one day in the state in the year)
20 NYCRR Section 132.18(a)

New Jersey*
A.4694 (enacted in 2023, effective 1-1-2023)

Pennsylvania
61 Pa. Code Section 109.8

*Applies only if resident state also imposes the rule.

Payroll system employee tax set-up errors



Avoiding employee tax set-up errors with geocoding

Why geocoding?

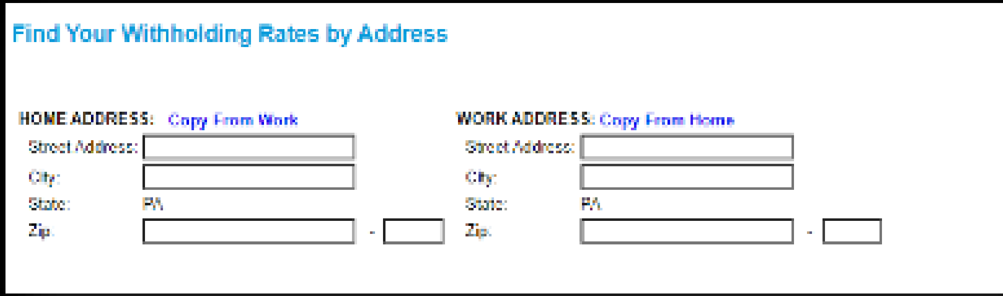
- Once hired, employees generally must provide certain documents (e.g., federal Form W-4) to substantiate their resident address (state, city, ZIP code)
- Except for remote workers and those who frequently travel, the address of the work location is generally well documented based on the employee’s job position
- State employment tax and withholding obligations can be easily identified based on the employee’s resident address and work location; however, the same is not true of county or city payroll taxes

What is geocoding?

- Geocoding is based on a map of tax boundaries, which usually follow the city or county boundaries, but can be more complex than that
- The taxing authorities and tax rates are then associated with the tax boundary, and all addresses within that boundary
- Some states give employers free access to their geocoding software in the form of an address lookup tool

Example

The Pennsylvania Department of Community and Economic Development (DCED) provides an Address Search Application to lookup an employee’s Political Subdivision (PSD), Earned Income Tax (EIT) rates and Local Services Tax Rates (LST).


Find Your Withholding Rates by Address

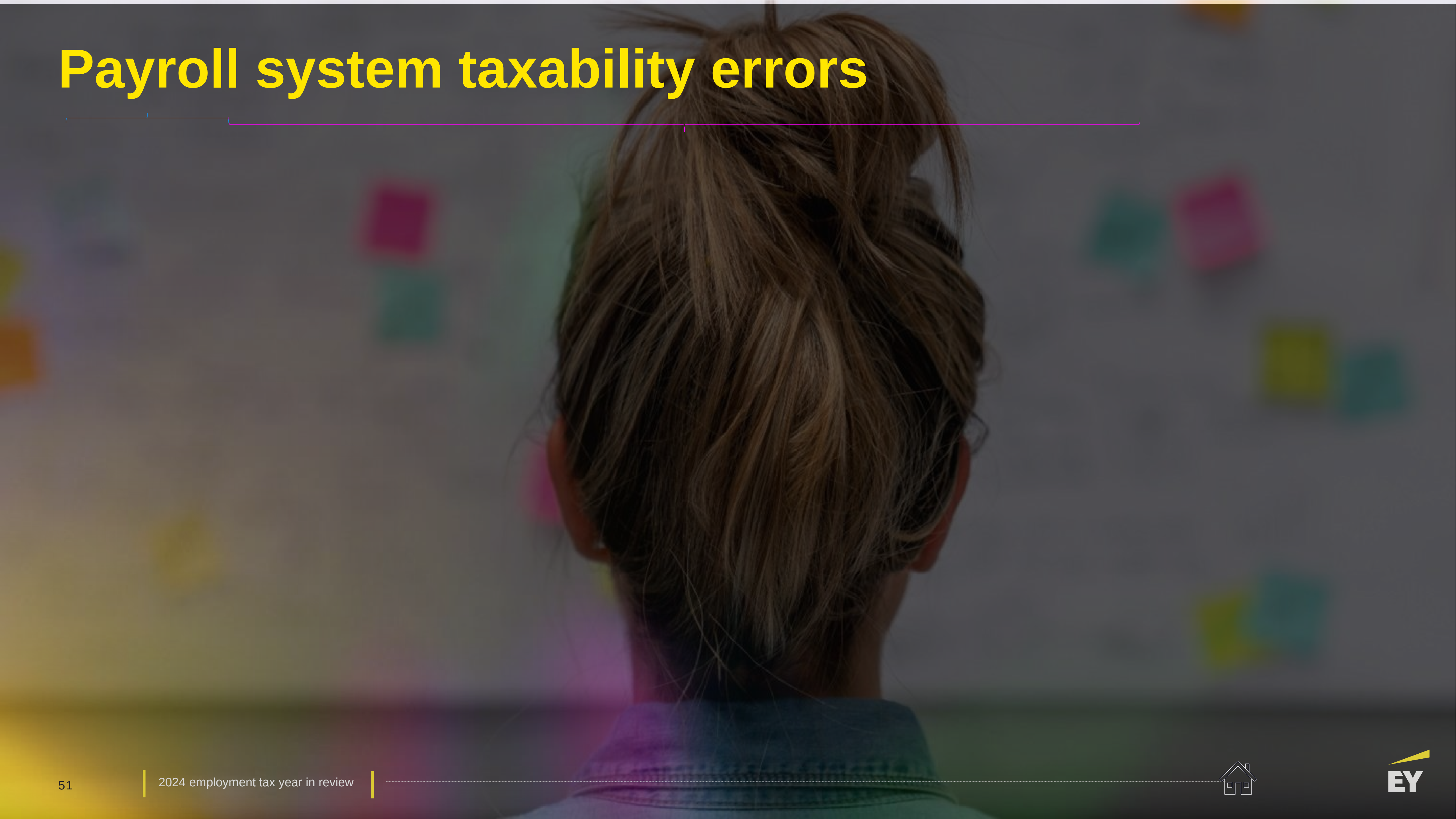
HOME ADDRESS: Copy From Work
Street Address:
City:
State: PA
Zip: -

WORK ADDRESS: Copy From Home
Street Address:
City:
State: PA
Zip: -

What is batch geocoding?

Third-party batch geocoding services are available that allow the employer to upload a spreadsheet file of employee names and resident/work location addresses. The corresponding state and local withholding and employment tax jurisdictions and rates are returned to the employer. These services are beneficial for multi-location employers and to periodically audit the accuracy of employee tax set-ups.

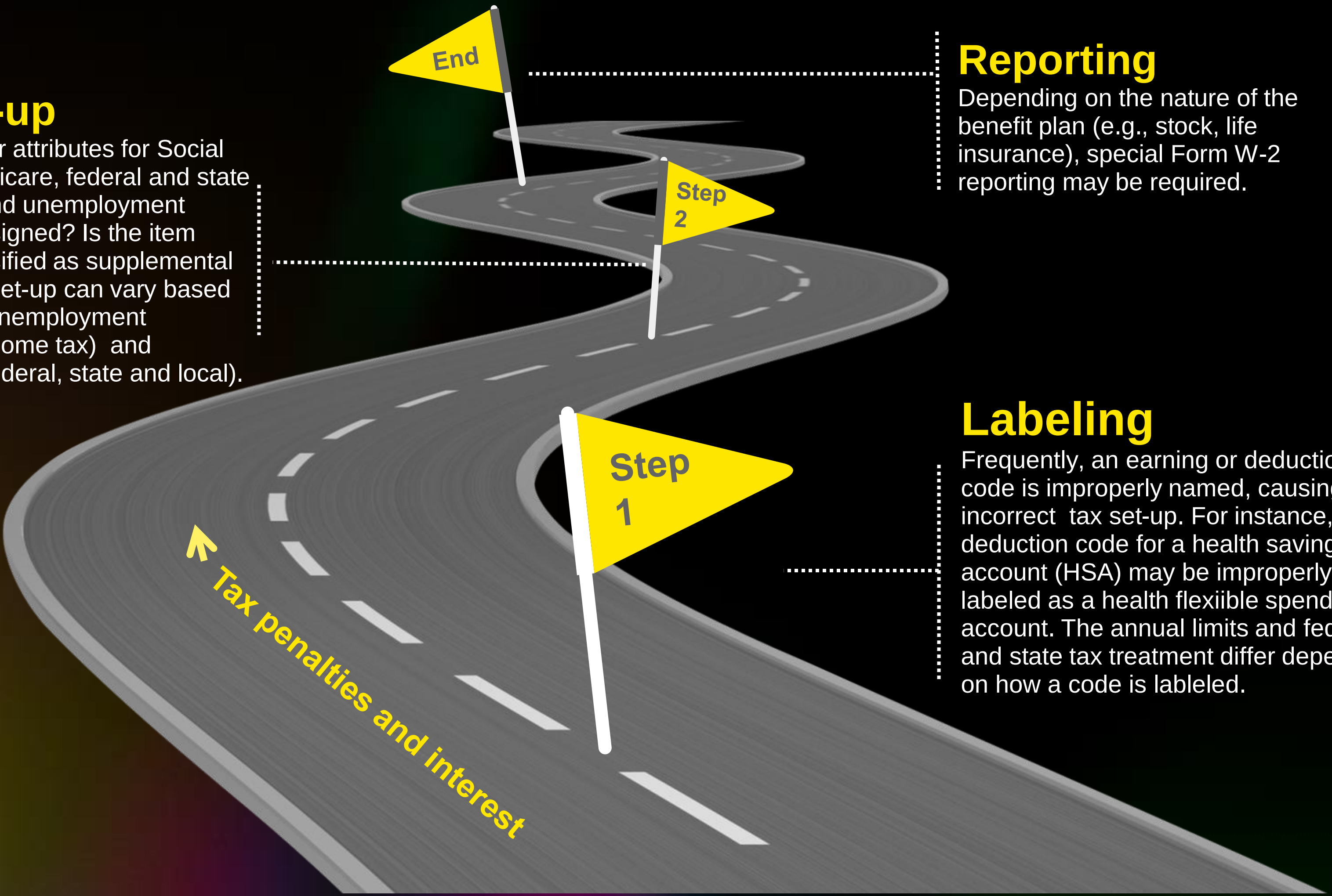
Payroll system taxability errors



Three considerations in taxability set-up

Tax set-up

Are the proper attributes for Social Security, Medicare, federal and state income tax and unemployment insurance assigned? Is the item properly classified as supplemental wages? Tax set-up can vary based on tax type (unemployment insurance, income tax) and jurisdiction (federal, state and local).



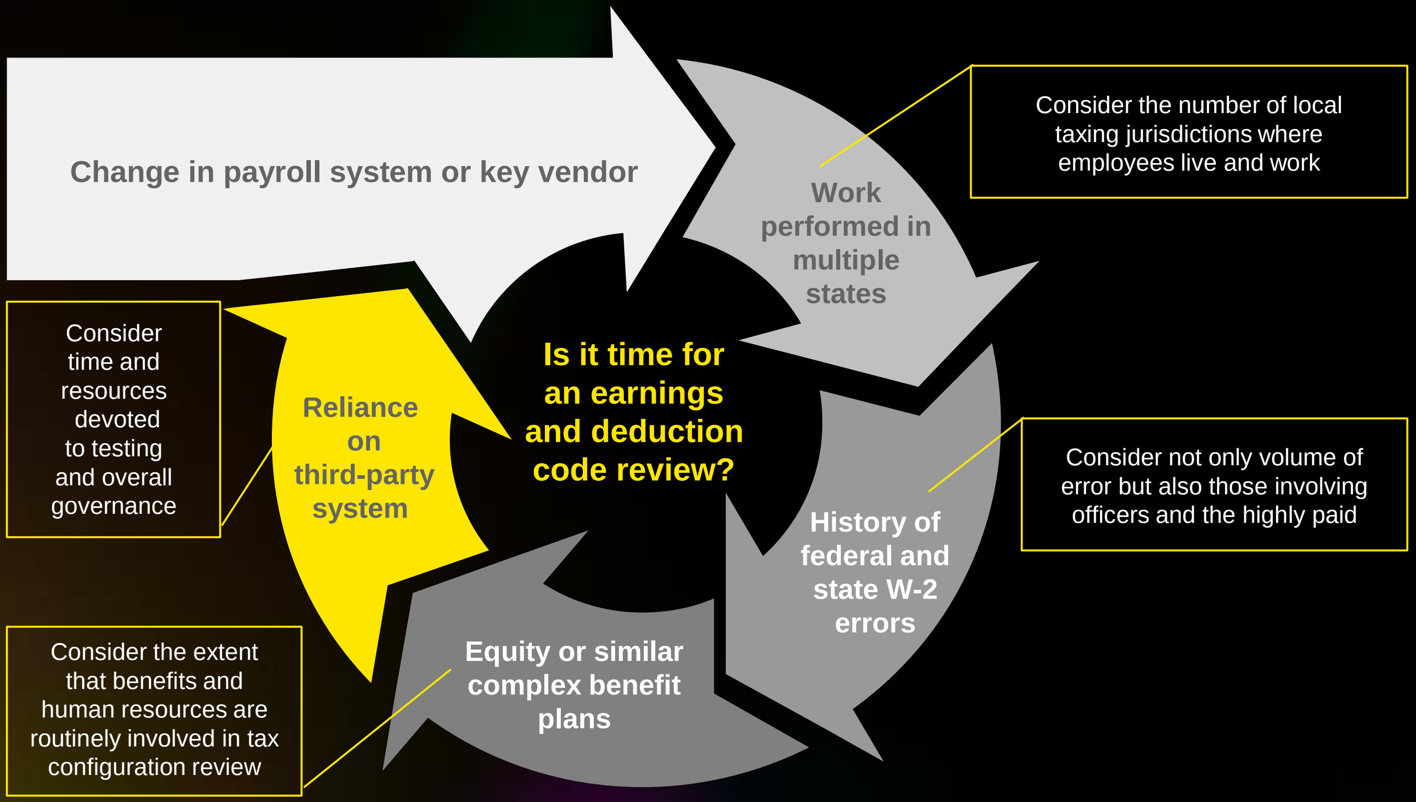
Reporting

Depending on the nature of the benefit plan (e.g., stock, life insurance), special Form W-2 reporting may be required.

Labeling

Frequently, an earning or deduction code is improperly named, causing an incorrect tax set-up. For instance, a deduction code for a health savings account (HSA) may be improperly labeled as a health flexiible spending account. The annual limits and federal and state tax treatment differ depending on how a code is lableled.

Review taxability set-ups regularly



Governmental tax audits

State unemployment insurance audits on the rise

Potential audit focus

1

Worker misclassification

Forms 1099-NEC are reviewed to determine if workers meet the state definition of "covered employee." Information is shared between federal and state agencies.

2

Form 940 reconciliation

Differences in wages reported on the Form 940 can be compared to wages as reported for state unemployment insurance purposes.

3

Employee relocation

When employees move from one state to another in a year, some states do not count those wages toward their wage base for SUI tax purposes. If employers erroneously transfer SUI wages, this can result in underpayment of SUI tax.

4

Incorrect state assignment

Employees may be assigned to the incorrect SUI state (e.g., remote workers), because the employer failed to follow the three-prong test. (See *US Department of Labor, Program Letter 20-04.*)

5

Mergers and acquisitions

Failure to properly comply with state law as it pertains to the transfer of wages/experience when businesses are acquired or merged.

6

Taxability

Failure to include taxable items of compensation in the SUI taxable wages. For instance, some states do not exclude certain pre-tax contributions from SUI taxable wages.

New York payroll tax audits continue

Top four items of focus

1

New York short-term business travelers

New York law mandates that employers withhold income tax from all nonresident employee wages earned in the state. If a nonresident employee is not reasonably expected to surpass 14 days of service in the state in a given calendar year, the employer is not required to withhold New York income tax. The obligation to report an employee's wages in Form W-2, box 16, continues to apply. This relief from income tax withholding is not available to employers that could have reasonably expected the employee to work in New York for more than 14 days in a calendar year.

2

New York remote workers/telecommuters

New York is one of the few states that apply the "convenience of the employer" rule in determining when an out-of-state teleworker is subject to New York income tax. Under this rule, nonresidents assigned to a primary work location within the state must have 100% of their wages sourced to New York if their services are rendered outside of the state for the employee's convenience rather than for the necessity of the employer and if the employee performs some services within New York. An exception applies for work performed at a bona fide employer office outside of New York.

3

No process for New York employee withholding certificates

Employers must be able to substantiate income tax withholding calculations with information contained in employees' New York withholding allowance certificates. For instance, the employee provides the marital status and personal exemptions for New York income tax withholding purposes on Form IT-2104, *Employee's Withholding Allowance Certificate*, and Form IT-2104-E, *Certificate of Exemption from Withholding*, to claim exemption from New York income tax withholding. Failure to locate these documents (or an electronic version) could result in an assessment for withholding shortages.

4

Nonemployee compensation

To identify potential worker misclassification, the New York payroll tax audit includes tests to identify if the employer issued Forms 1099-NEC to individuals who, in the last five years, were included in New York state unemployment insurance wage reports or who received a Form W-2 in prior years.

For more information about New York payroll tax audits see our special report.

Polling question

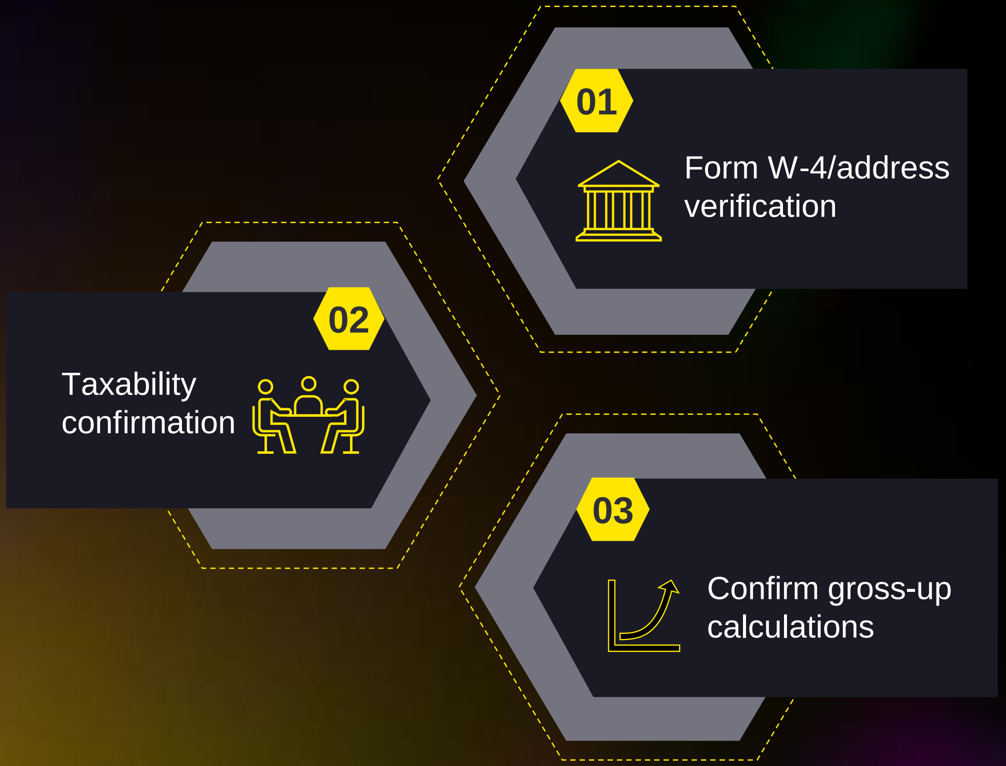
Are you a Certified Payroll Professional (CPP) or Fundamental Payroll Certification (FPC) professional through the American Payroll Association?

a. Yes
b. No

5

Payroll year-end checklist

Top three year-end checklist items

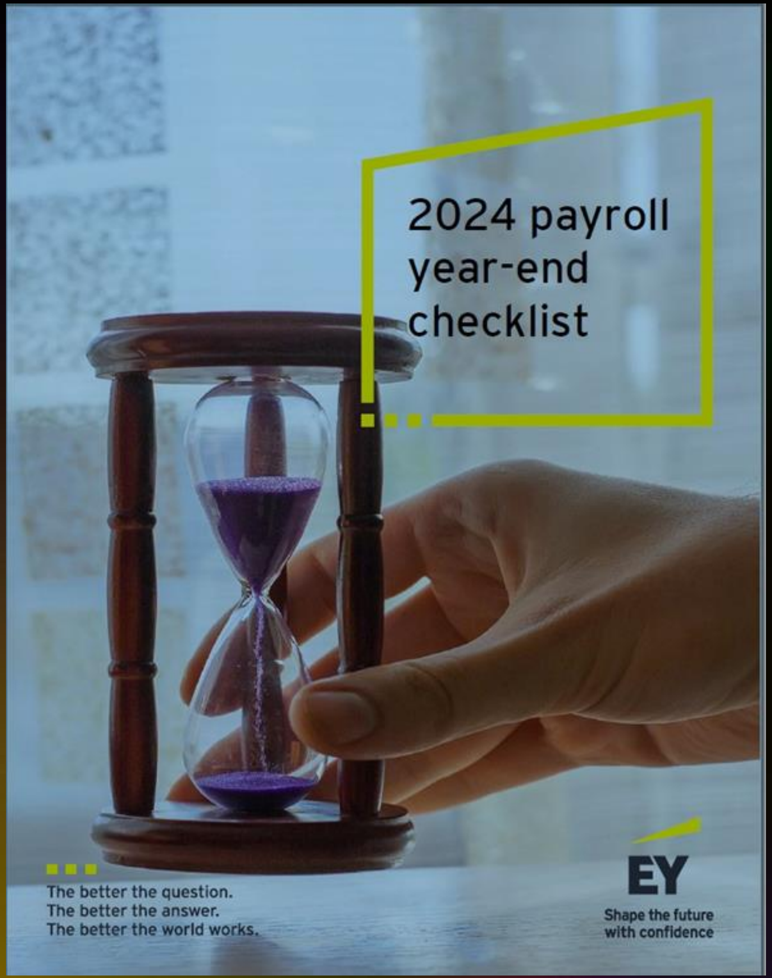


01 Ask that employees verify their home address. This is important not only for correct mailing of Forms W-2, but to confirm correct reporting of state wages on Form W-2. Also identify employees who are required to submit a new federal, state or local Form W-4 for 2025 (e.g., claimed exemption from withholding) and request they give you a new form before January 1, 2025.

02 Before releasing 2024 Forms W-2, review payroll system tax configurations for the correct tax treatment and reporting of fringe benefits. Also review to confirm that benefit limits have not been exceeded (e.g., limit on health savings account contributions). See our 2024 federal fringe benefits reporting chart.

03 The Form 941-X instructions clarify that prior-year adjustments to federal income tax withholding and the Additional Medicare Tax are not allowed merely because these taxes were paid by the employer in connection with a gross-up. Businesses will need to carefully review their 2024 gross-up calculations prior to December 31, 2024, to avoid federal income tax and Additional Medicare Tax overpayments they cannot recover after the close of the year. (*See Form 941-X instructions, page 4*.)

Ernst & Young LLP special reports



- 2024 payroll year-end checklist
- Fringe benefits reporting: frequently asked questions for 2024
- Federal reporting for fringe benefits chart for 2024
- US employment tax rates and limits for 2024
- Federal and state Form W-4 compliance for 2024
- State unemployment insurance requirements for employee notices and workplace posters
- Taking the stress out of Affordable Care Act reporting

Federal Form W-2 resources

- 2024 Form W-2
- 2024 Form W-2 and W-3 instructions
- SSA specifications for filing electronically
- SSA AccuWage (testing files)
- IRS specifications for substitute forms (Pub. 1141)

Season's greetings

Ernst & Young LLP

Putting inform into information

Stay connected

Payroll Perspectives from EY

See our services

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

ED None

ey.com