

2020 Payroll Guide

Presented by Blystone & Bailey, CPAs, PC

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With the new year upon us, Blystone and Bailey, CPAs, PC Year-End Payroll Guide can be a useful tool to help as you prepare to wrap up year-end payroll and related tax filings as well as a reference guide for year 2020.

KEY CHANGES

Michigan Hourly Minimum Wage: Effective January 1, 2020, Michigan's minimum hourly wage rate increased from \$9.45 to \$9.65 and the minimum wage for tipped employees increased from \$3.59 to \$3.67. However, tipped employees must make \$9.65 per hour with tips and regular wages taken into account.

Employers can pay newly-employed teens between 16 and 19 at \$4.25 per hour for the first 90 days of their employment. Employees ages 16 and 17 may be paid 85% of the minimum hourly wage rate.

Overtime Rule Changes: As of January 1, 2020, the Final Overtime Rule will take effect:

- Raising the "standard salary level" from the currently enforced level of \$455 per week to \$684 per week (equivalent to \$35,568 per year for a full-year worker). Overtime pay is required for employees who continue to receive a salary below the increased "standard salary level" of \$684 per week.
- Raising the total annual compensation requirement for "highly compensated employees" from the currently enforced level of \$100,000 per year to \$107,432 per year.
- Allowing employers to use non-discretionary bonuses and incentive payments (including commissions) paid at least annually to satisfy up to 10% of the standard salary level, in recognition of evolving pay practices.
- Revising the special salary levels for workers in U.S. territories and the motion picture industry.

Employee W-4 Form: As of January 1, 2020, there is a new W-4 form that all new employees will have to fill out. Current employees will only have to complete the new form if they are changing their withholding. Michigan has not announced a new W-4 form at this time.

Year 2020 FICA Tax Rate and Wage Base: For year 2020, the FICA rate will remain the same for employers and employees at 6.20% Social Security tax and 1.45% Medicare tax. The wage base for Social Security tax will increase from \$132,900 to \$137,700. There is no ceiling for Medicare tax on employee's total wages. Employees earning wages in excess of \$200,000, or \$250,000 for married couples filing jointly, will be subject to an additional 0.9% Medicare tax withholding.

Michigan “Paid Medical Leave Act” Requirements: As of March 2019, Michigan employers that employ 50 or more individuals must begin to accrue paid medical leave at a rate of at least one hour of paid medical leave for every 35 hours worked. An employer is not required to allow an eligible employee to accrue more than 1 hour of paid medical leave in a calendar week.

An employer may choose to limit an eligible employee’s accrual of paid medical leave to not less than 40 hours per benefit year. As an alternative, an employer may provide at least 40 hours of paid medical leave to an eligible employee at the beginning of a benefit year.

There is a rebuttable presumption that an employer is in compliance with this act if the employer provides at least 40 hours of paid leave to an eligible employee each benefit year. Paid leave includes, but is not limited to, paid vacation days, paid personal days and paid time off.

The following employees are not included in the definition of an eligible employee:

- Certain part-time employees (defined as an individual that on average works less than 25 hours/week)
- Certain seasonal employees (defined as an individual employed 25 weeks or fewer in a calendar year for a job scheduled for 25 weeks or fewer)
- Employees exempt from overtime requirements under fair labor standards act
- Individuals whose primary work location is not in this state
- Private sector employees covered by a collective bargaining agreement
- Temporary workers
- Independent contractors

PAYROLL FORMS AND RELATED PAYROLL TAXES

Employee W-2 Forms: In connection with the preparation of annual W-2 forms, we want to emphasize some key items. (1) S corporations, health and life insurance premiums paid for shareholder employees are required to be reported on W-2 forms as additional compensation. (2) Personal use of company vehicles, value of group life insurance in excess of \$50,000, and certain other fringe benefits are required to be reported on W-2 forms as compensation. Some of these items also require tax withholding. (3) If your company has more than 250 W-2 forms to issue, they must be sent to the IRS electronically.

Reporting of the cost of coverage under an employer-sponsored group health plan on employee W-2 forms is optional for employers who issued less than 250 W-2 forms in the previous year.

Employers will be able to truncate Social Security numbers on the W-2s issued after 2020. This means that only the last four digits will need to be shown on the W-2s, except for the Social Security Administration copy that will need the full number showing.

We prepare these forms for many of our clients, and reconcile them with the other required payroll tax filings to avoid problems in the future. If you have been preparing the W-2's in your office and need assistance in the fringe benefit area or if this is your first year with employees and you would like to have us prepare the necessary year-end tax forms for

2019, please contact us as soon as possible. January 31st is the deadline for furnishing the forms to employees and also for employers to file their copies of Form W-2 with the Social Security Administration and the State of Michigan.

Affordable Care Act (ACA) and Employer Shared Responsibility (ESR): In the previous calendar year 2019 and for year 2020, there are separate rules regarding ACA and ESR reporting requirements for Small Employers (less than 50 full-time equivalent employees) and Large Employers (at least 50 full-time equivalent employees). If you offer an employer-sponsored group health plan, please contact our office for further guidance on meeting the required filing requirements and deadlines.

Payroll Tax Deposits: Payroll tax deposit rules are set annually for each employer, based on the IRS Form 941 look back period. IRS generally notifies each employer if their status changes from one year to the next. Based on the taxes you paid during the look back period, you will be required to make payments by electronic funds transfer (EFTPS) either once a month on the 15th, or once a week (technically dubbed "semi-weekly," based on pay date) after payment of the payroll.

Please forward any IRS notices regarding a status change to our office to ensure proper action is taken. If you are unsure of which rule applies to your business, give us a call, we will be happy to help.

Unemployment Taxes: One matter that frequently causes time consuming correspondence and can be quite costly focuses on state unemployment taxes and their relationship to the federal system. Briefly, the gross federal unemployment tax is 6.0%, with a credit of 5.4% for amounts you paid into state unemployment funds. The expected FUTA rate for calendar year 2020 is 0.6%.

The federal and state governments compare the taxable wage amounts employers report for consistency. If you haven't paid your state taxes, if they were paid late, if your state employer number doesn't match, or if the state makes a mistake (also a distinct possibility), you may receive a notice of federal taxes due. If the problem goes unattended, your federal tax could increase nearly ten times (from 0.6% to 6.0%), and you will also be assessed penalty and interest charges. Be sure to forward any government notices from IRS to our office at the earliest possible time.

Also, on the subject of unemployment taxes, be sure to check your *Tax Rate Determination Notice* for 2020 which was mailed to each employer from the State of Michigan near the end of December 2019. The statement recaps the dollar amount of benefits and taxes paid during the previous fiscal year. It also determines your tax rate for the next calendar year. This information is critical to you. If there is any error or irregularity indicated on the statement, you have a very short period of time to correct the errors in order to have your tax rate corrected. If you miss this deadline, it doesn't matter whether the error is your fault or that of the state, the rate will be set for the year! Be sure to check for your rate determination notice, review its contents and provide us with a copy. The *Tax Rate Determination Notice* is also available through the MiWAM system.

OTHER TAX REPORTING AND FILING REQUIREMENTS

Forms 1099 and 1098: Payments to non-employees for services, rents, prizes or awards in excess of \$600 are required to be reported to IRS on form 1099. Payments of interest and dividends in excess of \$10 are required to be reported. Also, business collections of interest income on seller financed mortgages (land contracts, etc.) are required to be reported on form 1098. Additionally, businesses required to file more than 250 of any form are required to send the data to the IRS electronically.

Penalties for non-filing start at \$15 per return (there is also a "backup withholding" penalty of 24% of the amounts paid and not reported in certain instances). The question of independent contractor versus employee status hinges on proper reporting of payments. Please contact our office if you would like assistance in the preparation of these forms. January 31st is the deadline for furnishing the forms to recipients. If non-employee compensation is being reported on Form 1099-MISC, the due date for filing federal government copies is January 31st. The filing deadline for the remaining federal government copies of other Form 1099-MISC, Form 1099-INT, Form 1099-DIV and Form 1099-R is February 28, 2020.

Personal Property Taxes: For owners with personal property with a True Cash Value of less than \$80,000 on December 31, 2019, must file an "Affidavit of Owner of Eligible Personal Property Claiming Exemption from Collection of Taxes" (Form 5076) no later than February 10, 2020 that will allow the owner exemption from collection of tax. This form must be filed with the taxing authority or personal property taxes will be assessed.

You will receive an assessment statement around March 1 citing the annual board of review schedule to make corrections if necessary. The Board of Review process is fairly routine for personal property errors. It is usually a matter of getting the proper statements to the board by the deadline dates. However, just like real property assessments, board of review is a must. If you miss it, you will lose all chance to change the assessment.

If you would like our firm to assist in the preparation of these forms, please drop off the preprinted blank form as soon as you receive it or give our office a call.

Sales and Use Tax: Sales and use taxes are usually discussed in detail at the time the business begins operation, or when it first begins dealing in this new tax area. Once the ground rules are set up, administration of these taxes becomes fairly routine. However the amount of dollars involved is often much greater than income and other business taxes combined. A review of your office personnel's familiarity with those ground rules may be in order, especially if you have experienced turnover in those positions, or if your business operation has changed with respect to wholesale and retail status.

Additionally, watch for "use" tax on out of state purchases for consumption rather than resale. The tax on these purchases is to be reported and paid on your regular sales and use tax returns. If your business routinely purchases supply items from out of state (e.g. mail orders), you may want to double check your compliance in this area.

Another concern is for contractors who purchase goods which they install and affix to real estate. The tax exempt status of these purchases is limited to an extremely narrow list of customers and special steps need to be taken to document any exemption for sales or use tax in this area. If this applies to your business you should take special note and inform us of such. Also, watch for sales to exempt purchasers, as they require documentation of the exemption information.

There is a four year statute of limitations for state taxes, and audits are ordinarily conducted for all four years at one time.

Cash Transactions: A somewhat uncommon type of transaction can spell big trouble for the business caught unaware. The receipt of more than \$10,000 in cash in one transaction, or in two or more related transactions, in the course of your trade or business must be reported on an information return to IRS. This rule applies whether or not the receipt is income in your trade or business. The information return must be filed with IRS within 15 days after receipt of the cash. Multiple (installment) payments may need to be reported also if they exceed \$10,000. The business is also required to verify the identity of the person making the cash payment. The penalties for non-reporting can be severe. We would suggest that you check with our office for additional information if you think there is any likelihood of dealing with cash transactions in this amount.

Warning About Penalties: In the area of tax, we have occasionally found that people delay filing returns if the money due isn't available. There are key penalties (both federal and state) for non-filing and non-payment of taxes. Non-filing penalties are generally much more severe than those for non-payment. Due to the staggered penalty structure, it is important that your returns be signed and mailed on a timely basis even if full payment cannot accompany it.

Additionally, letting tax payments go delinquent due to inadequate business cash flow comes with ominous consequences. Funds withheld from payrolls and sales taxes collected from customers are classified as "trust" funds, which bring a fiduciary (or trustee) duty to pay those taxes to the proper governmental jurisdiction. Individuals held responsible for non-payment can and are held personally responsible, jointly and severally, for such liabilities (even non-owners). These liabilities can be assessed and collected from any one responsible party, without any consideration of proportion or equity, leaving that individual to look to the other parties for reimbursement, if possible.

If you find yourself in a situation where you are unable to pay your tax liabilities as they are coming due, be sure to let us know. In certain instances, there are alternative courses of action you can take, and it is important to consider all options.

Please contact us for more information regarding the information included in this guide.