

# 2025 payroll update guide

As a service to you, we are pleased to provide this list of updates and reminders regarding payroll. Reach out to our team at [hcm@wipfli.com](mailto:hcm@wipfli.com) with any questions or to learn how you can build a better place to work.

## **Multistate employers and employees**

The increasing popularity of remote work can create payroll taxation and income and/or sales tax nexus concerns for employers.

### **Withholding tax:**

As a general rule, employees should be taxed in the state where the work is performed. Some states have a threshold (e.g., wage amount or days) to be met before an employee is subject to taxation in that state. In certain states under a “convenience of the employer” rule, telecommuting workers may be taxed in the state where the employer’s physical office is located. The convenience of the employer rule applies in Connecticut, Delaware, Nebraska, New Jersey, New York and Pennsylvania.

Additionally, some states have local taxes to be considered. Refer to state withholding rules for more details.

For W-2 reporting purposes, employers must correctly allocate wage and tax amounts to each state an employee worked in. If an employee worked in more than two states during the year, the employee must be issued multiple W-2s. Each state has specific W-2 reporting requirements, so be sure to refer to those instructions prior to preparing W-2s for the year.

## Unemployment Insurance:

Be sure to review the rules for unemployment in the state as well. Unlike for income tax purposes, for unemployment purposes, wages for multistate employees are reported to a single state. Employers must apply the four-factor test to determine which state wages are reported to for unemployment insurance purposes. The four factors (applied in order) are:.

- Localization of services
  - Where are the services performed?
- Base of operations
  - Where does the employee begin work, receive instruction or perform other tasks?
- Direction of control
  - Where is the employee's work supervised?
- Residence state of the employee
  - This test is only applied when the previous three tests are not able to be applied.

## Other items to consider

### Prior year pretax insurance premiums owed

If an employee was out on leave during the year and unable to pay their insurance premiums in full in the current year, the pretax benefit is lost for premiums paid in a subsequent year. Any continued insurance premium deductions in the next year for amounts due in a prior year must be withheld post-tax.

### FUTA credit reduction states for 2024

California, New York and the U.S. Virgin Islands are subject to a FUTA credit reduction in 2024. California and New York will see a 0.9% credit reduction while the U.S. Virgin Islands will see a 4.25% credit reduction.

These reductions will increase the amount of FUTA tax due of approximately \$105 per employee who met the \$7,000 taxable wage base.

Employers subject to the credit reduction will also need to file Schedule A with their annual Form 940.

## Moving Expenses

Moving expense reimbursements remain taxable to employees through 2025. An exclusion is available for members of the U.S. Armed Forces on active duty who move due to a military order and have a permanent change of station. The exclusion applies only to reimbursement of moving expenses that the member could deduct if they had paid or incurred them without reimbursement.

## Fringe Benefits

### Qualified Transportation Fringe Benefits

Costs associated with transportation may be excluded from an employee's federal income. States may treat this benefit different than federal laws. Be sure to review your state withholding and unemployment rules.

The exclusion applies to transportation in a commuter highway vehicle between the employees' home and workplace, a transit pass or qualified parking. The monthly allowable exclusion for 2025 is \$325..

### Gifts/Gift Cards/Gift Coupons

Cash or cash equivalent items such as gift cards or gift coupons, no matter how small, are not excludable from an employee's income.

The fair market value of tangible property gifts, with limited exceptions, must be include in an employee's income.

### Supplemental Wage Tax Rates

Supplemental wages include, but are not limited to, bonuses, commissions and severance pay. These items may be subject to the supplemental tax rate. How you withhold on supplemental wages depends on whether the supplemental payment is identified as a separate payment from regular wages.

Supplemental wages have a withholding rate of 22% at the federal level. If accumulated supplemental wages exceed \$1 million the withholding rate on the payments in excess of \$1 million increases to 37%. Some states also implement supplemental tax rates. Please refer to your state website to obtain the most current supplemental tax rate.

### Health Savings Accounts

Who Is Eligible? Individuals who participate in a health savings account must be covered under a high deductible health plan (HDHP) on the first day of the month. The individual generally cannot be covered by another health plan. An individual who is not enrolled in Medicare or can't be claimed as a dependent on someone else's income tax return is also eligible for a health savings account (HSA).

Contributions by the employee are generally withheld pre-tax. Both employee and employer contributions are reported on Form W-2 in Box 12, Code W. Greater than 2% shareholders of an S-Corp, and their family members, are not permitted to participate in a cafeteria plan and the owner(s) must have HSA contributions withheld on a post-tax basis. In the case of S-Corp owners, owner and company contributions are reported in Box 14 of Form W-2.

For 2025 the maximum allowable contribution, employee and employer combined, to an HSA is \$4,300 for a single coverage plan and \$8,550 for a family coverage plan. If the individual is age 55 or older an addition \$1,000 catch-up contribution is allowed.

### Group Term Life Insurance

Employers may exclude the first \$50,000 of group term life insurance coverage from an employee's earnings. Employers must impute the cost of coverage of plans in excess of \$50,000 and include it in the employee's income. There is no exclusion for greater than 2% shareholders of an S-Corp.

Coverage for spouses and dependents may be excluded from income if the plan does not exceed \$2,000. If the plan exceeds \$2,000 then the imputed cost of the entire face value of the plan must be included in the employee's income.

Imputed income for group term life insurance coverage is reported in Boxes 1, 3, 5 and 12, Code C on Form W-2.

### Key Secure 2.0 Provisions Effective in 2025

These provisions are applicable to **plans established on or after December 29, 2022**. This is not a comprehensive list of all provisions effective in 2025. Please reach out to your plan provider for a complete list.

**Mandatory** provisions include:

- **Automatic Enrollment and Automatic Contribution Increases**
  - This provision applies to both 401(k) & 403(b) plans for employers that have been in existence for more than three years and have more than 10 employees. There is a minimum 3% automatic enrollment rate with annual increases of 1% up to 10% but not more than 15% for employee contributions.
- **Long-Term Part-Time Employees (LTPT)**
  - This provision applies to 401(k) and 403(b) plans that exclude part-time, temporary or seasonal employees until they work 1,000 hours or have an hours-based eligibility rule. LTPT rules apply to employees who worked 500-999 hours in two consecutive years. These employees become eligible to defer under the LTPT provision. Hours worked in years prior to 2021 are excluded for 401(k) plans and years prior to 2023 are excluded for 403(b) plans.

One **optional** provision is:

- **Increased Catch-Up Deferrals**
  - This provision Applies to 401(k), 403(b) & 457(b) government plans and employees ages 60-63 at the end of the calendar year. The increased catch up ceases in the year the participant turns age 64. The catch-up contribution limit equals \$10,000 or 50% more than the regular catch-up limit of \$7,500, whichever is greater. For 2025, the increased catch-up amount is \$11,250..

## Family Leave Insurance

Three states are in the process of implementing family-leave insurance plans in 2025. They are Delaware, Maine and Maryland.

- **Delaware**

- Contributions begin January 1, 2025. The total contribution rate is 0.8% (0.4% for medical leave, 0.32% for parental leave and 0.08% for family caregiving).
- Employers with fewer than 10 employees are exempt.
- Employers with 10-24 employees are only subject to the parental leave rate.
- Employers with 25 or more employees are subject to the full 0.8%.

- **Maine**

- Contributions begin January 1, 2025. The maximum contribution rate for 2025 is 1%.
- Employers with up to 14 employees are subject to a rate of 0.5%, which can be withheld entirely from employee earnings.
- Employers with 15 or more employees are subject to a rate of 1%. 0.5% is withheld from employee earnings and the employer pays the remaining 0.5%
- **Employers are required to register in Maine's Paid Leave Portal in January 2025.**

- **Maryland**

- Contributions are expected to begin July 1, 2025. The contribution rate will be 0.9%. The rate is split 50/50 between the employee and the employer.
- Employers with up to 14 employees are not required to pay the employers share of the contribution.
- If an employer has a state-approved private plan they are exempt. Contributions withheld from the employee, for the state approved private plan, may not exceed 50% of the contribution.

## Minimum Wage Law Changes

Two states, Michigan and Minnesota, had major changes to their minimum wage laws, which go into effect on January 1, 2025.

Michigan will experience two minimum wage increases. The first increase is to \$10.56 on January 1. The second increase is to \$12.48 on February 21. For **tipped employees** the minimum wage increases to \$4.01 on January 1 and \$5.99 on February 21. Minimum wage for **minors** will increase to \$8.98 on January 1 and \$10.61 on February 21. Minimum wage increases will occur on February 21 annually.

Minnesota is moving to a single minimum wage rate for most employers effective January 1, 2025. The 2025 rate is \$11.13 for **all** employers. Employer size is no longer a consideration. For employees under the age of 20 the minimum wage is \$9.08 during their first 90 days of consecutive employment. Minimum wage rates will be adjusted annually for inflation with increases up to 5%.

## 2025 Limits

	2025
<b>Social Security Wage Base</b>	\$176,100
<b>Deferral Limits</b>	
Section 401(k), 403(b) and 457(b)	\$23,500
Catch-Up (age 50 and older)	\$7,500
Catch-Up (ages 60-63)	\$11,250
Simple	\$16,500
Simple Catch-Up (age 50 and older)	\$3,500
Simple Super Catch-Up (ages 60-63)	\$5,250
Defined Contribution Maximum Annual Addition	\$70,000
Defined Benefit Plan Limits	\$280,000
<b>Compensation Limits</b>	
Qualified Plans	\$350,000
Highly Compensated Employee	\$160,000
Dollar Limit for Key Employee (Top-Heavy Plan)	\$230,000
Compensation Amount for Control Employee	\$140,000
Foreign Earned Income Exclusion Limit	\$130,000
Adoption Assistance	\$17,280
<b>Per diem rates</b>	
Standard	\$178
High-Low Method	\$319, \$225
<b>Health plan limits</b>	
Health Flexible Spending Arrangement	\$3,300
Health Flexible Spending Arrangement Carryover Limit	\$660
Dependent Flexible Spending Arrangement	\$5,000
Health Savings Account Contribution Limit – Single	\$4,300
Health Savings Account Contribution Limit – Family	\$8,550
Health Savings Account Catch-Up Contribution (age 55 and up)	\$1,000

Mileage Reimbursement	
Business	70 cents
Charitable	14 cents
Medical	21 cents
Luxury Car Definition	
Fair-Market Value Greater Than Listed for Employer Provided Vehicles First Made Available in 2025	TBA
Qualified Transportation Benefit (Monthly)-Excluded from wages	\$325
Fleet Average Maximum Value	
Fair-Market Value (before averaging) Cars and Trucks	TBA

### Minimum Rates of Pay – State & Local (subject to change)

State and Local Minimum Wage	Current Minimum Wage	Minimum Wage Effective 1/1/25	Minimum Wage Effective 7/1/25	Comments
Alabama	\$7.25	\$7.25		
Alaska	\$11.73	\$11.92	\$13	
Arkansas	\$11	\$11		
Arizona	\$14.35	\$14.70		
Arizona, Flagstaff	\$17.40	\$17.85		
Arizona, Tucson	\$14.35	\$15		
California	\$16	\$16.50		
California, Alameda	\$16.52	\$16.52	\$17	
California, Berkeley	\$18.07	\$18.07	\$18.67	
California, Belmont	\$17.35	\$18.30		
California, Burlingame	\$17.03	\$17.48		
California, Cupertino	\$17.75	\$18.20		
California, Dale City	\$16.62	\$17.07		
California, East Palo Alto	\$17	\$17.45		
California, El Cerrito	\$17.92	\$18.34		
California, Emeryville	\$18.67	\$18.67	\$19.36	
California, Foster City	\$17	\$17.39		

State and Local Minimum Wage	Current Minimum Wage	Minimum Wage Effective 1/1/25	Minimum Wage Effective 7/1/25	Comments
California, Fremont	\$16.80	\$16.80	\$17.30	
California, Half Moon Bay	\$17.01	\$17.47		
California, Hayward*	\$16.90, \$16.00	\$16.50, \$17.36		
California, Los Altos	\$17.75	\$18.20		
California, Los Angeles	\$16.78	\$16.78	\$17.28	
California, Los Angeles County	\$16.90	\$16.90	\$17.27	
California, Malibu	\$16.90	\$16.90	\$17.27	
California, Menlo Park	\$16.70	\$17.10		
California, Milpitas	\$17.20	\$17.20		
California, Mountain View	\$18.75	\$19.20		
California, Novato*	\$16.04, \$16.60, \$16.86	\$16.42, \$17.00, \$17.27		
California, Oakland	\$16.50	\$16.89		
California, Palo Alto	\$17.80	\$18.20		
California, Pasadena	\$16.93	\$16.93	\$17.50	
California, Petaluma	\$17.45	\$17.97		
California, Redwood City	\$17.70	\$18.20		
California, Richmond	\$17.20	\$17.77		
California, San Carlos	\$16.87	\$17.32		
California, San Diego	\$16.85	\$17.25		
California, San Francisco	\$18.67	\$18.67		
California, San Jose	\$17.55	\$17.95		
California, San Leandro	\$16	\$16.50		
California, San Mateo	\$17.35	\$17.95		
California, San Mateo County (unincorporated)	\$17.06	\$17.46		
California, Santa Clara	\$17.75	\$18.20		
California, Santa Rosa	\$17.45	\$17.87		
California, Sonoma*	\$16.56, \$17.60	\$16.96, \$18.02		
California, Sunnyvale	\$18.55	\$19		
California, West Hollywood	\$19.08	\$19.65		
Colorado	\$14.42	\$14.81		
Colorado, Denver	\$18.29	\$18.81		



State and Local Minimum Wage	Current Minimum Wage	Minimum Wage Effective 1/1/25	Minimum Wage Effective 7/1/25	Comments
Colorado, Boulder County	\$15.69	\$16.57		
Colorado, Edgewater	\$15.02	\$16.52		
Connecticut	\$15.69	\$16.35		
Delaware	\$13.25	\$15		
District of Columbia	\$17.50	\$17.50		
Florida	\$13	\$13		Will rise to \$14 effective Sept. 30, 2025
Georgia	\$7.25	\$7.25		
Hawaii	\$14	\$14		
Idaho	\$7.25	\$7.25		
Illinois	\$14	\$15		
Illinois, Chicago	\$16.20	\$16.20		
Illinois, Cook County	\$14.05	\$15		
Indiana	\$7.25	\$7.25		
Iowa	\$7.25	\$7.25		
Kansas	\$7.25	\$7.25		
Kentucky	\$15.02	\$16.52		
Louisiana	\$15.69	\$16.35		
Maine	\$13.25	\$15		
Maine, Portland	\$17.50	\$17.50		
Maine, Rockland	\$13	\$13		Will rise to \$14 effective Sept. 30, 2025
Maryland	\$7.25	\$7.25		
Maryland, Howard County	\$14	\$14		
Maryland, Montgomery County*	\$7.25	\$7.25		
Maryland, Prince George's County	\$14	\$15		
Massachusetts	\$16.20	\$16.20		
Michigan	\$14.05	\$15		
Minnesota	\$7.25	\$7.25		
Minnesota, Minneapolis*	\$7.25	\$7.25		
Minnesota, St. Paul*	\$7.25	\$7.25		
Mississippi	\$7.25	\$7.25		
Missouri	\$12.30	\$13.75		
Montana	\$10.30	\$10.55		
Nebraska	\$12	\$13.50		
Nevada	\$12	\$12		
New Hampshire	\$7.25	\$7.25		
New Jersey	\$14.53, \$15.13	\$14.53, \$15.49		

State and Local Minimum Wage	Current Minimum Wage	Minimum Wage Effective 1/1/25	Minimum Wage Effective 7/1/25	Comments
New Mexico	\$12	\$12		
New Mexico, Albuquerque	\$12	\$12		
New Mexico, Bernalillo County	\$12	\$12		
New Mexico, Las Cruces	\$12.36	\$12.65		
New Mexico, Santa Fe	\$14.60	\$14.60		Rates effective March 1 – Feb. 28
New Mexico, Santa Fe County	\$14.60	\$14.60		Rates effective March 1 – Feb. 29
New York	\$15	\$15.50		
New York, New York City	\$16	\$16.50		
New York, Nassau, Suffolk, Westchester Counties	\$16	\$16.50		
North Carolina	\$7.25	\$7.25		
North Dakota	\$7.25	\$7.25		
Ohio	\$10.45	\$10.70		
Oklahoma	\$7.25	\$7.25		
Oregon	\$14.70	\$14.70		
Oregon, Nonurban counties	\$13.70	\$13.70		
Oregon, Portland Metro Area	\$15.95	\$15.95		
Pennsylvania	\$7.25	\$7.25		
Rhode Island	\$14	\$15.00		
South Carolina	\$7.25	\$7.25		
South Dakota	\$11.20	\$11.50		
Tennessee	\$7.25	\$7.25		
Texas	\$7.25	\$7.25		
Utah	\$7.25	\$7.25		
Vermont	\$13.67	\$14.01		
Virginia	\$12	\$12.41		
Washington	\$16.28	\$16.66		
Washington, Bellingham	\$17.28	\$17.66		Another increase to \$18.66 effective May 1
Washington, Everett	\$16.28	\$16.28	\$18.24, \$20.24	

State and Local Minimum Wage	Current Minimum Wage	Minimum Wage Effective 1/1/25	Minimum Wage Effective 7/1/25	Comments
Washington, King County		\$20.29		Unincorporated areas
Washington, Renton*	\$18.29, \$20.29	\$18.90, \$20.90		
Washington, SeaTac	\$19.71	\$20.17		Hospitality and transportation industries
Washington, Seattle*	\$17.25, \$19.97	\$20.76		
Washington, Tacoma	\$16.28			
Washington, Tukwila*	\$19.29, \$20.29	\$20.10, \$21.10	\$21.10	
West Virginia	\$8.75	\$8.75		
Wisconsin	\$7.25	\$7.25		
Wyoming	\$7.25	\$7.25		

\*Minimum wage varies by employer size.

## Unemployment Insurance Wage Base

State	
Alabama	\$8,000
Alaska	\$51,700
Arizona	\$8,000
Arkansas	\$7,000
California	\$7,000
Colorado	\$27,200
Connecticut	\$26,100
Delaware	\$12,500
District of Columbia	\$9,000
Florida	\$7,000
Georgia	\$9,500
Hawaii	\$62,000
Idaho	\$55,300
Illinois	\$13,916
Indiana	\$9,500
Iowa	\$39,500
Kansas	\$14,000
Kentucky	\$11,700
Louisiana	\$7,700
Maine	\$12,000
Maryland	\$8,500
Massachusetts	\$15,000
Michigan	\$9,000
Minnesota	\$43,000
Mississippi	\$14,000
Missouri	\$9,500

State	
Montana	\$45,100
Nebraska	\$9,000 / \$24,000
Nevada	\$41,800
New Hampshire	\$14,000
New Jersey	\$43,300
New Mexico	\$32,800 (projected)
New York	\$12,800
North Carolina	\$32,600
North Dakota	\$45,100
Ohio	\$9,000
Oklahoma	\$28,200
Oregon	\$54,300
Pennsylvania	\$10,000
Rhode Island	\$31,800
South Carolina	\$14,000
South Dakota	\$15,000
Tennessee	TBA
Texas	\$9,000
Utah	\$48,900
Vermont	\$14,800
Virginia	\$8,000
Washington	\$72,800
West Virginia	\$9,500
Wisconsin	\$14,000
Wyoming	\$32,400

## 2025 Family Leave Insurance Rates

State	Taxable Wage Base	Employer Contribution	Employee Contribution
California	N/A	N/A	1.2%
Colorado	\$176,100	0.45%*	0.45%
Connecticut	\$176,100	N/A	0.5%
Delaware	\$176,100	0.8%*	N/A
District of Columbia	N/A	0.75%	N/A
Kentucky (voluntary program)	N/A	Varies	Varies
Maine	\$176,100	1%, 0.5%*	N/A
Maryland (7/1/25)	\$176,100	0.45\$, N/A*	0.45%
Massachusetts	\$176,100	0.42%, N/A*	0.46%
Minnesota (2026)	FICA SS Wage Base	TBA	N/A
New Hampshire (voluntary program)	N/A	Varies	Varies
New Jersey	TBA	N/A	0.09%
New York	\$1,757.19 per week	N/A	0.388%
Oregon	\$176,100	40% of contribution	60% of contribution
Rhode Island	TBA	N/A	TBA
Vermont (7/1/25) (voluntary program)	N/A	Varies	Varies
Virginia (voluntary program)	N/A	Varies	Varies
Washington	\$176,100	28.48% of 0.92% of EE gross wage	71.52% of 0.92% of gross wage

\*Colorado, Delaware and Maine – Employer may deduct part of the contribution from employee wages.

\*Colorado, Maryland, Massachusetts and Oregon – Employer contributions vary by employer size.

"Wipfli" is the brand name under which Wipfli LLP and Wipfli Advisory LLC and its respective subsidiary entities provide professional services. Wipfli LLP and Wipfli Advisory LLC (and its respective subsidiary entities) practice in an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable law, regulations, and professional standards. Wipfli LLP is a licensed independent CPA firm that provides attest services to its clients, and Wipfli Advisory LLC provides tax and business consulting services to its clients. Wipfli Advisory LLC and its subsidiary entities are not licensed CPA firms.