

2020 Payroll Update

As a service to you, we are pleased to provide this list of updates and reminders regarding payroll.

This report uses information compiled from Bloomberg Tax & Accounting's 2019 Payroll Year-End Special Report.

Form W-2 Year-End Basics

The timely processing of accurate Forms W-2 is a key function of any payroll department. However, there are several potential pitfalls that can easily derail this most basic of requirements.

Form W-2 formatting: A common mistake is filing Forms W-2 labeled with the incorrect year. A 2019 form must be used and filed by January 31. Entries for approved print copies are to be in 12-point Courier font and black ink. Dollar amounts are to have a decimal point and two decimal places. Do not use a dollar sign or commas. Test the form to ensure that no negative dollar amounts are reported.

Social Security numbers: Ensure that Social Security numbers have nine digits. Truncating Social Security numbers on Forms W-2 was not approved for 2019. The employee forms for tax year 2020 to be filed in 2021 will allow employers the option of truncating the Social Security numbers.

Employee name: The Social Security Administration will not process Forms W-2 with misspelled names, incorrect formatting, and Social Security numbers that do not match those in the Social Security Administration (SSA) system. Consider using the SSA's Social Security Number Verification Service, which is fast, easy, and accurate.

Balance checks: Dollar limits exist for some boxes.

Examples for 2019 include:

- Box 3, Social Security wages, should not exceed \$132,900;
- Box 4, Social Security tax withheld, should not exceed \$8,239.80; and
- Box 12, Codes D and E should not exceed \$19,000 for employees younger than 50 and \$25,000 for employees 50 and older.

Codes: Codes for Box 12 may be a challenge. Report as Code DD, the combined cost of the employer-provided health coverage—the employee and employer portions. Similarly, Code W is to include all employer contributions, including an employee's contributions through a cafeteria plan, to a health savings account. Ensure that earnings and deductions requiring Box 12 reporting include the correct code, especially after a system upgrade.

State and local reporting: Include state account numbers in Box 15 and follow special state reporting rules.

AccuWage Online: SSA can check Form W-2 files before submission for common problems and provide a report on issues that may prevent the submission from being accepted.

Multistate Reporting

Handling the wage and tax allocation/reporting at year-end for the cross-border business traveler may be onerous and technically challenging. Employers of multistate workers and their third-party providers need to effectively manage the overall compliance issues associated with state-to-state, short-term travel and work.

When working through the complexities of multistate withholding, also consider the different tax treatment of various types of income, such as base compensation, bonus payouts, and equity compensation. Employers need to know to apply, by state, any de minimis treatment, reciprocity, and specific compensation reporting methodologies.

Note: Effective January 1, 2020, Illinois institutes a 30-day de minimis rule with respect to inbound employees.

Employers need to capture all the employee-level data detailing how many days each employee performed services in the states where work was performed. If the travel data was tracked throughout the year and the employee's pay allocated accordingly, time in December may be used to make adjustments.

December also is a good time to communicate the issue of nonresident taxation to the affected employees.

Reminder: Form W-2 has space to include wage and tax amounts for up to two states. If three or more states are involved, a multiple Forms W-2 will be necessary. See the IRS Form W-2/W-3 instructions for details.

Amounts in Box 16, State Wages, should take into account unusual reporting requirements. For example, New York requires the amount in Box 16 to be the same as the wages in Box 1. When reporting two states including New York, the total of both Box 16s will not match Box 1. This may confuse employees, and so employers should consider providing an explanation to employees when delivering Forms W-2.

The explanation also could be used to alert the employee that they may want to seek help from a tax advisor because they may need to file more than one state individual income tax return.

Qualified Plans

Qualified deferred compensation plans generally refer to traditional retirement plans, such as Section 401(k) and pension plans.

The Internal Revenue Code details the limits of a defined contribution plan, including 401(k) plans, for all annual plan additions, such as employer contributions, employee contributions other than rollovers, and allocation of forfeitures. This limit is set at the lesser of \$56,000 for 2019 (\$57,000 in 2020) and 100% of the participant's compensation.¹

The participant's compensation must be determined under the code even when a different definition is used for the plan, such as when calculating the rate of employer contributions. Catch-up contributions for participants who have reached age 50 during the year are not included in the \$56,000 limit in 2019. (The 2020 limit is \$57,000.)

Note that the limitation year under the plan may not be the calendar year.

The elective deferral limit is \$19,000 for 2019 (\$19,500 in 2020).² Corrections are needed when there are excess deferrals, such as when an individual defers compensation in excess of the limit that may not be applied as a catchup contribution. Corrections generally take the form of distribution of the excess as well as any allocable

earnings. Participants who are 50 and older at the end of the year can make an additional “catch-up” contribution up to \$6,000 in 2019 (\$6,500 in 2020).

If excess deferrals are not corrected in a timely manner, the participant may have additional taxable income and the plan’s tax qualification status may be at risk.

Under the I.R.C., there is another limit for defined benefit plans which, when expressed as an annual benefit, is the lesser of \$225,000 for 2019 (\$230,000 in 2020), and 100% of the participant’s average compensation for three consecutive highest-paid years.³ A defined benefit plan’s formula to determine annual benefits typically does not allow for a situation when the compensation limit would be exceeded, though the plan actuary still would likely monitor benefit payments for compliance.

For Form W-2 reporting, employers are to exclude from Box 1 wages, tips, other compensation, and the amounts deferred from pay by employees pre-tax into a qualified plan during the year, up to the annual limit. These amounts are not excluded for reporting wages in Box 3, Social Security wages, up to the wage base limit of \$132,900 for 2019 (\$137,700 in 2020), and also must be included in Box 5, Medicare wages and tips. There is no wage base for Medicare contributions.

Box 12 includes codes to identify payments and deferrals. In Box 13, “Retirement plan” should be checked if the employee is an active participant in a qualified retirement plan for any part of the year. In other words, this box should be checked if the employee is covered for the tax year by a defined benefit plan and eligible to participate, or covered by a defined contribution plan and any employer or employee contributions are added to the employee’s account.

¹ I.R.C. Section 415(c)

² I.R.C. Section 402(g)

³ I.R.C. Section 415(b)

Nonqualified Plans

Nonqualified deferred-compensation plans may require administering income tax and Federal Insurance Contributions Act (FICA) taxes in different years.⁴ This may apply to arrangements that provide a right to payment in a future year, such as excess benefit plans, supplemental executive retirement plans, salary and bonus deferral arrangements, restricted stock units, or phantom equity awards.

The nonqualified plan amounts generally are subject to FICA taxes in the year they become vested under the special-timing rule, but income taxation is generally delayed until amounts are paid or distributed.

Separate tracking may be needed for plans that provide for accelerated vesting upon a certain event, such as retirement, because participants may become vested and subject to FICA outside of the plan’s general vesting schedule.

Vesting provisions may require that deferrals become vested over a period of years. Such deferrals may be subject to FICA over multiple years, even if later paid out as a lump sum or distributed as a single event. Employers should consider whether plan amounts may vest and be paid in different years, and whether any amounts became vested but were not paid out in 2019.

For plan amounts that vested earlier this year and are to be paid or distributed in future years, it may not be too late to take action for 2019. Under the special rule, employers may choose to take a deferred amount into account for FICA tax purposes on any date later than, but within the same year as, the date the amount was subject to FICA taxes. Once an amount is taken into account under the rule, later payments and earnings generally are not subject to FICA tax. In certain cases, the amount taken into account for FICA may be estimated within three months, if interest is included.

Box 11 is used to explain discrepancies between Box 1 and Boxes 3 and 5 by reporting one of the following:

- the amount of a distribution that is included in Box 1 but was taken into account for FICA purposes in a prior year, or
- the amount included in Boxes 3 and 5, although not yet subject to income tax.

Do not report amounts in Box 11 if there is a deferral and a distribution in the same year.

If nonqualified compensation amounts were vested in a prior year and not previously taken into account for FICA taxes, the approach for when and how to handle this may depend on when the amount became vested.

Additionally, employers may report current-year deferrals and earnings under nonqualified deferred-compensation plans subject to I.R.C. Section 409A in Box 12 using Code Y. However, Code Y reporting remains optional for 2019. If any amount of nonqualified deferred compensation must be included in income because of a Section 409A failure, it should be reported in Box 12 using Code Z, in addition to Box 1.

4 I.R.C. Section 3121(v)

Health Savings Accounts

Health savings accounts, available only when qualified highdeductible health insurance plans are offered, provide a tax-favored savings mechanism to offset the costs of health care.⁵ Although the basic rules on HSA contributions and reporting are fairly straightforward, these rules may create some confusion at year-end in a few areas:

Form W-2 Reporting

Employers generally are required to report HSA contributions made in the year on the employee's Form W-2, in Box 12 with Code W.

Box 12 should report all employer contributions to the HSA in the applicable year, including employee contributions through an I.R.C. Section 125 cafeteria plan and those designated as made for the prior year. Employee contributions made to an HSA outside of a Section 125 cafeteria plan are generally included in gross income and should be reported as wages on Form W-2 in Box 1. If the wrong amount is reported in Box 12, such as not counting employee contributions made through a cafeteria plan, the Form W-2 should generally be amended to provide the correct amount.

Note that some states, including California and New Jersey, do not exempt contributions to HSAs from state income tax.

Maximum Annual Contributions

The tax-free limits on combined employer and employee HSA contributions are indexed for inflation.

For 2019, the limits are \$3,500 for individual policies and \$7,000 for family policies.

For 2020, the limits are \$3,550 for individual policies and \$7,100 for family policies.

Recovering HSA Contributions Made in Error

In general, employers may not recoup funds deposited into an employee's HSA. In some cases, employers may recover contributions made in error, but action generally must be taken before the end of the year.

Employer contributions inadvertently made to employees who were never considered eligible may be recovered through a request made to a financial institution.

Employer contributions exceeding the maximum annual contributions allowed because of errors, including administrative mistakes and employee elections not processed on time, may be corrected by requesting that the funds be returned. To the extent not recovered by the end of the tax year, excess employer contributions must generally be reported as wages on the employee's Form W-2.

5 I.R.C. Sections 106(d), 223

State and Local Paid Leave

In 2020, employers should prepare for changes to existing family-leave programs in some states. California plans to expand its family-leave program to eight weeks from six weeks, starting July 1, 2020.

Under New Jersey's family-leave insurance program, benefits for a leave period that starts July 1, 2020, or later are payable for up to 12 weeks in a 12-month period, up from six weeks, or up to 56 days during a 12-month period if the leave is taken on an intermittent basis.

Several states enacted paid-leave laws that would take effect in later years, but employers can start preparing in 2020. Connecticut is to allow employees to take up to 12 weeks of benefits for family and medical leave in a 12-month period, plus two weeks of compensation for incapacitating pregnancy conditions. Employee contributions of a percentage of their earnings to the trust fund are to start January 1, 2021, while benefits are to be paid to covered employees starting January 1, 2022. A public-education campaign about the paid family and medical leave is to start January 1, 2020.

Oregon passed a paid family- and medical-leave insurance program that would be funded by mandatory contributions from employers and employees. The program is to start January 1, 2022, and benefits are to become available January 1, 2023.

Connecticut and Oregon also join Massachusetts, New York, Rhode Island, Washington, and the District of Columbia in adopting family-leave programs.

In Colorado, 2019 legislation created the Family and Medical Leave Task Force to develop recommendations about the feasibility and administration of a paid family- and medical-leave insurance program. Recommendations are expected by January 2020.

Nevada's paid-leave requirements take effect January 1, 2020. Employers in the state with at least 50 employees must provide a minimum of 0.01923 hours of paid leave for each hour worked starting 90 days after employment starts.

Although no action has occurred on the federal level regarding the proposal by President Donald Trump to provide paid time off for new parents, several states and localities have requirements in place for employers to provide paid leave to employees.

Employers that have existing paid-leave programs should ensure those policies meet or exceed any accrual requirements for these jurisdictions.

For localities, California has six jurisdictions requiring employers to provide paid leave in 2019. Other states with these local requirements are Illinois (Chicago and Cook County), Maryland (Montgomery County), Minnesota (Duluth, Minneapolis, and St. Paul), New Mexico (Bernalillo County), New York (New York City and Westchester

County), Oregon (Portland), Pennsylvania (Philadelphia and Pittsburgh), Texas (Austin, Dallas, and San Antonio), and Washington (Seattle and Tacoma).

Major jurisdictions with paid-leave requirements in 2020: Arizona, California, Connecticut, Georgia, Hawaii, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, Oregon, Puerto Rico, Rhode Island, Vermont, Washington, and the District of Columbia.

Have questions about how your payroll will be affected? Let's connect.

Visit us at wipfli.com/HCM or contact our team at HCM@wipfli.com.

By the Numbers

Federal limits

	2019	2020
Social Security (OASDI) Wage Base	\$132,900	\$137,700
Basic Deferral Limits		
Sec. 401(k), 403(b)	\$19,000	\$19,500
Catch-Up	\$6,000	\$6,500
SIMPLE	\$13,000	\$13,500
Sec. 457	\$19,000	\$19,500
Defined Contribution Max. Annual Addition	\$56,000	\$57,000
Defined-Benefit Plan Limits	\$225,000	\$230,000
Compensation Limits, Credits, and Triggers		
Qualified Plans	\$280,000	\$285,000
Highly Compensated Employee	\$125,000	\$130,000
Compensation Limit	\$415,000	\$425,000
Dollar Limit for Key Employee (Top-Heavy Plan)	\$180,000	\$185,000
Compensation Amount for Control Employee	\$110,000	\$115,000
Foreign-Earned Income Exclusion Limit	\$105,900	\$107,600
Adoption Assistance	\$14,080	\$14,300

By the Numbers

Federal limits (continued)

	2019	2020
Per Diem Rates		
Standard	\$149	\$151
High-Low Method	\$287, \$195	\$297, \$200
Health Plan Limits		
Health Flexible Spending Arrangements	\$2,700	\$2,750
Health Savings Account Contributions—Single	\$3,500	\$3,550
Health Savings Account Contributions—Family	\$7,000	\$7,100
Federal Vehicle Valuations <i>(Mileage rates, per mile)</i>		
Business	58 cents	TBD
Charitable	14 cents	TBD
Medical	20 cents	TBD
Luxury Car Definition <i>(Ineligible for Cents-Per-Mile Use Valuation)</i>		
Fair Market Value Greater Than Listed for Employer-Provided	\$50,000+ (car)	TBD
Vehicles First Made Available in 2018 and 2019	\$50,000+ (truck)	TBD
Tax-Free Transportation Benefits (Monthly)	\$265	\$270
Fleet Average Maximum Value		
Fair Market Value (Before Averaging) Cars	at least \$50,000	TBD
Fair Market Value (Before Averaging) Trucks	at least \$50,000	TBD

By the Numbers

2020 Hourly Minimum Wage Rates

Jurisdiction	Base Hourly Minimum Wage
Federal	\$7.25
Federal Contractor	\$10.80
Alabama	\$7.25
Alaska	\$10.19
Arizona	\$12.00
Arkansas	\$10.00
California	\$13, \$12 ‡
Colorado	\$12.00
Connecticut	\$11/\$12 *
Delaware	\$9.25
District of Columbia	\$14/\$15 *
Florida	\$8.56
Georgia	\$5.15
Hawaii	\$10.10
Idaho	\$7.25
Illinois	\$9.25
Indiana	\$7.25
Iowa	\$7.25
Kansas	\$7.25
Kentucky	\$7.25
Louisiana	\$7.25
Maine	\$12.00
Maryland	\$11.00
Massachusetts	\$12.75
Michigan	\$9.65
Minnesota	\$10, \$8.15 ‡
Mississippi	\$7.25

Jurisdiction	Base Hourly Minimum Wage
Missouri	\$9.45
Montana	\$8.65 **
Nebraska	\$9.00
Nevada	\$9, \$8 ‡ *
New Hampshire	\$7.25
New Jersey	\$11, \$10.30 ‡
New Mexico	\$9.00
New York	\$15-\$11.80 ‡
North Carolina	\$7.25
North Dakota	\$7.25
Ohio	\$8.70 **
Oklahoma	\$7.25 **
Oregon	\$13.25-\$11.50 ‡ *
Pennsylvania	\$7.25
Puerto Rico	\$7.25 **
Rhode Island	\$10.50
South Carolina	\$7.25
South Dakota	\$9.30
Tennessee	\$7.25
Texas	\$7.25
Utah	\$7.25
Vermont	\$10.96
Virginia	\$7.25
Washington	\$13.50
West Virginia	\$8.75
Wisconsin	\$7.25
Wyoming	\$5.15

‡ varies by employer size, location, benefits provided

* subject to change

** exceptions apply

By the Numbers

Unemployment Insurance Wage Bases

State	2019	2020
Alabama	8,000	8,000
Alaska	39,900	41,500
Arizona	7,000	7,000
Arkansas	10,000	7,000
California	7,000	7,000
Colorado	13,100	13,600
Connecticut	15,000	15,000
Delaware	16,500	16,500
District of Columbia	9,000	9,000
Florida	7,000	7,000
Georgia	9,500	9,500
Hawaii	46,800	48,100
Idaho	40,000	41,600
Illinois	12,960	12,740
Indiana	9,500	9,500
Iowa	30,600	31,600
Kansas	14,000	14,000
Kentucky	10,500	10,800
Louisiana	7,700	7,700
Maine	12,000	12,000
Maryland	8,500	8,500
Massachusetts	15,000	15,000
Michigan	9,000; 9,500 ⁶	*
Minnesota	34,000	35,000
Mississippi	14,000	14,000
Missouri	12,000	11,500
Montana	33,000	34,100

State	2019	2020
Nebraska	9,000	9,000; 24,000 ⁷
Nevada	31,200	32,500
New Hampshire	14,000	14,000
New Jersey	34,400	35,300
New Mexico	24,800	25,800
New York	11,400	11,600
North Carolina	24,300	25,200
North Dakota	36,400	37,900
Ohio	9,500	9,000
Oklahoma	18,100	18,700
Oregon	40,600	42,100
Pennsylvania	10,000	10,000
Puerto Rico	7,000	*
Rhode Island	23,600; 25,100 ⁷	24,000 ; 25,500⁷
South Carolina	14,000	14,000
South Dakota	15,000	15,000
Tennessee	7,000	*
Texas	9,000	9,000
Utah	35,300	36,600
Vermont	15,600	16,100
Virginia	8,000	8,000
Washington	49,800	52,700
West Virginia	12,000	12,000
Wisconsin	14,000	14,000
Wyoming	25,400	26,400

Changes for 2020 are **in bold**. Wage bases that decreased are in **bold italic**.

* wage bases to be announced

⁶ For each year when Michigan's unemployment trust fund balance was sufficiently high during the previous year, Michigan employers not delinquent in paying unemployment-related amounts are assigned a reduced taxable wage base.

⁷ Experienced Nebraska and Rhode Island employers that are assessed the maximum unemployment tax rate are assigned a higher wage base.