

2025

HAWKINS | ASH
CPAs

Payroll & Year-End Reporting Webinar

December 11th

Presenters: Kelly Oliver and Darby Cox

By the Numbers

11 OFFICES

30 PARTNERS

\$36M

**NET
REVENUE**

60+ CPAs

FOUNDED 1956

190+ EMPLOYEES

10,000+ CLIENTS

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Locations



Wisconsin

- Green Bay
- La Crosse
- Manitowoc
- Marshfield
- Medford
- Mequon
- Neenah
- Brookfield



Minnesota

- Rochester
- St. Charles
- Winona



Payroll Benefits and Year End Reminders for 2025 and Changes for 2026

Topics

- 2025-2026 Changes
 - One Big Beautiful Bill Act
- Fringe Benefits
- Pre-tax benefits
- W-2 Information
- Employee vs. Independent Contractor
- Affordable Care Act (ACA)
- Miscellaneous



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Changes

2025-2026 Changes

Beginning in 2026, due to the 2025 Budget Reconciliation Law, the premium tax credit subsidies will see several changes. The repayment limitation has been eliminated, eligibility has further restrictions and if no action by congress the subsidy cliff will return decreasing the amount of credit available.

Weekly “White Collar” Salary Threshold

- Since the U.S. District Court ruling in November 2024 vacating the Departments final rule for increasing the minimum salary, the standard minimum salary reverted to the 2019 rules which are \$684 per week. (\$35,568 per year).
- Watch state minimum salary requirement changes for 2026.

The One Big Beautiful Bill Act changes will be presented separately later in the presentation.



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Wisconsin Updates

- Business should consult with their legal advisors on how to handle cash transactions with customers when pennies are no longer available. Depending on circumstances, businesses may choose different solutions.
 - For example:
 - Accept only digital payments or checks
 - Cash: Round the final amount due (after tax) up or down to the nearest \$0.05
 - Cash: Round the final amount due (after tax) down to the nearest \$0.05
 - Wisconsin sales/use tax is rounded to the nearest \$0.01 and is calculated before rounding the final amount due on a cash transaction.



Wisconsin Updates – Cont.

Sales and Withholding – New Users

- Sales tax XML software developers will be required to have a Letter of Intent (LOI) and testing in 2026
- Payroll Service Providers will be required to submit IRS Form 8655, Reporting Agent Authorization, or Wisconsin Form A-222, Power of Attorney, during electronic enrollment in 2026
- IRS is retiring the FIRE system and only allowing IRIS reporting beginning with tax year 2026 (filing season 2027) o DOR already accepts IRIS-formatted XML submissions with LOI and testing approval by developer
- To expedite processing, file final WT-6 deposit reports at least one full business day before the WT-7 annual reconciliation



Minnesota Updates

- **Minnesota Secure Choice Retirement Program**
- **Minnesota Paid Family and Medical Leave Law**



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Minnesota Secure Choice Retirement Program

The Minnesota Secure Choice Retirement Program will be launching in January 2026, it is a state-facilitated, employer-supported retirement program that bridges the retirement savings gap for hundreds of thousands of Minnesotans.

Employers may also register for the Minnesota Secure Choice Retirement Program before their assigned phase as soon as January 2026.

Employer Registration Phases

Number of employees at covered employer	Phase duration
Soft launch for any sized covered employer	Jan. 1, 2026 to March 30, 2026
100 or more	April 1, 2026 to June 30, 2026
50 to 99	July 1, 2026 to Dec. 31, 2026
25 to 49	Jan. 1, 2027 to June 30, 2027
10 to 24	July 1, 2027 to Dec. 31, 2027
5 to 9	Jan. 1, 2028 to June 30, 2028



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2026 Minnesota Paid Family and Medical Leave Law

- Main Paid Leave Website: <https://pl.mn.gov/>
- Two types: Family and Medical.
 - Up to 12 weeks of each type to a max of 20 total weeks.
- Employees can apply for benefits starting January 1, 2026.
 - Employees who gave birth, adopted, or had a foster placement in 2025 can apply for benefits in December 2025 to start in January 2026.
- All employers are covered except federal governmental employers and self-employed individuals.
 - S-Corp Owners do not count as Self-Employed.
- All employees that physically work in Minnesota 50% or more.
- MN residents are not eligible if they work less than 50% in MN
- Non-MN residents eligible if they work 50% or more in MN.
- There are seasonal exceptions for hospitality industry.
- Benefits determined by formula based on wages earned.
 - Max benefit for 2026 is \$1,423.
- Short Term Disability can be used to supplement wage replacement for higher paid employees.
- PFML can supplement Work Comp if WC benefits are less.
- Employer cannot require PTO but can allow PTO to supplement.
- Benefits do not come from employer unless Self-Funding.



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2026 Minnesota Paid Family and Medical Leave Law - Cont

Who Pays?

- Employer and employee funded by premiums deducted from payroll.
- MN sets premium rate each year:
 - Max rate by statute is 1.1%.
 - 2026 is 0.88%.
- Employer must pay at least half (0.44% in 2026).
- Employee also pays half, but employer can pay this portion.
- All W-2 wages up to OASDI limit (\$185,000 for 2026).
 - Even Commodity Wages for farmers.
- Small Employers can get reduced rate (0.22% ER, 0.44% EE).
 - 30 or fewer employees and pay less than State Average Weekly Wage – Subject to state determination.

Equivalent Plans

- Employers can choose to use a private plan through insurance.
- Insurance Provider may offer lower rate than state program.
- Rate is still split between employee and employer, but employee cannot pay more than state rate for employee.
- Leave benefits are processed and paid to employee by insurance provider.
- Employer must apply for Private Plan substitution each year.
- Employers can use private plan anytime but if they rejoin state program, locked in for 3 years.
- Employer can choose to Self-Fund but requires more setup.



2026 Minnesota Paid Family and Medical Leave Law – what is covered?

Family Leave:

- Parental Bonding – includes birth of a child, adoption, and foster placement.
 - New parents in 2025 are eligible to take Family Leave for Bonding in 2026.
- Caring for family member during illness.
- Supporting a family member on active military duty.
- Safety for the employee or family member who are victims of domestic assault, sexual assault, and stalking.
- Definition of family is broad.
 - Most related family – spouses, children, parents, grandparents, in-law siblings.
 - Non-related friend that has no support other than the Employee.

Medical Leave:

- Employee's serious health condition.
- Medical care related to pregnancy.
- Employee can take Medical Leave to recover from birth and then take Family Leave for Bonding.



2026 Minnesota Paid Family and Medical Leave Law - Taxability and W-2 Concerns

Premiums

- Employer can deduct their premium as excise taxes.
- If Employer covers Employee share:
 - Employer can deduct that as Wages.
 - Added to employees' taxable wages included in box 1,3,5 & 16 of the employee's W-2.
- Quarterly Wage Reports Required.
 - Submitted through MN Unemployment.
 - Employers on State Program will have payments due Quarter 1 2026.
 - Even for Employers with Private Plans.

Benefits

- Family Leave Benefits taxable as income – Employee will receive 1099.
- Medical Leave partially taxable wages as 3rd Party Sick Pay.
 - EE of Large ER – 50% of benefits taxable.
 - EE of Small ER – 33% of benefits taxable.
 - Remaining portion not reported on W-2 or 1099 and not taxed.
 - State will remit the employees portion of FICA, employer will need to pay employer portion.
 - Must be added to employee W-2 in 1,3,5 & 16. Check the 3rd Party Sick Pay box in 13.
 - Must include on 941 as 3rd party sick pay
 - Employee portion plus the optional employer pickup is reported in box 14 as MNPFML.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Employers have various roles and responsibilities to ensure readiness for the program.
 - <https://pl.mn.gov/employers/roles-and-responsibilities>
- Employers should already be reporting wages to DEED as part of their quarterly Unemployment Returns.
 - This includes having a Paid Leave Only account for employees that are not covered by MN Unemployment but are covered by MN PFML.
 - DEED has been assessing penalties and interest for late or missed wage reports.
 - If an Employer already does not participate in MN Unemployment, they still need to create a Paid Leave Only Account for all employees.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Self-Employed Individuals that want to participate in MN PFML need to create a Paid Leave Only account and opt-in to MN PFML coverage.
 - Must stay covered for at least 2 years. Can opt out after 2 years.
 - Will be responsible for the full Premium Rate.
 - Must pay 1 year of premiums in advance when opting in.
 - <https://pl.mn.gov/opt-paid-leave>
- Hospitality employers that have employees during seasonal peaks can request to exempt those employees from coverage.
 - Must meet criteria.
 - Must apply for exemption on MN Unemployment account.
 - Must notify employees that will not be covered by MN PFML.
 - Must meet reporting requirements after obtaining exemption.
 - For more information: <https://pl.mn.gov/employers/seasonal-hospitality>
- Employers will be mailed letters containing their new rates at the end of each year for the next year.
 - This letter can also be found in the Correspondence section in their MN Unemployment/Paid Leave Only accounts.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Employers should decide if they want to use the State Program or seek an Equivalent Plan from an approved Insurance Provider (see list at link below).
 - https://mn.gov/deed/assets/approved-equivalent-plans_tcm1045-695686.pdf
 - If an Employer wishes to join the State Program after using an Equivalent Plan, they are required to stay in the State Program for 3 years.
 - Employers using Equivalent Plans will still receive Premium Rate letters but should say 0.00% premium rates.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Regardless of the decision, Employers need to create a Paid Leave Administrator (PLA) account.
 - This account allows the Employer to review Leave benefit applications.
 - Access tax information to make timely employer tax deposits.
 - Apply for applicable grants.
 - Request the Equivalent Plan Substitution exemption.
 - This is done annually and there is a fee.
 - Follow the Step-by-Step Instructions for Designating a Paid Leave Administrator.
 - <https://uimn.org/employers/paid-leave/paid-leave-admin-assignment.jsp>
 - An email will be sent to the Paid Leave Administrator to create the PLA Account.
 - <https://paidleave.mn.gov/users/registrations/employer>
 - Follow the steps on the website to create the account.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Notify Employees and place Posters within the business where Employees can congregate.
 - New Employees must be informed within 30 days of hire.
 - Current Employees prior to January 1, 2026, must be informed by December 1, 2025.
 - Notices will contain the rates that Employers will pay and the rates that are deducted from Employees paychecks.
- Visit the website for employer resources toolkit and standard posters.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Employers need to set up the payroll deductions based on the rates set by Minnesota or by the rates set by their Paid Leave insurance policy.
 - Any Employee portion that the Employer volunteers to cover must be recorded as imputed income to the Employee. This amount is not included in Net Pay.
 - Included in the employees' taxable wages and in box 1,3,5 & 16 of the employee's W-2.
 - Paystubs should show the following:
 - Amount actually paid by Employee (if any) - Maximum of 0.44% for 2026, even for Equivalent Plans should be shown as after-tax deduction.
 - Amount required to be paid by Employer - Minimum of 0.44% for Large Employer for 2026 or 0.22% for Small Employer for 2026.
 - Amount of optional "pickup" contribution - Employee portion covered by Employer as Employer Paid Benefits should be shown as a TAXABLE benefit.



2026 Minnesota Paid Family and Medical Leave Law – cont.

- Employers should consider looking at increasing their Short-Term Disability benefits for Higher Income Employees.
 - PFML Benefits are only partial wage replacements and Short-Term Disability is allowed to be used to supplement.
- Employers should determine if PTO and other accruals can be used to supplement PFML benefits.
 - This should be written in the employer's policy handbook.
 - Employers cannot require Employees to use PTO while on PFML.
 - Employers covered by FMLA can require that FMLA and PFML be used concurrently.
- Determine the Intermittent Leave policy.
 - MN PFML can be taken intermittently, up to 480 hours (equivalent to 12 weeks).
 - Example would be someone that has a persistent and consistent doctor's appointment for treatment or other reasons over an extended period of time.
 - Employers can determine the smallest increment of time that an employee can for Intermittent usage of MN PFML – from 1 minute up to 1 day.



Reminders:

Masking Employee SSN

- Starting 1/1/21 employers can truncate employee's social security numbers on employee's form copies; not allowed to truncate forms sent to SSA or states

New Form W-4 Employee's Withholding Certificate

- New redesigned W-4 required to be used for new hires after 1/1/21 and any employee updating their information

Social Security – Update to E-File W-2 Requirements

- Mandates electronic filing of IRS Forms, including W-2s:
 - In 2025 (for 2024 W-2s) – if you send 10 or more W-2s to SSA

Wisconsin E-File Requirements

- 10 or more wage statements or information returns

Minnesota E-File Requirements

- More than 10 forms (W-2s plus 1099s)



Key Tax Fact Sheet 2025- 2026

Key Tax Fact Sheet 2026			
	2026		2025
FICA			
Social Security Rate EE	6.20%		6.20%
Social Security Rate ER	6.20%		6.20%
Social Security Wage Limit	\$ 184,500.00		\$ 176,100.00
Medicare Rate	1.45%		1.45%
Medicare Rate - Wages over \$200,000	0.90%		0.90%
Medicare Wage Limit	No Limit		No Limit
Unemployment Rate			
Federal Unemployment Rate	0.6%		0.6%
Federal Unemployment Wage Limit	\$ 7,000.00		\$ 7,000.00
MN and WI Unemployment Rate		Assigned Rates	Calculated on:
MN Unemployment Wage Limit	\$ 44,000.00		\$ 43,000.00 Gross Wages
WI Unemployment Wage Limit	\$ 14,000.00		\$ 14,000.00 Gross minus Cafeteria
Minimum Wage			
Federal Minimum Wage - 7/24/09	\$ 7.25		\$ 7.25
Minnesota - Any Employer	11.41		11.13
90-day training wage (under 20 years of age)	\$ 9.31		\$ 9.08
Minneapolis	\$ 16.37		\$ 15.97
St. Paul:	Based on # of employees for both years		
Macro and Large Businesses	\$ 16.37		\$ 15.57
Small Businesses	\$ 16.37 effective July 1		\$ 15.00
Micro Businesses	\$ 14.25 effective July 1		\$ 13.00
Wisconsin Minimum Wage	\$ 7.25		\$ 7.25



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Key Tax Fact Sheet 2025-2026

Retirement Plans				
401(k), 403(b) and 457(b) Plan Limits	\$	24,500.00		\$ 23,500.00
Age 50-59 & 64+ Catch up	\$	8,000.00		\$ 7,500.00
Age 60, 61, 62 & 63 Catch up	\$	11,250.00		\$ 11,250.00
Simple Contribution Plan Limit	\$	17,000.00		\$ 16,500.00
Age 50-59 & 64+ Catch up	\$	4,000.00		\$ 3,500.00
Age 60, 61, 62 & 63 Catch up	\$	5,250 or 150% of regular catch up		\$ 5,250 or 150% of regular catch up
Simple Cont. (Employers 1-25) Plan Limit	\$	18,100.00		\$ 17,600.00
Over age 50 Catch up (Employers 1-25)	\$	3,850.00		\$ 3,850.00
IRA Contributions (Roth & Traditional)	\$	7,500.00	subject to AGI	\$ 7,000.00 subject to AGI
Over age 50 Catch up	\$	1,100.00	subject to AGI	\$ 1,000.00 subject to AGI
Wisconsin Retirement System- WRS				
Employer Contribution %		7.20%		6.95%
Employee Contribution %		7.20%	**Rates may vary	6.95% **Rates may vary
Tax-Favored Plans				
HSA - Single	\$	4,400.00		\$ 4,300.00
HSA - Family	\$	8,750.00		\$ 8,550.00
HSA - Catch up 55+	\$	1,000.00		\$ 1,000.00
Health Flex Spending	\$	3,400.00	\$680 Carryover	\$ 3,300.00 \$660 Carryover
Dependent Care Flex Spending	\$	7,500.00		\$ 5,000.00
IRS Optional Standard Mileage Rates				
General	\$	TBD	per mile	\$ 0.70 per mile
Medical/Moving	\$	0.21	per mile	\$ 0.21 per mile
Charitable	\$	0.14	per mile	\$ 0.14 per mile
Minnesota and Wisconsin only - other states may vary:				
Cafeteria Plan - Pretax Federal, State, Social Security, Medicare, FUTA & WI SUTA; Reportable MN SUTA				
401(k) - Pretax Federal, State; Taxable for Social Security, Medicare, FUTA & SUTA				
Health Insurance-2% Shareholders - Taxable for Federal & State only				
Personal Use of Auto - Taxable for all				
Health Savings Accounts - Pretax Federal, State, Social Security, Medicare, FUTA & WI SUTA; Reportable MN SUTA				



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Required Employment Posters

Federal

- <https://www.dol.gov/general/topics/posters>

Minnesota

- <https://www.dli.mn.gov/posters>

Wisconsin

- <https://dwd.wisconsin.gov/dwd/workplace-posters/>



One Big Beautiful Bill Act (OBBBA)

Topics of Discussion

- Tip Deduction
- Overtime Deduction
- 1099 threshold change in 2026

Tip Deduction

- “Qualified Tips” – voluntary cash or charged tip that is received by a customer or through team tip sharing
- The value of non-cash tips such as tickets, passes, or other goods or commodities that a customer gives the individual are also subject to income taxation.
- Service charges that an employer adds on to a customer’s bill pays to an employee are treated as wages to the individual, not tips.



Tip Deduction

- Maximum Deduction - \$25,000 deduction per return (Single or Married)
- Gross Income Cap \$150,000 single (\$300,000 joint)
- Phase out \$100 for every \$1,000 exceeding limit



Occupations that Receive Tips

- 100s – Beverage and Food Service
- 200s – Entertainment and Events
- 300s – Hospitality and Guest Services
- 400s – Home Services
- 500s – Personal Services
- 600s – Personal Appearance and Wellness
- 700s – Recreation and Instruction
- 800s – Transportation and Delivery



Occupations that Receive Tips

- Beverage and Food Service
 - Bartenders
 - Wait staff
 - Food Servers
 - Chefs & Cooks
 - Food Preparation workers
 - Fast Food and Counter Workers
 - Dishwashers
 - Host Staff, Restaurant, Lounge, and Coffee Shop
 - Bakers



Occupations that Receive Tips

- Entertainment and Events
 - Gambling Dealers
 - Gambling Change and Booth Persons
 - Gambling Cage Workers
 - Gambling and Sport Book Writers and Runners
 - Dancers
 - Musicians and Singers
 - Disc Jockey, Except Radio
 - Entertainers and Creators
 - Ushers, Lobby Attendant, and Ticket Taker
 - Locker room, coatroom, and dressing room attendants



Occupations that Receive Tips

- Hospitality and Guest Services
 - Baggage Porters and Bellhops
 - Concierges
 - Hotel, Motel, and resort desk clerks
 - Maids and Housekeeping cleaners



Occupations that Receive Tips

- Personal Services
 - Personal Care and Service Workers
 - Private Event Planners
 - Private Event and Portrait Photographers
 - Private Event Videographers
 - Event Officials
 - Pet Caretakers
 - Tutors
 - Nannies and Babysitters



Occupations that Receive Tips

- Personal Appearance and Wellness
 - Skincare Specialists
 - Massage Therapists
 - Barbers, hairdressers, hairstylist, and cosmetologists
 - Shampooers
 - Manicurists and pedicurists
 - Eyebrow threading and waxing technicians
 - Makeup Artist
 - Exercise Trainers and group fitness instructors
 - Tattoo Artists and Piercers
 - Tailors
 - Show and Leather workers and repairers



Occupations that Receive Tips

- Recreation and Instruction
 - Golf Caddies
 - Self-enrichment teachers
 - Recreational and tour pilots
 - Tour guides and escorts
 - Travel guides
 - Sports and Recreation Instructors



Occupations that Receive Tips

- Transportation and Delivery
 - Parking and Valet Attendants
 - Taxi and Rideshare Drivers and Chauffeurs
 - Shuttle Drivers
 - Good Delivery People
 - Personal Vehicle and Equipment Cleaners
 - Private and Charter Bus Drivers
 - Water tax operators and charter boat workers
 - Rickshaw, pedicab, and carriage drivers
 - Home movers



Tip Deduction on W-2

- 2025
 - There is not a required adjustment made by the IRS for 2025.
 - Suggest code "TP" in Box 14
- 2026
 - Will have code "TP" in Box 12 in 2026



Overtime Deduction

- “Qualified Overtime Compensation”
- Overtime Payments are included in Individual’s Gross Income
 - Allowed for both itemizers and non-itemizers (Except MFS)
 - Maximum Deduction \$12,500 (\$25,000 MFJ)
 - Maximum Gross \$150,000 (\$300,000 MFJ)
 - Begin Phase out by \$100 for every \$1,000 exceeding the limit



Overtime Deduction

- Only allowed for qualified overtime that is reported separately on W-2 (2026-2028)
 - 2025 – Transition Relief from IRS
- Return must include SSN and Filing Status
 - Must be US Citizen or pursuant to a provision on Social Security Act
- Exempts Agricultural labor from OT, even if state law requires overtime pay, will likely disqualify



Overtime Deduction

- Federal Labor Standards
- Must be a W-2 Employee
 - Independent Contractors/Gig Workers not eligible
- Partial Deduction for higher AGI
- MFS are not eligible
- 2025 – Code “TT” in Box 14
- 2026 – 2028 – Code “TT” in Box 12



General Instructions - 2025

- Utilize the current standard W-2
- Do not adjust Federal Income Tax Withholding on the overtime, the deduction on 1040 will take care of it.
- “Reasonable Methods” to track and separately account for Qualified Overtime and Qualified Tips received
 - Transition Relief for 2025 from the IRS
- Box 14 or separate statement to account for the correct amount for the deduction



Fringe Benefits

Fringe Benefits – Publication 15-B

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Fringe Benefits

IRS regulation section 1.61-1

Gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property, or services. Income may be realized, therefore, in the form of services, meals, accommodations, stock or other property as well as cash

Special Accounting Rule (optional)

The employer may elect to treat the value of taxable noncash fringe benefits provided in November and December, or any other shorter period during that time, as paid in the subsequent year. This applies only to the benefits actually provided during November and December, not to benefits that were provided earlier in the year but are treated as being paid during those months. The special accounting rule is limited to noncash fringe benefits.



Employer Provided Vehicles

- Personal use is commuting to/from work, trips not related to work, used on vacation, used by someone other than employee
- Personal use of vehicle is subject to federal, Social Security and Medicare taxes. Also subject to FUTA tax.
- Reported on W-2 box 1, 3, 5, 16 and 14 (other)
- Employee must substantiate (track) mileage between business and personal usage
- Or full use of vehicle can be included in the employee's income by using 1 of 4 valuation methods



- **Valuation Methods**

- General Valuation Method
 - Cost the employee would incur to lease the same vehicle in the same geographic area and in the same period the automobile is available to the employee.
- Special Valuation Method
 - Commuting valuation
 - Cents-Per-Mile valuation
 - Annual lease valuation



- **General Valuation Rule**

- The value the employee would have to pay a third party in an arm's-length transaction to buy or lease the vehicle in the geographic area where the employee uses the vehicle.



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- **Commuting Rule**

Employer can value PUA (personal use auto) at \$1.50 for each one-way commute (\$3 round trip).

Can use this method if the following conditions are met:

1. Employer owned vehicle is provided to employee for company business and de minimis personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home).
2. Employer must have written policy prohibiting employee from personal use other than commuting and de minimis personal use
3. Employee doesn't use vehicle for personal purposes other than commuting and de minimis personal use.
4. Employee is not a control employee, director, elected officer with wages of \$140,000 or more, an employee with wages of \$285,000 or more, owns 1% or more equity, capital or profits interest in the business

Can switch to the lease value rule on the first day which you don't use the commuting rule



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- Cents per Mile

- Cannot use if the vehicles value when it is made available to employees is more than \$61,200.
- FMV for personal use is determined by using standard mileage rate of \$0.70 per mile in 2025, this includes the costs of maintenance, insurance and fuel. If you don't provide fuel to your employees, you can reduce the rate by \$0.055 per mile.
- *2025 standard mileage rate not yet published*

To use this rule, one of the following conditions must be met:

1. You expect the employee to regularly use the vehicle for business throughout the year.
 - At least 50% of the total mileage each year must be for business.
 - OR
 - The vehicle is generally used each workday to transport at least three employees to and from work, in an employer-sponsored commuting pool.
2. The mileage test is met.
 - The vehicle is driven by employees at least 10,000 miles per year (business and personal combined)
 - The vehicle is primarily used by employees



- Cents per Mile (continued)

Consistency requirement:

1. You must begin using the cents-per-mile rule on the first day you make the vehicle available to any employee for personal use *
2. You must use the cents-per-mile rule for all later years in which you make the vehicle available to any employee and the vehicle qualifies *
3. You must continue to use the cents-per-mile rule if you provide a replacement vehicle to the employee (and the vehicle qualifies for the use of this rule) and your primary reason for the replacement is to reduce federal taxes

* See publication 15-B for issues related to commuting rule

- Items included in cents-per-mile: maintenance and insurance

You can switch to the lease value rule on the first day the automobile no longer qualifies for the cents-per-mile rule



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- Annual Lease Valuation

- FMV is determined by multiplying the annual lease value of the car by the percentage of personal miles driven.
 - Determine FMV of vehicle as of the first day it was made available to any employee for personal use.
 - The FMV of an automobile is the amount a person would pay to buy it from a third party in an arm's-length transaction in the area in which the automobile is bought or leased. That amount includes all purchase expenses, such as sales tax and title fees
- Use the IRS Annual Lease Value Table
- Calculate percentage of personal miles driven.
- Multiply the annual lease value by the % of personal miles
 - $\text{Personal miles} / \text{total miles} = \% \text{ of personal miles driven}$
 - If you provide the fuel, you must add \$.055 per mile



- Annual Lease Valuation (continued)

- Consistency requirements:
 - You must begin using this rule on the first day you make the automobile available to any employee for personal use *
 - You must use this rule for all later years in which you make the automobile available to any employee *
 - You must continue to use this rule if you provide a replacement automobile to the employee and your primary reason for the replacement is to reduce federal taxes
 - * See publication 15-B for issues related to commuting rule

Items included in the annual lease value table include the value of maintenance and insurance. It does NOT include the value of fuel you provide/pay for. You must include the value of the fuel separately in the employee's wages either at FMV or at 5.5 cents per mile.

Any use of a company-provided vehicle that isn't substantiated as business use is included in income



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IRS Annual Lease Value Table

Automobile Fair

Market Value Annual Lease Value

\$ 0 – 999	\$ 600
1,000 – 1,999	850
2,000 – 2,999	1,100
3,000 – 3,999	1,350
4,000 – 4,999	1,600
5,000 – 5,999	1,850
6,000 – 6,999	2,100
7,000 – 7,999	2,350
8,000 – 8,999	2,600
9,000 – 9,999	2,850
10,000 – 10,999	3,100
11,000 – 11,999	3,350
12,000 – 12,999	3,600
13,000 – 13,999	3,850
14,000 – 14,999	4,100
15,000 – 15,999	4,350
16,000 – 16,999	4,600
17,000 – 17,999	4,850
18,000 – 18,999	5,100
19,000 – 19,999	5,350
20,000 – 20,999	5,600
21,000 – 21,999	5,850

Automobile Fair

Market Value Annual Lease Value

22,000 – 22,999	\$ 6,100
23,000 – 23,999	6,350
24,000 – 24,999	6,600
25,000 – 25,999	6,850
26,000 – 27,999	7,250
28,000 – 29,999	7,750
30,000 – 31,999	8,520
32,000 – 33,999	8,750
34,000 – 35,999	9,250
36,000 – 37,999	9,750
38,000 – 39,999	10,250
40,000 – 41,999	10,750
42,000 – 43,999	11,250
44,000 – 45,999	11,750
46,000 – 47,999	12,250
48,000 – 49,999	12,750
50,000 – 51,999	13,250
52,000 – 53,999	13,750
54,000 – 55,999	14,250
56,000 – 57,999	14,750
58,000 – 59,999	15,250

For Vehicles having a fair market value in excess of \$59,999, the annual lease value

$$= (0.25 \times \text{the auto's fair market value}) + \$500$$

<https://www.irs.gov/pub/irs-pdf/p15b.pdf>



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Example of Personal Use of Auto Calculation

	A	B	C	D	E	F	G	H	I	J	K
1	PERSONAL USE OF AUTO										
2	See Publication 15-B for additional information										
3											
4	Enter blue cells										
5			2020 Tundra	2019 Ram 1500	2020 Ford F150	2022 Suburban	TOTALS		Example Calculation		
6	Name of employee		Dawn	Jason	Darla	Pat					
7	Date placed in service		5/13/2021	8/27/2019	7/14/2021	1/22/2022					
8	Cost		\$ 15,000.00	\$ 49,650.00	\$ 24,600.00	\$ 93,220.00		→ 93,220.00	Over \$59,999		
9	FMV		\$ 15,000.00	\$ 49,650.00	\$ 24,600.00	\$ 93,220.00		x \$0.25	times FMV		
10	Business miles		4,533	6,050	5,000	2,000		23,305.00			
11	Personal miles		4,008	500	2,530	700		+ \$500.00			
12	Total miles		8,541	6,550	7,530	2,700		\$ 23,805.00	Annual Lease Value		
13											
14	Annual lease value from table		4,350	12,750	6,600	23,805					
15	Days available		365	365	365	25	WATCH # OF DAYS				
16	Personal use %		46.93%	7.63%	33.60%	25.93%					
17	Personal annual lease value		\$ 2,041.31	\$ 973.28	\$ 2,217.53	\$ 422.72					
18											
19	Is fuel provided by employer? (Y/N)	Yes	Choose an option below, or both if multiple vehicles/methods								
20	1. Using FMV of fuel provided?	Yes	\$ 2,261.75	\$ -	\$ -	\$ 461.22					
21	2. Using cents per mile?	Yes	\$ -	\$ 1,000.78	\$ 2,356.64	\$ -					
22	-- Enter miles on this line --			18,196	42,848						
23	Total to add as fringe benefit		\$ 2,261.75	\$ 1,000.78	\$ 2,356.64	\$ 461.22	\$ 6,080.39				
24											
25	Gross up for payroll (if needed):										
26	Gross Income (pers use/.9235)		\$ 2,449.11	\$ 1,083.68	\$ 2,551.86	\$ 499.43	\$ 6,584.07				
27	Social security w/h (6.2%)		151.84	67.19	158.22	30.96	408.21				
28	Medicare w/h (1.45%)		35.51	15.71	37.00	7.24	95.47				
29	Net (should = pers use subtotal)		\$ 2,261.75	\$ 1,000.78	\$ 2,356.64	\$ 461.22	\$ 6,080.39	= cell G18			
30											
31	WATCH if any employee is or will be over the social security limit - if so, an adjustment will						Calc of 941 deposit if grossing up				
32	need to be made to social security withholding and employer match.						816.42 Soc Soc (x2)				
33	OR if employee is over the Medicare limit of \$200,000 for the extra .9% (1.45%+.9% = 2.35%).						190.94 Medicare (x2)				
34	If so, the .9% is employee withholding only (no employer match).						1,007.36 941 deposit + any Fed w/h				
35											



Group Term Life Insurance

- Non-taxable for the first \$50,000 of coverage if:
 - Provides a general death benefit that is not includable in income
 - Provided to a group of employees of more than 10 (even if not all employees choose the benefit); see Pub. 15-B for exceptions
 - Provides an amount of insurance to each employee based on a formula that prevents individual selection
 - Provided under a policy that the employer either directly or indirectly carries.
- Amount over \$50,000 (reduced by any employee after-tax payroll deductions) is taxable income
 - Taxable for Social Security and Medicare
 - Taxable for Federal Withholding but employer does not have to withhold
 - Non-taxable for FUTA & SUTA



Group Term Life Insurance (continued)

- W-2, Box 12 with the Code C
- Prorate the cost if less than a full month of coverage
- 2% or greater S-Corp shareholders – all included in wages
- Non-taxable to employee when:
 - The beneficiary of the policy is the company for the entire calendar year
 - The beneficiary of the policy is a charitable organization for the entire calendar year
 - The employee terminates during the year due to a permanent disability



Group Term Life Insurance (continued)

- Calculating Excess GTL
 1. Determine excess over \$50,000 (to the nearest \$100)
 2. Divide excess by \$1,000
 3. Determine employees' age as of 12/31
 4. Multiply rate found in IRS Publication 15-B (next slide) by amount in Step 2 times 12 months for year cost.
 5. Deduct any after-tax employee contributions
- Additional rules for:
 - Spouse-Dependent Group Term Life
 - Former Employees Group Term Life
 - *See Publication 15-B*



Group Term Life Table

- Cost per \$1,000 of protection per 1 month

<u>Age</u>	<u>Cost</u>
Under 25	\$ 0.05
25 through 29	0.06
30 through 34	0.08
35 through 39	0.09
40 through 44	0.10
45 through 49	0.15
50 through 54	0.23
55 through 59	0.43
60 through 64	0.66
65 through 69	1.27
70 and older	2.06



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Moving Expenses

- Effective in 1/1/18 (and before 12/31/25), moving expenses are no longer a tax-free perk from employers and as an above-the-line deduction.
- Members of armed forces on active duty who moves because of a permanent change of station are excluded as long as the employee did not get reimbursed <https://www.irs.gov/forms-pubs/about-publication-3>
- Effective 1/1/2026 the OBBBA permanently eliminates the moving expense deduction, except in the case of member of the armed forces and intelligence community.



Education Assistance

Certain job-related education you provide to an employee may qualify for exclusion as a working condition benefit. The education must meet at least one of the following tests:

- The education is required by the employer or by law for the employee to keep his or her present salary, status or job. The required education must serve a bona fide business purpose of the employer
- The education maintains or improves skills needed in the job

However, even if the education tests are met, it isn't qualifying education if:

- It is needed to meet the minimum educational requirements of the employee's present trade or business
- Is part of a program of study that will qualify the employee for a new trade or business

If you receive educational assistance benefits from your employer under an educational assistance program, you can exclude up to \$5,250 of those benefits each year.



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Business Travel, Meals & Entertainment, Gifts, Transportation

Under an **accountable plan**, allowances or reimbursements paid to employees for job-related expenses are excluded from wages and not subject to withholding. An allowance or reimbursement policy (not necessarily a written plan) is considered an accountable plan if:

1. There is a business connection to the expenditure
 - Expenses incurred while performing services as an employee
2. There is adequate accounting by the recipient within a reasonable period of time
 - Bills, receipts, cancelled checks or similar items to support the expense
3. Excess reimbursements or advances are returned within a reasonable period of time
 - The determination of the length of a reasonable period of time will depend on the facts and circumstances

A **nonaccountable plan** is an allowance or reimbursement that does not meet all three requirements above.

- The payment, reimbursement, etc. of these expenses are taxable wages subject to all withholding

An expense that is lavish or extravagant is not allowed



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Business Travel

The IRS announced special per diem rates that can be used to substantiate the amount of business expenses incurred for travel away from home on or after 10/1/25 thru 9/30/2026.

- Employers using these rate to set per diem allowances can create certain categories of travel expenses as substantiated without requiring that employees prove the actual amount they spent (the employee should still substantiate the time, place and business purpose of their travel expense)

Per-Diem allowance for traveling each day is non-taxable

- Allowance amount is deemed substantiated as long as it does not exceed IRS-established federal per-diem rates – if exceeds these rates, overage is taxable
- Federal per-diem rate is a combination of the federal *lodging* expense rate and the *meal and incidental* expense rate (M&IE) for the locality of travel in the continental US
- See <https://www.gsa.gov/travel/plan-book/per-diem-rates> for rates
- Mileage reimbursement is non-taxable up to the federal standard mileage rate as long as it is substantiated. Any reimbursement over the federal rate is taxable. An employer is allowed to pay under the federal rate
- Mileage rate for 2025 is \$0.70 per mile. (2026 *rate is not yet available*)



Loans to Employees

- If loan made at interest rate below the applicable federal rate (AFR), the difference is *taxable* on any day that the outstanding loans are *more than \$10,000*
 - Taxable amount is subject to SS, Med, FUTA, SUTA and also included in box 1 of Form W-2
 - The AFR can be found at:
<https://apps.irs.gov/app/picklist/list/federalRates.html>
- Loans under \$10,000
 - No imputed interest unless the principal purpose of the loan is tax avoidance
 - No imputed interest on loans for relocations to a new principal place of work
 - No imputed interest on advances repaid within a reasonable period of time
- Proper documentation of the loan is important
- The employer's cancellation of an employee loan results in cancellation of indebtedness income rather than compensation. The canceled loan should be reported on IRS Form 1099-C



Prizes and Awards

- Awards and prizes are generally included as income with certain exceptions:
- Achievement-Safety Awards
 - Given to an employee for length of service, employee achievement or safety achievement
 - Award is tangible personal property (not cash or cash equivalent, stocks, vacations, meals, lodging, or tickets)
 - Award is given in a meaningful presentation
 - Award is not disguised as compensation
- Length of service award is excluded from income if:
 - The employee receives the award after their first 5 years of employment but not more frequently than every five years.
 - The employee didn't receive another length-of-service during the same year or in any of the prior 4 years
- Limit of \$400 for awards under a nonqualified plan
- Limit of \$1,600 for all awards in a calendar year, whether or not qualified



Back Pay and Legal Awards

- Back-pay awarded to a taxpayer constitutes wages and is reportable on Form W-2 in the year paid
- Awards for punitive damages, nonphysical injury or sickness, discrimination or defamation is considered income but are reported in Box 3 of Form 1099-MISC (see instructions for 1099-Misc for more information)



Jury Duty Pay

- Any pay by employer above and beyond payment from the courts is taxable
- If employer requires employee to turn over jury pay, only the difference between amount paid and turned over is taxable



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Tips

- Taxable income (does not include allocated tips which are reported in box 8 of W-2)
- Earnings of \$20 a month in tips must be reported by employee to employer by the 10th of the next month (or more often if employer requires)
 - Reported on Form 4070 or similar statement
- Service charges are not tips but are wages; these charges are added to a customer's check without the customer having a right to determine the "tip line".
- Some examples are:
 - Large dining party automatic gratuity
 - Banquet event fee
 - Cruise ship package fee
 - Bottle service charge
 - Hotel room service charge

Form 4070 (Rev. August 2005) Department of the Treasury Internal Revenue Service	Employee's Report of Tips to Employer	OMB No. 1545-0074
Employee's name and address	Social security number : : :	
Employer's name and address (include establishment name, if different)	1 Cash tips received	
	2 Credit and debit card tips received	
	3 Tips paid out	
Month or shorter period in which tips were received from , , to ,	4 Net tips (lines 1 + 2 - 3)	
Signature	Date	
For Paperwork Reduction Act Notice, see the instructions on the back of this form.		Cat. No. 41320P Form 4070 (Rev. 8-2005)



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Gift Cards

- Always taxable
 - Has a specific value
 - Not unreasonable or administratively impractical to account for (IRC Section 132)

Employer-Provided Cell Phones

- Provided for non-compensatory business reasons is **not** a fringe benefit for business reasons:
 - The employer needs to contact the employee at all times for work related emergencies
 - The employer requires the employee to be available to speak with clients at times when the employee is away from the office
 - The employee needs to speak with clients located in other time zones at times outside the employee's normal workday



Adding Fringe Benefits to Pay

- If fringe benefits are entered with a regular payroll, taxes are calculated so it may not be necessary to gross up
 - Federal and State income tax withholding is not required
- If fringe benefits are entered after the final payroll of the year, it will need to be grossed up for Social Security and Medicare
 - Social Security Gross Up – Below SS limit
 - Current Social Security rate is 6.2% and Medicare rate is 1.45%; total FICA rate is 7.65%; Subtract the total rate from 100 = 92.35%
 - Divide the desired net pay by 92.35%
 - Social Security Gross Up – Over SS limit
 - Medicare rate is 1.45% (or 2.35% if over \$200,000). Subtract the total rate from 100 = 98.55% (or if over \$200,000 limit 97.65%)
 - Divide the desired net pay by 92.35%
- Verify fringe benefits are added to Box 1, 3, 5, and 16 on W-2 and listed in Box 14 – if not, give employee separate sheet to accompany the W-2



De Minimis Fringe Benefits

- A de minimis benefit is any property or service provided to an employee that has so *little value* (taking into account how *frequently* you provide similar benefits to your employees) that accounting for it would be *unreasonable or administratively impracticable*. Cash and cash equivalents (gift card, charge card, or credit card) no matter how little, are never excludable as a de minimis benefit, except for the occasional meal money or transportation fare.



Examples of De Minimis Fringe Benefits

- Occasional personal use of an employer's copying machine (no more than 15% of total use)
- Occasional group meals, or picnics for employees
- Traditional birthday or holiday gifts of property (not cash) with a low fair market value.
- Occasional theater or sporting event tickets.
- Coffee, doughnuts, and soft drinks.
- Local telephone calls.
- Flowers, fruit, books, or similar property provided to employees under special circumstances (e.g., on account of illness, outstanding performance, or family crisis).



W-2 Information

W-2's

- February 2, 2026- due date for filing 2025 Forms W-2 and W-3 with the SSA (via paper forms or electronically)
- You may request one 30-day extension to file with SSA by submitting Form 8809 by 2/2/26
 - Must still provide W-2 to employee by 2/2/26
- You may request an extension of time to furnish Forms W-2 to Employees by faxing a letter to the IRS. The letter must include:
 - Your name and address
 - Your EIN
 - A statement that you are requesting an extension to furnish Forms W-2 to employees
 - The reason for delay
 - Your signature or that of your authorized agent.



2025 Form W-2

Due Date: 2/2/26

Extension: Form 8809

22222		VOID <input type="checkbox"/>	a Employee's social security number		For Official Use Only OMB No. 1545-0029		
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld		
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld		
			5 Medicare wages and tips		6 Medicare tax withheld		
			7 Social security tips		8 Allocated tips		
d Control number			9		10 Dependent care benefits		
e Employee's first name and initial		Last name	Suff.	11 Nonqualified plans		12a See instructions for box 12	
f Employee's address and ZIP code			13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
			14 Other		12c		
					12d		
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement

2025

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Taxable Wages – Federal

- Gross wages less pension-401(k) plan amounts, section 125 cafeteria plan items
- Box 1 of Form W-2

Example:

250,000	Wages
(4,800)	Section 125 health insurance premiums
(5,000)	Dependent care
<hr/>	
240,200	Net taxable wages for Medicare
(7,500)	401(k)
<hr/>	
232,700	Amount of federal taxable wages



Taxable Wages – Social Security

- 6.2% is withheld on the first \$176,100 of wages for social security in 2025
- Section 125 plan items are not subject to social security tax, income tax, and unemployment tax.
 - For MN – Section 125 plan items are for unemployment tax.
- Box 3 of Form W-2, tips box 7

How to Calculate Taxable Income

Total income – exemptions – deductions
= **taxable income**

2025

176,100

2026

\$184,500

Taxable Wages - Medicare

- 1.45% is withheld for Medicare, no limit
- Additional 0.9% is withheld from employee for wages over \$200,000
- Box 5 of Form W-2

Example:					
250,000.00	Wages				
(4,800.00)	Section 125 Health Insurance Premiums				
(5,000.00)	Dependent Care				
<u>240,200.00</u>	Net Taxable Wages				
200,000.00	taxed at 1.45%				
40,200.00	taxed at 2.35% (1.45+.9)				



Form W-2, Box 12 Codes

A	Uncollected social security or RRTA tax on tips	L	Substantiated employee business expense reimbursements	Y	Deferrals under a section 409A nonqualified deferred compensation plan
B	Uncollected Medicare tax on tips (but not Additional Medicare Tax)	M	Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only)	Z	Income under a nonqualified deferred compensation plan that fails to satisfy section 409A
C	Taxable cost of group-term life insurance over \$50,000	N	Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (but not Additional Medicare Tax) (former employees only)	AA	Designated Roth contributions under a section 401(k) plan
D	Elective deferrals under a section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement)	P	Excludable moving expense reimbursements paid directly to members of the Armed Forces	BB	Designated Roth contributions under a section 403(b) plan
E	Elective deferrals under a section 403(b) salary reduction agreement	Q	Nontaxable combat pay	DD	Cost of employer-sponsored health coverage
F	Elective deferrals under a section 408(k)(6) salary reduction SEP	R	Employer contributions to an Archer MSA	EE	Designated Roth contributions under a governmental section 457(b) plan
G	Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan	S	Employee salary reduction contributions under a section 408(p) SIMPLE plan	FF	Permitted benefits under a qualified small employer health reimbursement arrangement
H	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan	T	Adoption benefits	GG	Income from qualified equity grants under section 83(i)
J	Nontaxable sick pay	V	Income from exercise of nonstatutory stock option(s)	HH	Aggregate deferrals under section 83(i) elections as of the close of the calendar year
K	20% excise tax on excess golden parachute payments	W	Employer contributions (including employee contributions through a cafeteria plan) to an employee's health savings account (HSA)		

Code DD only required if 250 or more Forms W-2



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Supplemental Wages

- Supplemental wages are wage payments to an employee that aren't regular wages.
- They include, but are not limited to:
 - Bonuses
 - Commissions
 - Payments for accumulated sick leave
 - Severance pay
 - Awards
 - Prizes
 - Back pay
 - Retroactive pay increases
 - Taxable fringe benefits
 - Expense allowances paid under a non-accountable plan
 - Payments for nondeductible moving expenses



Federal Withholding on Supplemental Wages

- Supplemental wages combined with regular wages
 - If you pay supplemental wages with regular wages but don't specify the amount of each, withhold federal income tax like a normal pay period
- Supplemental wages identified separately from regular wages
 - If you pay supplemental wages separately (or combine them in a single payment and specify the amount of each)
 - If income tax was withheld from an employee's regular wages in the current or immediately preceding calendar year:
 - ❖ Withhold at a flat 22%
 - ❖ Withhold like a normal pay period
- Employee receives more than \$1 million of supplemental wages during the calendar year- withhold at 37% without regard to the employee's W-4, on the amount over \$1 million.



Minnesota Withholding on Supplemental Wages

- Follows federal guidelines
 - If you pay supplemental wages and list them together on your payroll records
 - Withhold like a normal pay period
 - If you pay supplemental wages and list them separately on your payroll records
 - Withhold like a normal pay period or
 - Withhold like a normal pay period for regular wages and withhold 6.25% on the supplemental wages
 - If you pay supplemental wages separately from regular wages
 - Withhold 6.25% on the supplemental wages regardless of withholding allowances



Wisconsin Withholdings on Supplemental Wages

- If paid with regular wages, withhold as if supplemental wages were one
- If paid between regular payroll periods, determine the tax by adding the supplemental wages to the current payroll period or last preceding payroll period within the same calendar year
- Flat percentages (on supplemental wages only)

<u>Annual Gross Salary</u>		Approved Flat Percentages
At Least	But Less Than	Percent (%)
0	12,760	3.54
12,760	25,520	4.65
25,520	280,950	5.30
280,950 and over		7.65



401(k), 403(b), Simple IRAs

- On W-2, pre-tax for Federal and State only; *not* deducted from Social Security, social security tips or Medicare
- 401(k) Roth Contributions are after-tax contributions



Form W-2, Box 13 Retirement Plan

To check the box or not to check the box?

Type of Plan	Conditions	Check Retirement Plan Box?
Defined benefit plan (for example, a traditional pension plan)	Employee qualifies for employer funding into the plan, due to age/years of service—even though the employee may not be vested or ever collect benefits	Yes
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee is eligible to contribute but does not elect to contribute any money in this tax year	No
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee is eligible to contribute and elects to contribute money in this tax year	Yes
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee is eligible to contribute but does not elect to contribute any money in this tax year, but the employer does contribute funds	Yes
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee contributed in past years but not during the current tax year under report	No (even if the account value grows due to gains in the investments)
Profit-sharing plan	Plan includes a grace period after the close of the plan year when profit sharing can be added to the participant's account	Yes, unless the employer contribution is purely discretionary and no contribution is made by end of plan year



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Box 12 Codes for Retirement Plans

Letter code:	Used for:	Description:
D	401(k) contributions	Elective deferrals to a 401(k) cash or deferred arrangement, including SIMPLE 401(k)s
E	403(b) contributions	Elective deferrals made under a 403(b) salary reduction agreement
F	408(k)(6) contributions	Elective deferrals made under a SARSEP
G	457(b) contributions	Elective and nonelective deferrals made to a 457(b) deferred compensation plan
H	501(c)(18)(D) contributions	Elective deferrals to a Section 501(c)(18)(D) tax-exempt organization plan (Included in the "Wages, Tips, Comp." amount in Box 1)
S	408(p) SIMPLE contributions	Deferrals made under a SIMPLE IRA plan
AA	Roth contributions	Designated Roth contributions under a 401(k) plan
BB	Roth contributions	Designated Roth contributions under a 403(b) plan
EE	Roth contributions	Designated Roth contributions under a governmental 457(b) plan (a tax-exempt organization's 457(b) can't have a designated Roth account)



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Reconciliation Spreadsheet

• 2025

941		Enter blue cells from Form 941						
Line #	Column #	Form 941	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	W-3 Amount
2		Wages, Tips, Other Comp					-	Box 1
3		Federal Income Tax w/h					-	Box 2
5a	1	Taxable SS Wages					-	Box 3
5a	2	SS Tax					-	Box 4
5a(i)	1	Qualified Sick Leave Wages					-	Box 3
5a(i)	2	Qualified Sick Leave Tax					-	Box 4
5a(ii)	1	Qual Family Leave Wages					-	Box 3
5a(ii)	2	Qual Family Leave Tax					-	Box 4
5b	1	SS Tips					-	Box 7
5b	2	SS Tips Tax					-	Box 8
5c	1	Taxable Med Wages & Tips					-	Box 5
5c	2	Medicare & Tip Tax					-	* Box 6
5d	1	Subject to Add'l Medicare					-	
5d	2	Additional Medicare Tax					-	Box 6
		401K/IRA (+ Fed Wages)					-	* = Med Wages Box 12a
		S-Corp Health Group Term Life					-	* = Med Wages
		UC-101 Total Covered Wages (Line 9)					-	= Med Wages
		940 Payments WI Payments					-	Box 17
Box #	W-3 Reconciliation	W-3 amount	Difference					
1	Wages, tips, other compensation		-					
2	Federal income tax withheld		-					
3	Social security wages		-					
4	Social security tax withheld		-					
5	Medicare wages and tips		-					
6	Medicare tax withheld		-					
7	Social security tips		-					
16	State wages, tips, etc.		-					
17	State income tax		-					



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Pre-Tax Benefits

Tax-Favored Health Plans

1. Health Savings Account (HSA)

- Benefits:
 - Contributions are Pre-Tax
 - 2025 - \$4,300 single; \$8,550 family
 - 2026 - \$4,400 single; \$8,750 family
 - Additional contribution of \$1,000 if 55 or older
 - Permitted to take distribution at any time; only qualified medical expenses can be reported as nontaxable.
 - Interest/earnings are tax free
 - Portable
 - Can carry forward
- Qualifications:
 - Must be covered under a high-deductible health plan (HDHP)
 - 2025 - \$1,650 single; \$3,300 family
 - 2026 - \$1,700 single; \$3,400 family
 - Cannot have other health coverage except what is permitted
 - Aren't enrolled in Medicare
 - Cannot be claimed as a dependent on someone else's tax return
- Partners and 2% or greater shareholders of an S corporation are not eligible for salary reduction (pre-tax) contribution to an HSA
- HSA contributions of a 2% S-Corp shareholders should be noted in Box 14 of the W-2 along with the amount of health insurance paid.



2. Medical Savings Account (MSA)

- Benefits:
 - Claim a tax deduction on your 1040 for your contributions (Form 8853); only qualified medical expenses are deductible
 - Interest/earnings are tax free
 - Portable
 - Can carry forward
- Qualifications:
 - Employee of a small employer
 - Self-employed person, self-only or family HDHP
 - Cannot have health or Medicare coverage
- Annual limit of 75% of the annual deductible of HDHP; 65% for self-only plan
- Employee, employer, self-employed can make contributions

3. Health Reimbursement Arrangements (HRA)

- Funded solely by an employer
- Employees reimbursed tax free for qualified medical expenses
- No limit on amount of money your employer can contribute
- Can be carried over to following year
- Qualified Small Employer HRA
 - Fewer than 50 full-time or equivalent employees
 - 2025 limit \$6,350 individual – \$12,800 family
 - 2026 limit \$6,450 individual – \$13,100 family

4. Flexible Spending Arrangements (FSA)

- a. Medical Care Reimbursements (Health FSA)
- b. Dependent Care Assistance
- c. Adoption Assistance

Health FSA

- Funded through voluntary salary deduction (pre-tax); employer can also contribute if specified in the plan
- Max contribution of \$3,300/year in 2025
- Max contribution of \$3,400/year in 2026
- Benefits:
 - Employee reimbursed for medical expenses
 - Employer contributions excluded from gross income
- Qualifications
 - Employer-established
 - Self-employed are not eligible
- Employer may contribute up to \$500 to FSA; starting at \$501, employers can only make dollar-for-dollar match
- Employer may utilize Carryover or Grace Period option under special rule for health or dependent care FSA:
 - Carryover option
 - Employee *may* be able to carry over \$660 in 2025 and \$680 in 2026 of unused funds to the following plan year
 - Grace Period option
 - Employee has 2 ½ months after end of plan year to incur eligible expenses



Dependent Care FSA

- Pretax used to pay for day care, preschool, summer camps and non-employer sponsored before and after school programs.
- Expenses relating to children under 13 or special need individuals
- Cannot discriminate
- Limit for 2025 is \$5,000
- Limit for 2026 is \$7,500

Adoption Assistance FSA

- Pretax used to pay for “necessary and reasonable expenses” relating to adopting a child. Phases out based on income
- Cannot be used to adopt their spouse’s child
 - 2025 max \$17,280
 - 2026 max \$17,670
- Starting in 2025, refundable up to \$5,000 and the remaining credit can offset tax liability

Health Insurance Premiums on 2% Shareholders

- Health insurance premiums paid to employers who are 2% or greater shareholders of an S Corporation are considered wages
 - Subject to federal income tax withholding
 - Exempt from Social Security, Medicare and FUTA
- Health insurance provided solely to 2% or more shareholder-employees of an S Corporation, NOT to other employees, does not qualify for the FICA exemption and is taxable for Social Security, Medicare and FUTA. Take as a distribution.
- HSA's - Partnerships and S Corporations
 - Partners and 2% or greater shareholders of an S corporation are not eligible for pretax contributions to an HSA. Employer contributions are treated as distributions or guaranteed payments.



Third Party Sick Pay

- Fully taxable if employer paid or employee paid for policy with pre-tax dollars
- Nontaxable if employee paid for policy with after-tax dollars
- Partially taxable if cost was split, need to prorate

- If insurer is not preparing a W-2, benefits must be added to wages
 - Record a manual check
 - Reported in Boxes 1,3,5 & 16 on W-2 and check Box 13 – Third-Party Sick Pay
 - Check the Third-Party Sick Pay box on the W-3
 - Sometimes the Insured needs to complete Form 8922, but not always the insured.



Here's a table summarizing the key points about third-party sick pay when the third party is not acting as an agent and the liability is transferred to the employer:

Item	Details
Third Party Responsibility	Pays the sick pay to the employee initially.
Employer Responsibility	Assumes liability for reporting and withholding taxes.
Sick Pay Treatment	Treated as wages.
Tax Withholding	Subject to Social Security, Medicare, and Federal Income Tax withholding.
Reporting	Employer reports the wages and taxes on Form 941 and Form W-2
Form W-2 Reporting	Box 1 (Wages), Box 3 (Social Security Wages), Box 5 (Medicare Wages), and Boxes 4 and 6 for withheld taxes.
FUTA Liability	Employer is liable for FUTA on these wages.

Independent Contractors

Employee vs. Independent Contractor

Employee

- Employer controls
 - When you work
 - How you do it
- Employer supplies
 - Tools
 - Know how
- Benefits
 - Vacation
 - Personal Time Off
 - Health Insurance
 - Retirement Plan

Independent Contractor

- Individual has written contract that states
 - Length of project
 - What happens in the event project is not completed satisfactorily
 - No reimbursements for gas or supplies
 - Pays in his/her own FICA

Federal Tests – Independent Contractors

Common Law Rules – facts that provide evidence of the degree of control and independence fall into 3 categories:

1. Behavioral – Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. Financial – Are the business aspects of the worker's job controlled by the payer? (these include things like how the worker is paid, whether expenses are reimbursed, who provides tools/supplies)
3. Type of relationship – Are there written contracts or employee type benefits (ex. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?



WI and MN – Nine Requirements Test – Independent Contractor

1. Maintain a separate business
2. Maintain a Federal ID# OR have filed business or self-employment income tax returns with the IRS based on the work or service in the previous year.
 - A Social Security # cannot be substituted for an EIN and does not meet the legal burden of Section 102.07(8), Wis. Stats.
3. Operate under specific contracts
4. Responsible for main expenses
5. Satisfactory completion of work or services
6. Receive compensation under a contract, per job, by commission or by competitive bid
7. Realize a profit or suffer a loss
8. Recurring business liabilities or obligations
9. Relationship of business receipts to expenditures
 - https://dwd.wisconsin.gov/worker_classification/wc/ninepart/
1. <https://www.dli.mn.gov/business/independent-contractor/contractor-registration-nine-factor-test>



Independent Contractor

- Have contractor complete a Form W-9
- Request a copy of certificate of insurance for workers' compensation and general liability
- If you pay an independent contractor over \$600 in a calendar year, you must issue a 1099-MISC or 1099-NEC (failure to do so will result in penalties)
 - The penalties are calculated based on when you file the information return. It ranges from \$50 per return to \$580 per return.
- It is a good practice to get this information from all vendors
- *If the independent contractor fails to furnish their taxpayer ID, you must withhold 24% as backup withholding*

Best practices for W-9 – request the form before you make the first payment to the vendor. This ensures completion of the form, which you need as a business owner for tax purposes.

Be sure the required boxes are checked, and the taxpayer has signed the form.



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Form W-9

<https://www.irs.gov/pub/irs-pdf/fw9.pdf>

Form W-9 (Rev. March 2024) Department of the Treasury Internal Revenue Service	Request for Taxpayer Identification Number and Certification Go to www.irs.gov/FormW9 for instructions and the latest information.	Give form to the requester. Do not send to the IRS.
Before you begin. For guidance related to the purpose of Form W-9, see <i>Purpose of Form</i> , below.		
Print or type. See <i>Specific Instructions</i> on page 3.	1 Name of entity/individual. An entry is required. (For a sole proprietor or disregarded entity, enter the owner's name on line 1, and enter the business/disregarded entity's name on line 2.)	
	2 Business name/disregarded entity name, if different from above.	
	3a Check the appropriate box for federal tax classification of the entity/individual whose name is entered on line 1. Check only one of the following seven boxes. <input type="checkbox"/> Individual/sole proprietor <input type="checkbox"/> C corporation <input type="checkbox"/> S corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> LLC. Enter the tax classification (C = C corporation, S = S corporation, P = Partnership) _____ Note: Check the "LLC" box above and, in the entry space, enter the appropriate code (C, S, or P) for the tax classification of the LLC, unless it is a disregarded entity. A disregarded entity should instead check the appropriate box for the tax classification of its owner. <input type="checkbox"/> Other (see instructions) _____	4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3): Exempt payee code (if any) _____ Exemption from Foreign Account Tax Compliance Act (FATCA) reporting code (if any) _____ (Applies to accounts maintained outside the United States.)
	3b If on line 3a you checked "Partnership" or "Trust/estate," or checked "LLC" and entered "P" as its tax classification, and you are providing this form to a partnership, trust, or estate in which you have an ownership interest, check this box if you have any foreign partners, owners, or beneficiaries. See instructions _____ <input type="checkbox"/>	
	5 Address (number, street, and apt. or suite no.). See instructions.	Requester's name and address (optional)
	6 City, state, and ZIP code	
	7 List account number(s) here (optional)	
Part I Taxpayer Identification Number (TIN)		
Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see <i>How to get a TIN</i> , later.		Social security number [][]-[][]-[][][][][]
Note: If the account is in more than one name, see the instructions for line 1. See also <i>What Name and Number To Give the Requester</i> for guidelines on whose number to enter.		or Employer identification number [][]-[][][][][][][][]



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Relief Provisions

Section 530 is a relief provision that terminates a taxpayer's employment tax liability with respect to an individual not treated as an employee if three statutory requirements are met: 1) reporting consistency; 2) substantive consistency; and 3) reasonable basis.

Section 530 provides businesses with relief from federal employment tax obligations if certain requirements are met.

Do you Qualify for Relief under Section 530?

Internal Revenue Service

Publication 1976 (Rev. 2-2017) Catalog Number 22927M Department of the Treasury Internal Revenue Service www.irs.gov

2025 Form 1099-MISC, Miscellaneous

Report payments made in the course of your business or trade; personal payments are not reportable.

- \$10 or more for royalties
- At least \$600 (unless otherwise stated) in:
 1. Rents
 2. \$10 or more for royalties
 3. Other income
 4. Federal income tax withheld
 5. Fishing boat proceeds
 6. Medical and health care payments
 7. Payer made direct sales totaling \$5,000 or more. This can also be reported on form 1099-NEC.
 8. Substitute payments in lieu of dividends or interest
 9. Crop insurance proceeds
 10. Gross proceeds paid to an attorney (settlement agreement)
 11. Fish purchased for resale
 12. Section 409A deferrals
 13. Excess golden parachute payments
 14. Nonqualified deferred compensation
 15. Barter transactions, exchanges of services between individuals in the course of their business.
 16. Cash payments for fish (or other aquatic life) you purchase from anyone engaged in the business of catching fish.



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2025 Form 1099-MISC, Miscellaneous

Reportable payments to corporations:

- Medical and health care payments – report in box 6
- Gross proceeds paid to an attorney – report in box 10
 - Example: a settlement agreement
- Substitute payments in lieu of dividends or tax-exempt interest – report in box 8



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 VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents		OMB No. 1545-0115	
		\$		Form 1099-MISC	
		2 Royalties		(Rev. January 2022)	
		\$		For calendar year 20 ____	
		3 Other income		4 Federal income tax withheld	
PAYER'S TIN		RECIPIENT'S TIN		5 Fishing boat proceeds	
				6 Medical and health care payments	
				\$	
RECIPIENT'S name		7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		8 Substitute payments in lieu of dividends or interest	
Street address (including apt. no.)		9 Crop insurance proceeds		10 Gross proceeds paid to an attorney	
City or town, state or province, country, and ZIP or foreign postal code		11 Fish purchased for resale		12 Section 409A deferrals	
		13 FATCA filing requirement <input type="checkbox"/>		14 Excess golden parachute payments	
		15 Nonqualified deferred compensation			
Account number (see instructions)		2nd TIN not <input type="checkbox"/>		16 State tax withheld	
				17 State/Payer's state no.	
				18 State income	
				\$	
				\$	

Miscellaneous Information**Copy A
For
Internal Revenue
Service Center**

File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns.

Form **1099-MISC** (Rev. 1-2022)

Cat. No. 14425J

www.irs.gov/Form1099MISC

Department of the Treasury - Internal Revenue Service

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2025 Form 1099-NEC, Nonemployee Compensation

Report payments made in the course of your business or trade; personal payments are not reportable

- At least \$600 in:
 - Services performed by someone who is not your employee (including parts and materials)
 - Payments to an attorney for legal services – even if they are a corporation
 - Payer made direct sales totaling \$5,000 or more.
- Nonprofit organizations are subject to these reporting requirements



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7171

VOID

CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

OMB No. 1545-0116

Form **1099-NEC**

(Rev. January 2022)

For calendar year
20 ____

Nonemployee Compensation

PAYER'S TIN

RECIPIENT'S TIN

1 Nonemployee compensation

\$

Copy A

For Internal Revenue Service Center File with Form 1096.

RECIPIENT'S name

2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale

3

For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns.

Street address (including apt. no.)

4 Federal income tax withheld

\$

City or town, state or province, country, and ZIP or foreign postal code

5 State tax withheld

6 State/Payer's state no.

7 State income

Account number (see instructions)

2nd TIN not

\$

\$

\$

\$

Form **1099-NEC** (Rev. 1-2022)

Cat. No. 72590N

www.irs.gov/Form1099NEC

Department of the Treasury - Internal Revenue Service

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Affordable Care Act

Affordable Care Act

Applies to All Applicable Large Employers (ALEs)

- ALE's are US employers having 50 or more full-time employees (or full-time equivalents) in the previous tax year
 - Companies that are affiliates or are commonly controlled are treated as one employer for the purpose of determining ALE status - these companies must combine their numbers for the full-time employee total
- The following persons and entities that provide minimum essential coverage during a calendar year are required to file 1095's
 - Health insurance issuers, or carriers, for all insured coverage
 - Plan sponsors of self-insured group health plan coverage
 - Executive department or agency of a governmental unit that provides coverage under a government-sponsored program
 - Any other person that provides minimum essential coverage to an individual
- Used to determine:
 - Whether an employee is eligible for a tax credit if they purchased their health coverage on a Marketplace Exchange
 - Whether the ALE is subject to a penalty under the employer shared responsibility provisions



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Reporting Requirements

- Form, 1095-A is issued by the Health Insurance Marketplace
- Form 1095-B is issued by health insurance issuers and carriers
- Form 1095-C is issued by employer to the employee of an ALE who is full-time or an employee for any month of the calendar year

- Why are these forms required?
 - All large employers (over 50 FTE's) are required to offer affordable health insurance to their employees. These forms help regulate this requirement.
- Employers who fail to comply, fail to comply on time, or fail to properly document their compliance, will face stiff financial penalties

- If you need assistance, we are here to help!
<https://www.hawkinsash.cpa/services/1095-services/>
- Hawkins Ash provides 1095 services including preparation, filing, and mailing of the forms for any clients in need of this service.



Miscellaneous

Check List to Processing First Payroll in 2026

- Enter the 2026 State Unemployment rate
- Review and enter any changes for the following:
 - Health Insurance Premiums
 - Health Savings Account(s)
 - Pension Plan Contributions
 - Imputed Life Insurance Amounts
- If there are employees who claim exempt from withholding taxes, make sure a new W-4, WT-4 (WI), W-4MN (MN) is completed
- Verify if there are any new benefits being offered that should be added
- Verify the first payroll calculates correctly by manually calculating payroll taxes



Recordkeeping

- Always keep all documentation for your records for 7 years in the event of an audit
- <https://www.hawkinsash.cpa/tax-document-retention-guidelines-for-small-businesses/>

- Recommended record retention schedule:
- <https://www.hawkinsash.cpa/recommended-record-retention-schedule/>



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