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# 2023 YEAR-END REPORTING & PAYROLL GUIDE

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presented by:

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As we start a new year, this information is intended to help understand the process and ease the burden of compliance for your business and covers upcoming changes and filing requirements for payroll, payroll taxes, sales and use taxes, personal property taxes and other compliance information returns.

## **MICHIGAN ITEMS –**

### **MICHIGAN HOURLY MINIMUM WAGE**

The state's scheduled minimum wage increase will go into effect on January 1, 2024. **Minimum wage will increase to \$10.33 per hour.** Tipped employees rates of pay will increase to \$3.93 per hour. However, tipped employees must make \$10.33 per hour with tips and regular wages taken into account.

There are still lower hourly wage rates: employers can pay newly-employed teens between 16 and 19 at \$4.25 per hour for the first 90 days of their employment. Employees ages 16 and 17 may be paid \$8.78 an hour which is 85% of the minimum hourly wage rate.

There is pending litigation that might affect these minimum wage increases and paid medical leave in Michigan. We will send updates on this as soon as they are available.

### **MICHIGAN “PAID MEDICAL LEAVE ACT” REQUIREMENTS**

Michigan employers that employ 50 or more individuals must accrue paid medical leave at a rate of at least one hour of paid medical leave for every 35 hours worked. An employer is not required to allow an eligible employee to accrue more than 1 hour of paid medical leave in a calendar week.

An employer may limit an eligible employee's accrual of paid medical leave to not less than 40 hours per benefit year. As an alternative, an employer may provide at least 40 hours of paid medical leave to an eligible employee at the beginning of a benefit year. There is a rebuttable presumption that an employer is in compliance with this act if the employer provides at least 40 hours of paid leave to an eligible employee each benefit year. Paid leave includes, but is not limited to, paid vacation days, paid personal days and paid time off.

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

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



## **OTHER STATE CONSIDERATIONS**

If you have employees in other states, please contact your payroll professional to determine if there are any other applicable changes you need to be aware of.

### **NEW FOR 2024 –**

#### **YEAR 2024 FICA TAX RATE AND WAGE BASE**

For year 2024, the FICA rate will remain the same for employers and employees at 6.20% Social Security tax and 1.45% Medicare tax. The wage base for Social Security tax will increase from \$160,200 to \$168,600. There is no ceiling for Medicare tax on employee's total wages. Employees earning wages in excess of \$200,000 or \$250,000 for married couples filing jointly will be subject to an additional 0.9% Medicare tax withholding.

#### **EMPLOYEE W-4 FORM**

IRS issued a new W-4 form for year 2024. New hires must complete this form. Current employees do not need to complete a new W-4 form unless they would like to make changes to their current form on file. The State of Michigan's most recent MI-W4 form is as of December 2020.

### **RETIREMENT PLAN CHANGES –**

#### **SETTING EVERY COMMUNITY UP FOR RETIREMENT ENHANCEMENT (SECURE) ACT OF 2019**

The SECURE Act of 2019 contained several changes regarding qualified retirement plans. One provision that may impact your plan is the long-term, part-time (LTPT) employee rule that seeks to expand access to retirement plans to long-term, part-time employees. The SECURE Act 2.0 of 2022 modified the effective date of the new requirement to January 1, 2025.

Under the LTPT rule, a 401(k) plan may no longer exclude long-term, part-time employees who attain age 21 and complete at least 500 hours of service in a year, for three consecutive years, from participation in the plan. This means for plan years beginning on (or after) January 1, 2021, you will need to closely track hours of service for all employees. If an employee is age 21 and works more than 500 hours in 2021, 2022, and 2023, you must allow the LTPT employee to participate in the plan beginning in the 2024 plan year. This new mandatory eligibility rule states that employees must only be given the opportunity to make salary deferrals in the 401(k) plan. It does not require that the LTPT employee be eligible for any employer non-elective (i.e., profit-sharing) or matching contributions until the employee has completed the eligibility requirements in your plan (unless you elect to amend your Plan). These employees are also not included in your annual nondiscrimination testing (ADP, top heavy, etc.).

The SECURE Act 2.0 of 2022 also modified the LTPT provision to reduce the 3-year eligibility to 2 consecutive years. Service prior to 2021 may still be disregarded.

## **SECTION 116 AND 117 OF SECURE ACT 2.0 (EFFECTIVE FOR TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 2023) FOR SIMPLE IRA PLANS**

Section 116 allows an employer to make additional contributions to each employee of the plan, if the additional contributions are made in a uniform manner and provided the contributions do not exceed the lesser of up to 10% of compensation or \$5,000 (indexed for inflation).

Section 117 allows employers to make changes to the contribution limits and catch-up contribution limits which vary based upon the number of employees.

## **SECTION 101 OF SECURE ACT 2.0 (EFFECTIVE FOR PLAN YEARS BEGINNING AFTER DECEMBER 31, 2024)**

Section 101 of the act requires IRC section 401(k) and 403(b) plans to automatically enroll participants in these plans once they become eligible, although employees have the right to opt out of coverage. All current 401(k) and 403(b) plans are grandfathered by the act; there are exceptions for small businesses with 10 or fewer employees, new businesses in existence for less than three years, church plans, and governmental plans.

## **POSSIBLE CHANGES COMING IN 2024 -**

### **FAIR LABOR STANDARDS ACT (FLSA) - FINAL OVERTIME RULE**

In January 2020, the Final Overtime Rule took effect. The Department of Labor aimed to release an updated proposal in August of 2023 but it was delayed and is still pending. Currently, employers must pay employees a salary of at least \$684/week (equivalent to \$35,568 per year for a full-year worker). The pending proposal is looking to raise the rate to \$1,059/week (equivalent to \$55,068 when annualized). Overtime is required for those employees under the standard salary level. In addition, the total annual compensation level for exemption from minimum wage and overtime requirements for “highly compensated employees (HCE)” is currently at \$107,432 per year. The pending proposal is looking to raise the rate to \$143,988 per year. Employers are allowed to use non-discretionary bonuses and incentive payments (including commissions) that are paid annually or more often to satisfy up to 10% of the standard salary level (in a 52-week period) and lastly, there are special salary levels in effect for workers in U.S. territories and in the motion picture industry. The employee’s primary duties must continue to meet the job duties tests. According to the U.S. Department of Labor they are planning to update the earnings threshold more regularly in the future.

## **REPORTING REQUIREMENTS AND CONSIDERATIONS –**

### **PREPARATION OF EMPLOYEE FORM W-2 FOR 2023**

January 31<sup>st</sup> is the deadline for furnishing the forms to employees and also for employers to file their copies of Form W-2 with the Social Security Administration and the State of Michigan.

#### **Key items to consider in preparation of W-2 forms.**

- 1) Health and life insurance premiums paid on behalf of a greater than 2-percent shareholder-employee of an S Corp are required to be reported on W-2 forms as additional compensation.
- 2) Personal use of company vehicles, value of group life insurance in excess of \$50,000, and certain other fringe benefits are required to be reported on the W-2 form as compensation. Some of these items also require tax withholding.
- 3) Companies that have more than 10 W-2 forms to issue, must be sent to the IRS electronically.
- 4) Employee mailing addresses need to match the USPS preferred format and be updated if the employee moved during the year.

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

Blystone & Bailey prepares these forms for many of our clients, and reconcile them with the other required payroll tax filings to avoid problems in the future. If you have been preparing the W-2 forms in your office and need assistance with e-filing, in the fringe benefit area or if this is your first year with employees and you would like to have us prepare the necessary year-end tax forms for 2023, please contact us as soon as possible.

### **PAYROLL TAX DEPOSITS**

Payroll tax deposit schedules are set annually for each employer, based on the IRS Form 941 “look-back” period (July 1 to June 30 of the previous year). Based on the taxes you paid during the “look-back” period, you will be required to make payments by electronic funds transfer (EFTPS) either once a month on the 15th, or once a week (technically dubbed "semi-weekly,") based on the pay date.

IRS generally notifies each employer if their status changes. Please forward any IRS notices regarding a status change to our office to ensure proper action is taken.

### **AFFORDABLE CARE ACT (ACA) AND EMPLOYER SHARED RESPONSIBILITY (ESR)**

There are separate rules regarding ACA and ESR reporting requirements for Small Employers (with less than 50 full-time equivalent employees) and Large Employers (at least 50 full-time equivalent employees). If you offer an employer-sponsored group health plan, please contact our office for further guidance on meeting the required filing requirements and deadlines.

## UNEMPLOYMENT TAXES

One matter that frequently causes time consuming correspondence and can be quite costly focuses on state unemployment taxes and their relationship to the federal system. Federal unemployment tax (FUTA) is 6.0%, with a credit of 5.4% for amounts paid into state unemployment funds. The expected FUTA rate for calendar year 2024 is 0.6%.



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

Also, on the subject of unemployment taxes, be sure to check your *Tax Rate Determination Notice* for 2024 which is scheduled to be mailed to each employer from the State of Michigan near the end of December 2023, or can be found in your MIWAM account. The statement recaps the dollar amount of benefits and taxes paid during the previous fiscal year. It also determines your tax rate for the next calendar year. This information is critical to you. If there is any error or irregularity indicated on the statement, you have a very short period of time to correct the errors in order to have your tax rate corrected. If you miss this deadline, it doesn't matter whether the error is your fault or that of the state, the rate will be set for the year! Be sure to check for your rate determination notice, review its contents and provide us with a copy.

## FORMS 1099 AND 1098

January is also the time to prepare 1099 forms and 1098 information returns. Payments to non-employees and non-corporate service providers for rents, fees, commissions and prizes or awards of \$600 or more are required to be reported to IRS on form 1099. Payments made for legal services must be reported even if the payment is made to the attorney's professional corporation.

Form 1099-NEC is used to report nonemployee compensation. Form 1099-MISC is used for reporting rents, royalties, and other income payments.

Payments of interest and dividends of \$10 or more are required to be reported. Also, business collections of interest income on seller financed mortgages (land contracts, etc.) are required to be reported on form 1098. Additionally, IRS electronic filing is required for information returns of 10 or more.

Filing the 1099 and 1098 forms is important for the following reasons:

- There are penalties for non-filing which start at \$50 per return (there is also a "backup withholding" penalty of 24% of the amounts paid and not reported in certain instances).
- The question of independent contractor versus employee status hinges on proper reporting of payments.
- Taxpayers are asked to certify the filing of Form 1099 in conjunction with filing their annual income tax return.

Please contact our office if you would like assistance in the preparation of these forms. January 31st is the deadline for furnishing the forms to recipients. The filing deadline for the federal and state government copy of Form 1099-NEC will be January 31, 2024 and the remaining federal government copies of Form 1099-MISC, Form 1099-INT, Form 1099-DIV and Form 1099-R is February 28, 2024, if paper filing or March 31, 2024, if e-filing.

## CASH TRANSACTIONS

A somewhat uncommon type of transaction can spell big trouble for the business caught unaware. The receipt of more than \$10,000 in cash in one transaction, or in two or more related transactions, in the course of your trade or business must be reported on an information return to IRS. This rule applies whether or not the receipt is income in your trade or business. The information return must be filed with the IRS within 15 days after receipt of the cash. Multiple (installment) payments may need to be reported also if they exceed \$10,000. The business is also required to verify the identity of the person making the cash payment. Penalties for non-reporting can be severe.



## PERSONAL PROPERTY TAXES

In the near future you will most likely be receiving your local city or township personal property statement. These statements are to be completed and returned with your report of property physically located within the taxing jurisdiction (your city or township) on December 31, 2023. **The deadline (set by state statute) is February 20th each year.** The key is to be sure that the municipality receives the statement, and that the subsequent assessment computations are correct.

For owners with personal property with a True Cash Value of less than \$80,000 on December 31, 2023, there is an “Affidavit of Owner of Eligible Personal Property Claiming Exemption from Collection of Taxes” (Form 5076) that must be filed no later than February 21, 2024 that will allow the owner exemption from collection of tax. This form must be filed with the local taxing authority or personal property taxes will be assessed. Once the exemption is granted, the taxpayer will continue to receive the exemption until they no longer qualify for the exemption. Once they no longer qualify, the taxpayer is required to file a rescission form and a personal property statement no later than February 20<sup>th</sup> of the year that the property is no longer eligible.

In order to claim an exemption for personal property valued at \$80,000 or more but less than \$180,000, the Form 5076 must be filed along with Form 632 “Personal Property Statement” annually.

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

## **SALES AND USE TAX**

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

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

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

There is a four-year statute of limitations for state taxes, and audits are ordinarily conducted for all four years at one time. If you have any questions on forms or filing due dates, please contact Blystone and Bailey.

## **PENALTIES**

Lastly is a subject that rarely comes up at the beginning of a business startup, that of what to do if there isn't enough money to go around. In the tax area, we have occasionally found that people delay filing returns if the money due isn't available. There are separate sets of penalties (both federal and state) for non-filing and nonpayment of taxes. Non-filing penalties are generally much more severe than those for non-payment. Due to the staggered penalty structure, it is important that your returns be signed and mailed on a timely basis even if full payment cannot accompany it.

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

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

**Contact your CPA @ Blystone & Bailey, CPAs, PC  
(989) 772-4673**

**Visit [www.blystonebailey.com](http://www.blystonebailey.com) for additional resources**