BLYSTONE & BAILEY

Certified Public Accountants

Year-End Reporting & Payroll Guide 2020

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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 HOURLY MINIMUM WAGE

The state's scheduled minimum wage increase did not go into effect on January 1, 2021. **Minimum wage will remain at $9.65 per hour.** Tipped employees rates of pay will remain at $3.67 per hour. However, tipped employees must make $9.65 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 85% of the minimum hourly wage rate.

FAIR LABOR STANDARDS ACT (FLSA) - FINAL OVERTIME RULE

In January 2020, the Final Overtime Rule took effect. Employers must pay employees a salary of at least $684/week (equivalent to $35,568 per year for a full-year worker). Overtime is required for those employees under the standard salary level. The FLSA's minimum salary requirement is set to remain the same in 2021. In addition, the total annual compensation level for exemption from minimum wage and overtime requirements for "highly compensated employees (HCE)" will remain at $107,432 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.

COVID-19 RELATED BENEFITS & TAX CREDITS

The Families First Coronavirus Response Act (FFCRA), required eligible employers (with fewer than 500 employees) to provide their employees with paid sick leave and expanded family and medical leave for specified reasons related to COVID-19. These provisions were in effect from April 1, 2020 through December 31, 2020. Eligible employers were also able to receive refundable tax credits that reimbursed them, dollar-for-dollar, for the cost of providing paid sick and family leave wages to their employees for leave related to COVID-19. **This bill was due to sunset on December 31, 2020 but on December 27, 2020, the bill was extended until March 31, 2021.** As a result, beginning on January 1, 2021, employers are no longer ***required*** to provide FFCRA leave, however, covered employers who ***voluntarily*** offer such leave may utilize payroll tax credits to cover the cost of benefits paid to employees through the end of March 2021.

EMPLOYEE RETENTION CREDIT

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed on March 27, 2020, provided an employee retention credit, a fully refundable tax credit for employers equal to 50 percent of qualified wages that eligible employers pay their employees. The employee retention credit applied to qualified wages paid after March 12, 2020 and before January 1, 2021. The bill signed on December 27, 2020, extended the CARES Act employee retention credit through June 20, 2021.

PAYCHECK PROTECTION PROGRAM (PPP)

In 2020, the US Small Business Administration provided eligible employers loans under the ***Paycheck Protection Program (PPP)*** to fund payroll and other costs as part of COVID-19 legislation. Loans may be forgiven when used for qualified costs.

A second round of PPP loans for businesses was approved with the New COVID Relief Bill and are available to businesses whose revenue was down more than 25% in any quarter of 2020 compared to 2019.

MICHIGAN "PAID MEDICAL LEAVE ACT" REQUIREMENTS

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

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

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

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

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

EMPLOYEE W-4 FORM

IRS has issued a new W-4 form for year 2021. All 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 has also updated the MI-W4 form as of December 2020.

2020 EMPLOYEE W-2 FORM UPDATE

In July of 2020, the IRS issued Notice 2020-54, which mandates the reporting of the amount of qualified sick and family leave wages that are paid to employees under the Families First Coronavirus Response Act on the 2020 W-2. If an employee received any compensation related to COVID-19 (which was a qualifying credit for the employer), these payments will need to be reported on the W-2 form.

Three other key items to consider in preparation of W-2 forms.

1) Health and life insurance premiums paid for shareholder employees 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 as compensation. Some of these items also require tax withholding.
3) Companies that have more than 250 W-2 forms to issue, must be sent to the IRS electronically.

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

We prepare these forms for many of our clients, and reconcile them with the other required payroll tax filings to avoid problems in the future. If you have been preparing the W-2's in your office and need assistance in the fringe benefit area or if this is your first year with employees and you would like to have us prepare the necessary year-end tax forms for 2020, please contact us as soon as possible. January 31st is the deadline for furnishing the forms to employees and also for employers to file their copies of Form W-2 with the Social Security Administration and the State of Michigan.

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

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.

YEAR 2021 FICA TAX RATE AND WAGE BASE

For year 2021, 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 $137,700 to $142,800. 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.

FORMS 1099 AND 1098

January is also the time to prepare 1099 forms and 1098 information returns. Payments to non-employees for rents, prizes or awards in excess of $600 are required to be reported to IRS on form 1099.

The IRS has created a new form for the 2020 tax year, Form 1099-NEC, to report nonemployee compensation. Nonemployee compensation was formerly reported in Box 7 on the 1099-MISC. The 1099-MISC is still valid and will be used for reporting rents, royalties, and other income payments.

Payments of interest and dividends in excess of $10 are required to be reported. Also, business collections of interest income on seller financed mortgages (land contracts, etc.) are required to be reported on form 1098. Additionally, businesses required to file more than 250 of any form are required to send the data to the IRS electronically.

The 1099 and 1098 rules are frequently overlooked or ignored, but they are important for two reasons. First, 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). Secondly, the question of independent contractor versus employee status hinges on proper reporting of payments.

Please contact our office if you would like assistance in the preparation of these forms. February 1st is the deadline for furnishing the forms to recipients. The filing deadline for the federal government copy of Form 1099-NEC will be February 1, 2021 and the remaining federal government copies of Form 1099-MISC, Form 1099-INT, Form 1099-DIV and Form 1099-R is March 1, 2021.

PAYROLL TAX DEPOSITS

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

Please forward any IRS notices regarding a status change to our office to ensure proper action is taken.

PAYROLL TAX DEFERRALS

On August 8th, 2020, President Trump signed an executive order to permit the deferral of the employee's portion of social security taxes for employees whose amount of wages or compensation, payable during any biweekly pay period generally is less than $4,000, or the equivalent amount with respect to other pay periods.

The deferral period for the employee social security tax was between September 1, 2020 and December 31, 2020. The decision to opt into the payroll tax deferral was up to the employer, and any employer who chose to elect to defer the employee social security tax, is responsible for collecting and paying back the deferred taxes. On January 1, 2021, employers will resume withholding taxes from employee paychecks. These taxes will be due by April 30, 2021. Penalties and interest will begin to accrue on May 1, 2021 for any unpaid taxes.

In addition, employers and self-employed individuals were allowed to defer the deposit and payment of the employer's share of Social Security FICA taxes beginning March 27, 2020 through December 31, 2020. If you chose to take advantage and defer payment of these taxes, the deferred payments must be paid to the Treasury Department with 50% paid by December 31, 2021 and the full amount paid by December 31, 2022.

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 2021 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 2021 which is scheduled to be mailed to each employer from the State of Michigan near the end of December 2020. 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.

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, 2020. **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, 2020, 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 10, 2021 that will allow the owner exemption from collection of tax. This form must be filed with the taxing authority or personal property taxes will be assessed.

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

SALES AND USE TAX

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

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

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

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

CASH TRANSACTIONS

A somewhat uncommon type of transaction can spell big trouble for the business caught unaware. The receipt of more than $10,000 in cash in one transaction, or in two or more related transactions, in the course of your trade or business must be reported on an information return to IRS. This rule applies whether or not the receipt is income in your trade or business. The information return must be filed with 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.

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
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Visit www.blystonebailey.com for additional resources