
Year-End & Payroll Planning

presented by:

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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 will go into effect on January 1st, 2026. **Minimum wage will increase to \$13.73 per hour.** Tipped employees rates of pay will increase to \$5.49 per hour. However, tipped employees must earn at least minimum wage with tips and regular wages taken into account (i.e. employee must receive at least \$8.24 in tips).

There are still lower hourly wage rates: employers can pay new employees between the age of 16 and 19 a training wage of \$4.25 per hour for the first 90 days of their employment. Employees ages 16 and 17 may be paid 85% of minimum wage, equaling \$11.67 per hour starting January 1st, 2026.

MICHIGAN EARNED SICK TIME ACT (ESTA) REQUIREMENTS

After being put in effect on February 21, 2025, employers in Michigan who employ one or more individuals must continue accruing sick time at a rate of one hour of sick time for every 30 hours worked. Hours that were accrued in 2025 can be carried over to 2026. Employers with ≥ 10 employees must allow at least 72 hours of paid sick time per year to be used. Businesses with ≤ 10 employees must allow 40 hours of paid sick time per year in addition to 32 hours of unpaid sick time to the extent leave is accrued.

Please refer to Blystone & Bailey, CPAs website for further information on the IWOWA and the ESTA in our resources section or follow: www.blystonebailey.com/mireinstatesiwowa-esta

IMPROVED WORKFORCE OPPORTUNITY WAGE ACT (IWOWA)

This act allows the accrual and use of paid time in replace of payment of overtime wages under certain conditions:

- The agreement must be voluntary, obtained before the time is earned, and in writing
- The employer must give minimum of 10 paid days of leave per year
- Within 30 days of request, all time earned must be paid to the employee
- 240 hours of total time may not be exceeded
- Employers must keep track of time earned and paid
- Paystubs of the employees must show compensatory time earned and paid

Presumed Compliance with the Act: An employer is in compliance with the act if it provides any paid leave in at least the same amounts as that provided under this act that may be used for the same purposes and under the same conditions provided in this act and that is accrued at a rate equal to or greater than the rate of 1 hour for every 30 hours worked. Paid leave includes, but is not limited to, paid vacation days, personal days, and paid time off.

OTHER STATE REQUIREMENTS

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.

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 continuing from last year is the long-term, part-time (LTPT) employee rule that seeks to expand access to retirement plans to long-term, part-time employees. The new requirement became effective on 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 two 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 2024 and 2025, you must allow the LTPT employee to participate in the plan beginning in the 2026 plan year.

ROTH CATCH-UP CONTRIBUTIONS FOR HIGH EARNERS OF SECURE ACT 2.0

As of January 1st, 2026, 401(k), 403(b) and 457(b) plan sponsors need to ensure compliance with the catch-up provisions set by SECURE 2.0. Employer-sponsored qualified retirement plans that allow for catch-up contributions must allow catch-up eligible participants with FICA wages that exceed \$145,000 in the prior year, be permitted to make their catch-up contributions as Roth contributions. If a plan does not allow for Roth contributions, participants making above the \$145,000 FICA wages will not be allowed to make catch-up contributions. If high earners are granted the Roth catch-up contributions, then all employees must be permitted to do the same. Check with your plan administrator in regard to Secure 2.0 changes to make sure any plan amendments are addressed.

EXPANDED “CATCH UP” LIMITS FOR SIMPLE IRAS

Under Section 117 of the SECURE 2.0 Act, Employers with 25 or fewer employees automatically qualify for a 10% increase in both the regular SIMPLE IRA deferral limit and the age 50+ catch-up amount. For 2025, this raises the standard catch-up from \$3,500 to \$3,850.

In addition, Section 109, includes a further “super catch-up” for participants 60-63. Under this provision, these individuals may contribute the higher of 150 % of the standard age 50+ catch-up or \$5,000. (For 2025, the limit is \$5,250).

YEAR 2026 FICA TAX RATE AND WAGE BASE

For year 2026, 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 \$176,100 to \$184,500. 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 2026. 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 or are claiming exemption from withholding. Exempt employees need to submit a new Form W-4 by February 16th, 2026. The State of Michigan's most recent MI-W4 form is as of December 2020.

ONE BIG BEAUTIFUL BILL ACT

Signed into law on July 4, 2025, the One Big Beautiful Bill Act addresses some new tax deductions for qualified overtime and qualified tips.

Starting in 2025 through 2028, there will be an above-the-line tax deduction for both qualified tip income and qualified overtime compensation. The qualified tip income is up to \$25,000 while the qualified overtime compensation is up to \$12,500 (\$25,000 for joint filers). Both tax deductions will start to phase out for taxpayers who modified adjusted gross income (MAGI) is over \$150,000 (\$300,000 for joint filers). If the individual who earned qualified tips or overtime is married, they must file jointly to claim either deduction.

When taking the qualified tip income deduction, those who are self-employed, cannot take the deduction in excess of the individual's net income from the trade or business the tips were earned. The IRS has published a list of occupations that "regularly and customarily" receive tips. Businesses must be categorized within that list of occupations for their employees to be able to take the qualified tip deduction.

Those taking the qualified overtime compensation deduction can only take the deduction on the pay that exceeds their regular rate of pay. When thinking of overtime as "time and a half", this deduction will be allowed on only the "half" portion.

The IRS is providing transition relief for the tax year 2025 for employers who are subject to the new reporting requirements and taxpayers claiming the deduction. In 2026, there will be new filing requirements for both deductions.

FAIR LABOR STANDARDS ACT (FLSA) - FINAL OVERTIME RULE

On April 23, 2024, the U.S. Department of Labor announced a final rule that took effect on July 1, 2024 that updates and revises regulations under the FLSA. Employees who are employed in a bona fide executive, administrative, or professional (EAP) capacity are exempt from the FLSA minimum wage and overtime protections. The three tests EAP employees must meet are:

- Be paid salary
- Be paid a specified weekly salary level
- Primarily perform executive, administrative, or professional duties

The final rule will also increase the highly compensated employee total annual compensation and standard salary level. Starting January 1, 2025, standard salary level will be \$1,128/week (equivalent to \$58,656/year). The threshold for highly compensated employee total annual compensation will be \$151,164/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, starting July 1, 2027 these earning thresholds will be updated every three years.

PREPARATION OF EMPLOYEE FORM W-2 FOR 2025

February 2, 2026, 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 issued less than 250 W-2 forms in the previous year.

For 2025 the IRS is providing transition relief for employers who are subject to the new qualified overtime and qualified tip reporting requirement and this information is not required to be included on the employee W-2 form. However, employers must have the information available upon request from an employee.

For 2026 employers will be required report qualified overtime (the “half” portion) on the employee W-2 form. In addition, employers with tipped employees will need to track qualified vs non-qualified tips as this information will be required to be reported on the employee W-2 form.

Blystone & Bailey prepares these forms for many of our clients and reconciles 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 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 2025, please contact us as soon as possible. It in taxpayers being required to repay the credit along with penalties and interest.

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 frequency.

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 2026 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 the 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 2026 which is scheduled to be mailed to each employer from the State of Michigan near the end of December 2025, or can be found in your MiUI 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, there is a protest deadline on the statement allowing you 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.

MiWAM TO MiUI TRANSFER

The State of Michigan is transitioning their old computer system MiWAM to a new system called MiUI that will be used by claimants and employers. Employers and third-party administrators (TPAs) will begin using MiUI to file the quarterly wage and tax reports, register new businesses, and upload wage files. Transition can be expected early 2026 for employers and TPAs, claimants will begin transitioning in the summer of 2026.

It is recommended; employers create a "MiLogin for Business Account" as soon as possible using the following link: <https://milogintp.michigan.gov/eai/tplogin/authenticate>

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 for 2025 but increasing to \$2,000 or more for 2026, is required to be reported to the 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:

1. There are penalties for non-filing which start at \$60 per return (there is also a "backup withholding" penalty of 24% of the amounts paid and not reported in certain instances).
2. The question of independent contractor versus employee status hinges on proper reporting of payments.
3. 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 February 2, 2026, and the remaining federal government copies of Form 1099-MISC, Form 1099-INT, Form 1099-DIV and Form 1099-R is March 2, 2026, if paper filing or March 31, 2026, 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, 2025. **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, 2025, 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, 2026, 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 is not required to file each year but 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 20th 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.



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