Special edition:
2014 Form W-2 questions most frequently asked

Employment tax
year-end essentials
Are you ready for year-end?
A glitch in your payroll system or employment tax processes can easily go undetected and may result in costly errors in Forms W-2 and other employment tax returns.

Get the support you need for 2014!
Find out more on page 50.

For all of our 2014 payroll year-end essential visit us at:
or use the search term “EY year-end checklist”.

Payroll workshop: 2014 Form W-2 reporting FAQs and state due dates

Crossing the states

Employment tax reporting

On the Hill

Rates and limits

State news

Payroll tax calendar

3 Top 10 2014 most frequently asked questions and their answers

11 2014 state Form W-2 filing due dates

14 2014 retroactive increase in transit benefit limits – here are some pointers

15 2014 Form 940 changes, including FUTA credit reduction states and rates

16 Tell employees about these new stock reporting requirements

18 Numerous extenders expired December 31; here’s what employers should do

20 2015 federal income tax withholding

22 2015 federal mileage rates

23 2014 state disability insurance rates and limits

24 California, Colorado, Hawaii, Idaho, Illinois, Kansas, Louisiana, Maine, Massachusetts, Minnesota, Nebraska, Nevada, New Mexico, New York, Ohio, Pennsylvania, South Dakota, Texas, Utah and Washington

49 Federal employment tax due dates for January 2015
Top 10 Form W-2 frequently asked questions for 2014

By Debera Salam (CPP), Thomas Meyerer (Esq.) and Deborah Spyker (CPP, CPA), Ernst & Young LLP;

By popular request, the following are the Form W-2 most frequently asked questions (FAQs) posed to our Ernst & Young LLP payroll and employment tax professionals for tax year 2014.

FAQ 1  Is there a dollar threshold at which Forms W-2 are not required?

FAQ 2  What are the corrective steps if it is discovered at the close of 2014 that an employee contributed too much to the qualified retirement plan (e.g., 401(k))? 

FAQ 3  How are employer and employee Health Savings Account (HSAs) reported on the Form W-2?

FAQ 4  Is supplemental group-term life insurance taxable to employees if they pay 100% of the monthly premium?

FAQ 5  Are we required to report wages and benefits made available to terminated or retired employees on Form W-2 or Form 1099?

FAQ 6  If we withheld too little FICA tax for the year, can we deduct the difference from federal income tax withholding for Form W-2 and Form 941 reporting purposes?

FAQ 7  Can we charge employees for replacement Forms W-2/W-2c?

FAQ 8  Can we report in box 2, federal income tax withheld, amounts employees paid to us by personal check?

FAQ 9  What are the reporting requirements for taxes we paid on behalf of our employees in 2015 pursuant to a 2014 wage payment?

FAQ 10  What do we do if employees do not yet have their Social Security numbers at the time we are required to issue or file Forms W-2?

For more information, or if you require any additional assistance with year-end reporting, write to Debera Salam at debera.salam@ey.com or Thomas Meyerer at thomas.meyerer@ey.com.

Form W-2 FAQs at a glance

1. There is no de minimis exemption from the requirement to file Forms W-2.
2. Excess pretax contributions to a qualified retirement plan discovered after the close of the tax year cannot be adjusted using Form W-2c. Instead, the plan is required to refund the excess to the employee.
3. Employer and employee pretax contributions to a Health Savings Account (HSA) must be reported in Form W-2, box 12, code W. If any portion of the employer contributions is taxable, they are also reported in Form W-2, boxes 1, 3 and 5.
4. Imputed income may be required to be reported on Form W-2 for supplemental group-term life insurance even if employees are paying 100% of the cost of the premium.
5. Wages are reported on Form W-2, whether they are paid in anticipation of or subsequent to employment.
6. It is a risky practice to rob from federal income tax to pay FICA.
7. The IRS does not prohibit the assessment of fees for the replacement of information statements (e.g., Forms W-2, 1099).
8. Accepting personal checks to remedy income tax withholding shortages is a risky employer practice.
9. If you pay 2013 tax on behalf of employees, you may need to show the gross-up in 2014 earnings.
10. If you don't have a Social Security Number for an employee, show “applied for” or “000-00-0000” and don’t use an Individual Taxpayer Identification Number (ITIN).
FAQ 1

Is there a dollar threshold at which Forms W-2 are not required?

**Facts.** We have a large number of seasonal, part-time employees. A significant number of them received wages of less than $100 in 2014. Do we have to issue Forms W-2 for small dollar amounts?

**Answer.** There is no de minimis exemption from the requirement to file Forms W-2. The IRS states that “employers must file a Form W-2 for wages paid to each employee from whom: (1) income, Social Security, or Medicare taxes were withheld, or (2) income tax would have been withheld if the employee had claimed no more than one withholding allowance or had not claimed exemption from withholding on Form W-4, Employee’s Withholding Allowance Certificate. In addition, every employer engaged in a trade or business that pays remuneration for services performed by an employee, including noncash payments, must furnish a Form W-2 to each employee even if the employee is related to the employer.” ([IRC Reg. §31.6051-1; Form W-2 reporting instructions (rev. 2014).](#))

FAQ 2

What are the corrective steps if it is discovered at the close of 2014 that an employee contributed too much to the qualified retirement plan (e.g., 401(k))?  

**Facts.** We discovered in the process of preparing our 2014 Forms W-2 that some employees contributed to the 401(k) plan on a pretax basis in excess of $17,500 in 2014. What steps do we take now to correct this error?

**Answer.** Excess pretax contributions to a qualified retirement plan discovered after the close of the tax year cannot be adjusted using Form W-2 or W-2c. Instead, the plan is required to refund the excess to the employee. It is not unusual for some employees to have made excess pretax contributions (i.e., elective deferrals) to a qualified IRC §401(k), §403(b) or §457(b) plan, either because of contributions made under the plans of other employers in a tax year or because of a payroll system or other error of the employer. The employee is responsible for communicating information regarding excess deferrals so that a corrective distribution can be made by the deadline of the first April 15 following the close of the individual’s tax year. ([Reg.§1.402(g)-1(e)(2)(i).](#)) The plan administrator will issue a Form 1099-R for the deferral year to report the amount of the excess deferral that is taxable in the deferral year. The plan administrator will issue a second Form 1099-R for the distribution year to report the amount of earnings being distributed. If the corrective distribution of the excess deferral is not made on or before April 15 following the end of the employee’s tax year in which the deferral occurred, then the excess deferral generally may not be paid out as a corrective distribution. Rather, the excess deferral is “trapped” in the tax-qualified plan until a distributable event permitted under IRC §401(k)2XB (and in accordance with the written terms of the plan). The effective penalty to the employee for failing to communicate the excess deferral to the employer in time to allow for a timely correction on or before April 15 following the end of the employee’s tax year in which the deferral occurred is that the employee will be taxed twice on the amount: (i) the excess deferral amount is subject to taxation for the year of deferral (because it was an invalid deferral) and (ii) the excess deferral amount will be subject to income taxation a second time for the year in which the amount is distributed from the tax-qualified retirement plan. ([Reg. §1.402(g) 1(a) and -1(e)(8)(iii).](#)) Treasury regulations and other guidance set forth explicit instructions for making corrective distributions and reporting those distributions on information returns/statements. Failure to comply with these guidelines can have consequences for the employer, the employee and/or the plan itself.
FAQ 3

How are employer and employee Health Savings Account (HSA) contributions reported on the Form W-2?

**Facts.** Our employees had the choice in 2014 of participating in one of two health insurance plans, one with a low deductible of $250 or another with a high deductible of $2,500 for family or $1,250 for self only. The latter is a qualified HSA under which employees may elect to contribute up to $2,300 per year on a pretax basis with employer matching contributions of up to $1,000 per year.

How are the HSA contributions reported on the 2014 Form W-2?

**Answer.** An employer’s contribution to an HSA is excluded from wages subject to federal income tax (FIT), federal income tax withholding (FITW) and Social Security/Medicare (FICA) if it is reasonable to believe it can be excluded from the employee’s gross income at the time made. Employee pretax contributions to the HSA are also excluded from wages subject to FIT, FITW and FICA.

Since the total annual employer and employee contributions to the HSA don’t exceed the annual limits (see below), they are not required to be reported on Form W-2, boxes 1, 3 or 5.

On the other hand, both employer contributions and employee pretax contributions are required to be reported in Form W-2, code W. For example, if the employer’s 2014 contribution was $1,000 and the employee’s 2014 pretax contribution was $2,300, a total of $3,300 is reported in Form W-2, box 12, code W.

### Health Savings Account (HSA) limits for 2014 and 2015

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<td>Family</td>
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<td><strong>Deductible (high-deductible health plan)</strong></td>
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<td></td>
</tr>
<tr>
<td>Self</td>
<td>$1,250</td>
<td>$1,300</td>
</tr>
<tr>
<td>Family</td>
<td>$2,500</td>
<td>$2,600</td>
</tr>
</tbody>
</table>

For key federal and state rates and limits for 2014 see our special report.

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**Watch this!** Incorrect reporting of HSA contributions in Form W-2, box 12, code W can prevent employees from filing correct federal, state and local income tax returns because employees rely on Code W to complete IRS Form 8889, which is attached to the federal individual income tax return. Errors in reporting amounts in Form W-2, box 12, code W should be corrected immediately.
FAQ 4
Is supplemental group-term life insurance taxable to employees if they pay 100% of the monthly premium?

Facts. We provide at no cost to our employees a basic group-term life insurance policy with death benefits of up to two times their annual salary. Employees may also purchase supplemental group-term life insurance. Because there are employer contributions for the basic policy but no employer contributions for the supplemental policy, we compute imputed income for the basic policy using IRS Uniform Premium Table 1, but we report no imputed income for the supplemental policy.

Is this correct?

Answer. You may be understating employees’ taxable income because the IRS may require that you use Premium Table I to determine the “cost” of the supplemental group-term life insurance, just as you do for the basic group-term life policy.

In 1964, when Congress enacted the law governing the taxation of group-term life insurance (IRC §79), it made clear that employees should be taxed not only on the value of group-term life insurance that is funded by employers, but also in those instances in which the employee’s cost for the life insurance premium is subsidized.

Congress had two types of subsidies in mind:

- The employer negotiates for lower premiums under the supplemental plan in consideration of the premiums paid under the employer-funded plan.
- The overall premiums collected by the insurance company aren’t “discounted,” but certain (i.e., younger) employees are charged a bit more for their premiums so that the premiums of other (i.e., older) employees are less.

In keeping with the intent of Congress, Treasury regulations state that if group-term life insurance is carried directly or indirectly by the employer, Uniform Premium Table I must be used to determine the value of the group-term life insurance. A policy is carried directly or indirectly under the following two circumstances:

(1) Employee premiums for supplemental insurance are discounted because the employer purchased the basic life insurance coverage from the same provider.

(2) At least one employee pays less and one employee pays more than the rates as provided in IRS Uniform Premium Table I. (Reg. §1.79-0(b); [re Carried directly or indirectly])

To determine if imputed income applies to the supplemental group-term life insurance policy, you will need to compare what each employee pays for the insurance against the value of that insurance under IRS Uniform Premium Table I. If at least one employee’s contribution is less, or one employee’s contribution is more than the Uniform Premium Table 1 value, you will need to perform the imputed income calculation routine for all employees, just as you do for the basic group-term life insurance.
FAQ 5
Are we required to report wages and benefits made available to terminated or retired employees on Form W-2 or Form 1099?

**Facts.** We paid sign-on bonuses, taxable relocation expenses, group-term life insurance and other incentives this year to retired employees and to individuals who terminated their employment prior to their first day of work. We intend to report these taxable amounts on a Form 1099-MISC because these individuals never performed services for us. Is this correct?

**Answer.** Amounts paid to individuals in anticipation of employment, such as sign-on bonuses or taxable relocation reimbursements, are wages subject to FIT, FITW, FICA and FUTA, and as such are reported on Form W-2, not Form 1099. Similarly, wages and taxable benefits provided to former employees, such as taxable group-term life insurance provided to retirees, are reported on Form W-2 and not Form 1099. Generally, amounts treated as wages are reported on Form W-2 regardless of the status of the employment relationship (pre-employment, retired, laid off) at the time the payments are made or benefits provided. Note that if Social Security and Medicare tax were not withheld from a former employee’s taxable group-term life insurance, the amount not withheld is shown in box 12 of Form W-2 using codes M and N, respectively. (TAM 9718001; IRC Reg. §§31.3121(a)-1(i), 31.340(a)-1(a)(5); Rev. Rul. 78-176, 1978-1 CB 303; Rev. Rul. 2004-109, 2004-50 IRB 958.)

Also see FAQ 4.

FAQ 6
If we withheld too little FICA tax during the year, can we deduct the difference from federal income tax withholding for Form W-2 and Form 941 reporting purposes?

**Facts.** In the process of reconciling our Form W-2 files, we discovered that we did not withhold sufficient Social Security and Medicare (FICA) taxes from the wages of some of our employees. We are considering deducting FICA taxes owed from employees’ federal income tax withholding and then reflecting the adjustment to FICA and FITW on the fourth-quarter Form 941 so that the amounts on Forms W-2 and 941 agree. Is this allowed under the federal tax regulations, and if not, what is the risk?

**Answer.** It is a risky practice to rob from federal income tax to pay FICA. The tax regulations establish two separate requirements for the withholding of federal income tax and FICA tax. Additionally, employers are separately liable for the employer’s share of FICA taxes. Should the IRS audit the withholding tax records and discover that you made this transfer between federal income tax and FICA withholding, it will find that you have not complied with the requirements to correctly withhold employee FICA taxes under IRC §3102(a), to correctly withhold federal income tax under IRC §3402(a) or to pay at the correct employer FICA rate under IRC §3111. Consequently, the IRS can hold you personally liable for the FICA and FITW shortages (IRC §§3102(b), 3111 and 3301), plus interest and penalties. (Instructions for Forms W-2 and W-3, rev. 2014; 29 CFR §531.37.)

FAQ 7
Can we charge employees for replacement Forms W-2/W-2c?

**Facts.** We have a few employees who consistently lose their Forms W-2/W-2c each calendar year. To discourage requests for replacement forms, we are considering charging a fee, such as $5 or $10 per replacement, through payroll deduction. Are there any laws restricting us from charging these fees?

**Answer.** The IRS does not prohibit the assessment of fees for the replacement of information statements (e.g., Forms W-2, 1099), but there may be restrictions under other laws. For instance, employers should be cautious of collecting such fees from workers earning the minimum wage because certain deductions that bring wages below the federal minimum are prohibited under federal (and some state) wage-hour laws. (Instructions for Forms W-2 and W-3, rev. 2014; 29 CFR §531.37.)
FAQ 8
Can we report in box 2, federal income tax withheld, amounts employees paid to us by personal check?

Facts. A number of our employees gave us personal checks requesting that we deposit these amounts with the IRS and report the payments as federal income tax withheld on the 2014 Form W-2. Is this allowed, and if not, what is our risk?

Answer. It depends on the circumstances. If the employee is writing a personal check to cover the federal income tax withholding on a taxable noncash fringe benefit, and the check is given to you at the time the withholding obligation is incurred, the IRS would likely have no issue with this practice. (IRC Reg. §31.6205-1.)

If, on the other hand, the employee is giving you a check to cover federal income tax payment shortages that accumulated throughout the year, accepting the personal check could put the employer at risk. The IRC requires that federal income tax liabilities be paid throughout the year, not all at once at the end of the year. Hence, an employee’s options for paying the current year’s federal income tax liability are (1) federal income tax withholding based on the Form W-4 and/or (2) quarterly estimated tax payments. In order to avoid an estimated tax penalty, individual taxpayers generally must pay in 90% of their current-year federal income tax liability or 100% of their prior year’s federal income tax liability by the end of the calendar year through withholding and/or estimated tax payments (the final estimated tax payment generally is due on January 15 of the subsequent year). (IRC §6654(d)(1)(B) and (C).) Thus, in the case of an individual who has income from which tax is withheld (i.e., wages) and income from which tax has not been withheld (e.g., dividends, bank interest), penalties can be avoided by increasing federal income tax withholding based on the Form W-4 and/or by making quarterly estimated tax payments.

Supporting the intent of the law is a statement in Publication 15, Circular E, Employer’s Tax Guide, rev. 2014, instructing employers not to “accept any withholding or estimated tax payments from employees in addition to withholding based on their Form W-4.” In other words, the IRS instructs employers that they should not accept personal checks from employees, the purpose of which is to assist employees in evading IRS late-payment penalties.

In determining sanctions that could be imposed on employers that help employees avoid the penalty for failure to pay their federal income tax liability throughout the year, the IRS would likely rely on IRC §7206. IRC §7206 provides that any taxpayer who “willfully makes and subscribes any return, statement, or other document ... which he does not believe to be true and correct as to every material matter” shall be guilty of a felony. If convicted of falsifying the amount of federal income tax withheld to help employees evade penalties, companies face a fine of up to $500,000 ($100,000 in the case of individual employers), up to three years’ imprisonment or both, plus the costs of prosecution.

There is some indication that the IRS would probably also rely on IRC §6701 and §7201. The extent to which the IRS would be successful in imposing these additional sanctions is arguable, but they are worth considering:

• IRC §6701. This section applies to anyone who aids or assists in preparing a return understating a tax liability. The penalty is $1,000 or, in the case of a return relating to the liability of a corporation, $10,000. Whether this provision can be stretched to apply to the evasion of the estimated tax penalty may be questionable.

• IRC §7201. This section imposes a sanction against “any person who willfully attempts in any manner to evade or defeat any tax imposed” by the IRC. Such person is guilty of a felony and, upon conviction, subject to a fine of not more than $100,000 ($500,000 in the case of a corporation), imprisonment of up to five years or both, plus the costs of prosecution. Whether this provision applies to the estimated tax penalty may be questionable.

Regardless of whether a business accepts personal checks for federal income tax withholding, employees should be notified that the business will not accept personal checks to remedy federal income tax withholding shortfalls throughout the year. This notification should inform employees to adjust the Form W-4 and/or make estimated federal income tax payments. Copies of your organization’s policy against accepting personal checks for federal income tax withholding shortfalls can be distributed with the 2014 Forms W-2 or mailed separately together with a blank 2015 Form W-4.
FAQ 9

What are the reporting requirements for taxes we paid on behalf of our employees in 2015 pursuant to a 2014 wage payment?

Facts. We discovered early in 2015 that we neglected to report certain taxable fringe benefits on the 2014 Form W-2. We issued Forms W-2c for 2014 and paid the federal income, Social Security and Medicare taxes on the employees’ behalf and reflected those withholdings on the 2014 Form W-2c. We understand that a gross-up is required. Should we have reported the gross-up on the 2014 Form W-2c, or is it included on the 2015 Form W-2?

Answer. Before we address your specific question about the gross-up, we emphasize that you cannot correct an underwithholding of federal income tax after the close of the tax year, unless the income tax underwithholding was due to an administrative error. (See IRS Publication 15, Sec. 13, Prior Period Adjustments — Income Tax Withholding Adjustments.) An example of an administrative error is when the employer withholds income tax but fails to remit it to the IRS. There is also an administrative error if the employer has an agreement to pay the employee's federal taxes but fails to do so.

In the current situation, you discovered that you did not report taxable fringe benefits that were subject to federal withholding. Based on the facts, this does not appear to have been an administrative error. You should have corrected the 2014 W-2 wage amounts by issuing Form W-2c and correcting the underwithheld FICA taxes, but you cannot correct the 2014 federal income tax withholding after the close of the tax year unless the error is an administrative error. If you provided employees the funds to pay the 2014 income tax related to the fringe benefits, the employees will have additional income in 2015, which will require a gross-up computation. If you pay the employees' FICA tax, this will also require a gross-up computation in 2015.

As you correctly state, federal income withholding and FICA taxes paid on behalf of employees are subject to FITW and FICA. To address the pyramiding effect of the tax on the tax, the IRS prescribes a formula for arriving at the gross taxable amount or gross-up. (Rev. Rul. 58-113, 1958-1 CB 362.) While there are a few variations on the gross-up methodology, we will demonstrate one gross-up method at right that is the easiest to understand.

Example 1. Assume that the employer pays the employee's FITW (at 25%) and FICA on a taxable fringe benefit having a fair market value of $1,000 and that the employee has not and will not reach the Social Security wage limit for the calendar year. Here is the gross-up calculation:

1. 100% less 25% (federal income tax) less Social Security (6.2%) less Medicare (1.45%) = 67.35%
2. $1,000 (fringe benefit) divided by 67.35% (the result from step 1) = $1,484.78
3. To test:
   - FITW (25%) ............................................ $ 371.19
   - Social Security tax (6.2%) ......................... $ 92.06
   - Medicare tax (1.45%) ............................... $ 21.53
   - Net................................................. $ 1,000.00
      (original wage amount)

Under the facts as they were presented, the gross-up was done in 2015 pursuant to a 2014 wage payment. Under the rule of constructive receipt (IRC §451), the resulting increase in wages and taxes from the gross-up is required to be reflected in the year the gross-up occurred (under these facts, 2015).
**Top 10 Form W-2**

**frequently asked questions for 2014**

*Continued*

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**Example 2.** Assume the same facts as Example 1 except that the gross-up was performed in 2015 pursuant to fringe benefits that will be reported on the 2014 Form W-2c.

1. **2014 Form W-2c (additional wages and taxes):**
   - Box 1, federal taxable wages = $1,000
   - Box 2, no entry because it is not an administrative adjustment (but employer pays employee’s 2013 federal income tax at 25% = $250)
   - Box 3, Social Security wages = $1,000
   - Box 4, Social Security tax withheld at 6.2% = $62
   - Box 5, Medicare wages = $1,000
   - Box 6, Medicare tax withheld at 1.45% = $14.50
   - Total taxes paid on behalf of employee in 2015 for tax year 2014 = $326.50 ($250 + $62 + $14.50)
   - 100% less 25% (federal income tax) less Social Security (6.2%) less Medicare (1.45%) = 67.35%
   - $326.50 (taxes paid for employee) divided by 67.35% = $484.78

2. **2015 Form W-2 (increase due to 2014 taxes paid on employee’s behalf in 2015):**

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<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Box 1, federal taxable wages</td>
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</tr>
<tr>
<td>Box 2, federal income tax withheld</td>
<td>$121.19</td>
</tr>
<tr>
<td>Box 3, Social Security wages</td>
<td>$484.78</td>
</tr>
<tr>
<td>Box 4, Social Security tax withheld</td>
<td>$30.06</td>
</tr>
<tr>
<td>Box 5, Medicare tax wages</td>
<td>$484.78</td>
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<tr>
<td>Box 6, Medicare tax withheld</td>
<td>$7.03</td>
</tr>
</tbody>
</table>

**Proof:** $484.78 = $326.50 plus taxes paid for employee ($121.19 + $30.06 + $7.03)

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**FAQ 10**

What do we do if employees do not yet have their Social Security Numbers at the time we are required to issue or file Forms W-2?

**Facts.** We employed a number of foreign workers in November 2014 who applied for their US Social Security cards at the time of hire. We have been told that their Social Security cards and Social Security Numbers (SSNs) will likely not be available by the due date for filing the 2014 Forms W-2. What should we report in Form W-2, box A? Will there be penalties for filing Forms W-2 with the Social Security Administration (SSA) without SSNs?

**Answer.** According to the 2014 Instructions for Forms W-2 and W-3, when filing on paper, the words “applied for” should be used when the SSN is not available. However, when filing electronically, the SSA instructs employers to enter zeroes in locations 3 to 11 of the RW record. When the SSN is provided, the employer should submit a Form W-2c showing the correct SSN. This Form W-2c is issued to the employee and filed with the SSA.

In *Publication 1915, Understanding Your Individual Taxpayer Identification Number*, the IRS states that it generally will not issue an Individual Taxpayer Identification Number (ITIN) to aliens who have met the SSA’s evidence requirements for work authorized under the immigration law but who are experiencing delays in securing an SSN caused by the SSA’s procedures. The IRS instructs employers in this case to keep documentation to show that the failure to supply a payee’s SSN was caused solely by the SSA’s procedures for issuing SSNs to aliens. (Note that the SSA routinely verifies the name and SSN as reported on Forms W-2; the SSA treats an ITIN that appears in box A of Form W-2 as an invalid SSN.)
Form W-2 filing due dates for tax year 2014

Under federal reporting requirements, employees must receive Copies B and C of the 2014 Form W-2 no later than February 2, 2015. Paper Forms W-2, Copy A, must be filed with the SSA no later than March 2, 2015. An extended deadline of March 31, 2015, applies only to those Forms W-2 that are filed electronically with the SSA.

For details concerning the electronic filing requirements, see Ernst & Young LLP’s 2014 payroll checklist here.

Businesses with 250 or more Forms W-2 to file must submit them to the Social Security Administration electronically using its Business Services Online (BSO).

2014 state filing requirements

State W-2 due dates that have changed from 2013 are highlighted in yellow in Exhibit A.

- **Copy 1.** Most states with a state income tax require that employers submit a Form W-2, Copy 1, and/or an annual reconciliation return to the applicable state taxing authority. Most state copies are due by the end of February (note, however, that several states have adopted the extended March 31 filing deadline for electronically filed Forms W-2). Those states with a due date other than the end of February (or the end of March for electronic filers) are indicated in blue print in Column 2 and Column 3 of Exhibit A.

- **Employee statements.** Employees who are paid wages in a state or locality with income tax must be given Copy 2 of the Form W-2. The due date for providing Copy 2 of the Form W-2 to employees varies by state and/or local taxing jurisdiction. Most state and local taxing jurisdictions require that employees receive their state and local Forms W-2 by the last day of January. Those state taxing authorities with a due date other than the last day of January are shown in blue print in Column 1 of Exhibit A.

**Note:** much of this information was obtained by Ernst & Young LLP during the course of informal telephone, website or email surveys with state governmental agencies. Although telephone and email surveys are useful in determining how government departments currently treat an issue, answers and positions derived from such surveys are not binding upon the state, cannot be cited as precedent and may change over time and hence cannot be relied upon.
Form W-2 filing due dates for tax year 2014

*Continued*

Exhibit A: Due dates for submitting Forms W-2 for tax year 2014*
(Changes from tax year 2013 are highlighted in yellow. Blue type indicates due date differs from federal.)

<table>
<thead>
<tr>
<th>State/jurisdiction</th>
<th>Column 1: employee</th>
<th>Column 2: state</th>
<th>Column 3: state electronic filers</th>
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<td>January 31</td>
<td>February 28 (5, 15)</td>
<td>March 31</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>January 31</td>
<td>January 31 (12)</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>January 31</td>
<td>February 28</td>
<td></td>
</tr>
<tr>
<td>Hawaii</td>
<td>January 31</td>
<td>February 28 (7)</td>
<td></td>
</tr>
<tr>
<td>Idaho</td>
<td>January 31</td>
<td>February 28 (7, 11)</td>
<td></td>
</tr>
<tr>
<td>Illinois</td>
<td>January 31</td>
<td>March 31 (14)</td>
<td>February 15 (14)</td>
</tr>
<tr>
<td>Indiana</td>
<td>January 31</td>
<td>February 28 (7)</td>
<td></td>
</tr>
<tr>
<td>Iowa</td>
<td>January 31</td>
<td>February 28 (3, 7)</td>
<td></td>
</tr>
<tr>
<td>Kansas</td>
<td>January 31</td>
<td>February 28 (7)</td>
<td></td>
</tr>
<tr>
<td>Kentucky</td>
<td>January 31</td>
<td>January 31</td>
<td></td>
</tr>
<tr>
<td>Louisiana</td>
<td>January 31</td>
<td>February 28 (8)</td>
<td></td>
</tr>
<tr>
<td>Maine</td>
<td>January 31</td>
<td>February 28 (6, 15)</td>
<td>March 31</td>
</tr>
<tr>
<td>Maryland</td>
<td>January 31</td>
<td>February 28 (5)</td>
<td></td>
</tr>
<tr>
<td>Massachusetts</td>
<td>January 31</td>
<td>February 28 (7, 15)</td>
<td>March 31</td>
</tr>
<tr>
<td>Michigan</td>
<td>January 31</td>
<td>February 28</td>
<td></td>
</tr>
<tr>
<td>Minnesota</td>
<td>January 31</td>
<td>February 28</td>
<td></td>
</tr>
<tr>
<td>Mississippi</td>
<td>January 31</td>
<td>February 28 (15)</td>
<td>March 31</td>
</tr>
<tr>
<td>Missouri</td>
<td>January 31</td>
<td>February 28 (7)</td>
<td></td>
</tr>
<tr>
<td>Montana</td>
<td>January 31</td>
<td>February 28</td>
<td></td>
</tr>
<tr>
<td>Nebraska</td>
<td>February 1 (17)</td>
<td>February 1 (17)</td>
<td></td>
</tr>
<tr>
<td>New Jersey</td>
<td>February 15</td>
<td>February 28 (7, 13)</td>
<td></td>
</tr>
<tr>
<td>New Mexico</td>
<td>January 31</td>
<td>February 28 (7, 19)</td>
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</tr>
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<td>New York</td>
<td>February 15</td>
<td>January 31 (1)</td>
<td></td>
</tr>
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<td>North Carolina</td>
<td>January 31</td>
<td>February 28 (7)</td>
<td>March 31 (18)</td>
</tr>
<tr>
<td>North Dakota</td>
<td>January 31</td>
<td>February 28 (15)</td>
<td>March 31</td>
</tr>
<tr>
<td>Ohio</td>
<td>January 31</td>
<td>February 28 (2, 7)</td>
<td></td>
</tr>
<tr>
<td>Oklahoma</td>
<td>January 31</td>
<td>n/a (4)</td>
<td></td>
</tr>
<tr>
<td>Oregon</td>
<td>January 31</td>
<td>March 31 (15, 21)</td>
<td>March 31</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>January 31</td>
<td>January 31</td>
<td></td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>January 31</td>
<td>January 31</td>
<td></td>
</tr>
</tbody>
</table>
Maine. Due date is February 29 in a leap year.

(11) Idaho. Idaho will no longer extend the deadline to March 31 for electronically filed Forms W-2.

(12) District of Columbia. All Forms W-2 must be submitted by January 31; electronic filers no longer have an extended deadline of the last day of February. The annual reconciliation form must by law also be submitted by January 31.

(13) New Jersey. Statutory deadline to file is February 15, but administrative policy extends the deadline to the last day of February to match federal.

(14) Illinois. The Illinois annual reconciliation form is no longer required. Employers required to file Form W-2 information electronically with the SSA, as well as all payroll service providers, are required to file electronically with the Illinois Department of Revenue no later than February 15 (March 31 prior to tax year 2014). Employers not required to file electronically with the SSA need not submit Forms W-2.

(15) The deadline is extended to March 31 for Forms W-2 filed electronically.

(16) Connecticut. Effective in 2014, all employers must file all withholding returns, including Form W-2 and the annual reconciliation, electronically. Employers that have requested a waiver of the requirement to file electronically must file on CD.

(17) Nebraska. The deadline for employer submission of Forms W-2 information to the Nebraska Department of Revenue changed from March 15 to on or before February 1, effective January 1, 2011. Effective for calendar year 2014, employers must provide Forms W-2 to employees on or before February 1.

(18) North Carolina. The North Carolina 2014 Form W-2 specifications for filing on CD-ROM indicate that employers filing on CD have until March 31, 2015, to file Forms W-2.

(19) New Mexico. Employers that file a Form ES-903, Wage and Contribution Report, to the New Mexico Workforce Solutions Department or Form TRD-31109 to the Taxation and Revenue Department do not need to submit Forms W-2 or the annual reconciliation form to the state.
Dealing with the 2014 retroactive increase in the 2014 transit benefit limit

On December 19, 2014, legislation was enacted under Pub. Law 113-295 that retroactively increased the 2014 monthly tax-free limit on transit (including vanpool) benefits from $130 to $250 to match the limit set for parking benefits in Rev. Proc. 2013-35. Accordingly, employers that provided transit benefits in excess of $130 per month in 2014 will need to adjust their employees’ 2014 taxable wages reflecting the increase in the monthly tax-free limit of up to $120 per month ($250–$130).

A similar 11th-hour move occurred for tax year 2012, when fiscal cliff legislation enacted on December 31, 2012, caused employers to scramble to make wage adjustments and issue Social Security/Medicare (FICA tax) refunds to avoid filing Forms W-2c. It is likely the IRS may again issue special rules as it did in IRS Notice 2013-8 that would allow employers to show all transit-benefit-related adjustments for 2014 on the 2014 fourth-quarter Form 941-X.

Unlike the 2012 retroactive change in transit benefits, employers had time before December 31, 2014, to issue refunds of FICA and federal income tax withholding overpayments to employees, thereby avoiding time-consuming gathering of employee FICA consent letters and issuance of Forms W-2c.

Making 2014 transit benefit adjustments

The manner for making 2014 transit benefit adjustments depends on the employer’s benefit plan.

- **Employer-provided transit benefits.** If employers incurred the cost for 2014 transit benefits, and such cost exceeded $130 per month, an adjustment that reduces employees’ taxable wages of up to $120 per month of that excess cost can be made to the last wage payment in 2014. Accordingly, any refund of Social Security, Medicare or federal income tax withholding will be automatically reflected as an increase in the employees’ net pay.

  If it was not possible to make the adjustment within the payroll system (e.g., in tandem with a regular or bonus wage payment made before December 31, 2014), employers will need to separately refund FICA and federal income tax withholding overpayments. Keep in mind that refunds of federal income tax withholding are normally prohibited after December 31, 2014.

  Additionally, absent any special rules from the IRS to the contrary, FICA refunds made after the filing of 2014 Forms W-2 with the Social Security Administration will result in the added burden of filing 2014 Form W-2c and collecting FICA refund consent letters from employees.

- **Employee pretax contributions.** If employees paid for their transit benefits with pretax contributions, and absent any IRS special rule to the contrary, an adjustment reducing their 2014 taxable wages will not apply unless they made a catch-up pretax contribution before December 31, 2014.

- **Employee after-tax contributions.** If employees made after-tax contributions in addition to pretax contributions under a qualified transportation fringe benefit plan, up to $120 per month of their after-tax contributions may be reclassified as pretax contributions thereby reducing their taxable wages for 2014.

  If it was not possible to make the adjustment within the payroll system (e.g., in tandem with a regular or bonus wage payment made before December 31, 2014), employers will need to separately refund FICA and federal income tax withholding overpayments. Keep in mind that refunds of federal income tax withholding are normally prohibited after December 31, 2014.

  Additionally, absent any special rules from the IRS to the contrary, FICA refunds made after the filing of 2014 Forms W-2 with the Social Security Administration will result in the added burden of filing Form W-2c and collecting FICA refund consent letters from employees.

For 2015 transit benefit considerations see page 18.
2014 Form 940, 940 Schedule A and instructions are now available

The Internal Revenue Service released the 2014 Form 940, *Employer’s Annual Federal Unemployment (FUTA) Tax Return*; the 2014 Form 940 Instructions; and 2014 Form 940 Schedule A, *Multi-State Employer and Credit Reduction Information*. Form 940 is due for 2014 to the IRS by February 2, 2015 (deadline extended to February 10, 2015, if all FUTA taxes were deposited timely and in full for 2014).

Form 940, Schedule R, *Allocation Schedule for Aggregate Form 940 Filers*, has also been released for 2014.

Form 940, Schedule A includes the seven states and the Virgin Islands with a credit reduction for 2014.

**FUTA credit reduction states**

The 2014 Form 940, Schedule A includes a listing of all states, the District of Columbia, Puerto Rico and the Virgin Islands. The form shows the credit reductions for the seven states and the Virgin Islands in decimal format, while other states without a credit reduction show zero.

Employers are instructed to place an “X” in the box of every state in which they were required to pay state unemployment tax for calendar year 2014. For states with a credit reduction rate greater than zero, enter the FUTA taxable wages (not the state taxable wages), multiply by the credit reduction rate and then enter the credit reduction amount for that state. The total credit reduction amount must be shown at the bottom of Schedule A and on line 11 of the Form 940.

The increased FUTA taxes in the seven states and the Virgin Islands with a credit reduction for 2014 are due from employers with their fourth-quarter 2014 federal unemployment tax deposit, due February 2, 2015. As reported in the November 2014 issue of Payroll Perspectives, here is a list of the seven states and the Virgin Islands that have a FUTA credit reduction for 2014 and the FUTA rates at which employers in these states will pay.

**2014 FUTA credit reduction and net FUTA rates**

<table>
<thead>
<tr>
<th>State</th>
<th>Credit reduction</th>
<th>2014 net FUTA rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>1.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Indiana</td>
<td>1.5%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>New York</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Ohio</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Virgin Islands</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

For a copy of the 2014 Form 940, go [here](#).

For a copy of the 2014 Form 940, Schedule A go [here](#).
Change in broker reporting of employee stock options could cause income reporting errors on individual tax returns

Under new regulations issued in April 2013 and effective January 1, 2014, broker reporting of the sale of shares acquired from an employee stock option are changed. Specifically, in preparing Form 1099-B, Proceeds From Broker and Barter Exchange Transactions (Reg. §1.6045-1), brokers are no longer permitted to adjust basis to account for the exercise of an employee stock option that is granted or acquired on or after January 1, 2014.

This is a significant change in reporting, and for the unprepared, could result in the double counting of stock option income on taxpayers’ individual income tax returns. Taxpayers and tax preparers will just now start seeing the impact of this change and will need to understand how it impacts on the preparation of 2014 individual income tax returns.

Background

When an employee exercises a nonqualified stock option (NQSO), the difference between the price on the date of grant (grant price) and the price on the date of exercise (exercise price) is considered compensation income and reported in the employee’s Form W-2, Wage and Tax Statement, in boxes 1, 3 and 5. When the shares are subsequently sold, the basis in these shares is considered the exercise price.

A common method used to exercise NQSOs is the cashless exercise, where the employee exercises the option and then immediately sells the shares. Typically, when there is a cashless exercise, there is little difference between the basis of the stock acquired and the proceeds when the shares are sold, since both transactions occur close in time.

Before January 1, 2014, it was a common practice for brokerage firms to adjust the cost basis of the shares acquired from the option exercise to take into account the amount already reported on Form W-2. When the shares were sold, the Form 1099-B would often reflect a modest gain or loss on the sale.

Under the new Treasury regulations effective after January 1, 2014, when an employee exercises a NQSO, the brokerage firm cannot increase the cost basis on Form 1099-B for the income already reported on Form W-2. Instead, the broker is now required to report the basis as not available or leave the basis as the original strike price of the option. As a result, the option spread will be reported on the Form W-2 and a capital gain will be shown on the 1099-B. Accordingly, tax preparers will now be required to manually adjust the cost basis when preparing the Form 1040, Schedule D, Capital Gains and Losses, and Form 8949, Sales and Other Dispositions of Capital Assets.

Ernst & Young LLP insights

When preparing individual tax returns, taxpayers should obtain copies of stock option exercise confirmations from their broker or employer. This information will provide the details needed for the proper reporting on the individual tax return. These confirmation statements should be provided to the tax preparer along with the Form 1099-B so that the basis can be adjusted as needed.

If employees have exercised nonqualified stock options in 2014, employers should consider alerting them to the reporting change and possibility that filing of Form 8949 may be necessary to avoid any overstatement of taxable income.

For more tips on what to consider in preparing the federal individual income tax return, check out the EY Tax Guide for 2014.

For more information about this issue, email christopher.williams@ey.com or kristie.lowery@ey.com.
The examples below illustrate the potential impact of this change in reporting. In both cases the client has 1,000 NQSOs with a grant price of $10 per share. The current fair market value (FMV) of the stock is $30 and the employee does a cashless exercise of the option.

**Example 1: Option exercise before January 1, 2014**

When the option is exercised, the employee would have $200,000 of spread on the option (10,000 x ($30 exercise price - $10 grant price)). This would be included on the W-2 as compensation income. Since the exercise price of the option was $30 on the date of exercise, this is the cost basis of the shares acquired from the option exercise. When the shares are immediately sold after the exercise at $30, the capital gain reported on the broker’s Form 1099-B would be $0 ($300,000 proceeds - $300,000 basis).

**Example 2: Option exercise after January 1, 2014**

When the option is exercised, the employee would have $200,000 of spread on the option (10,000 x ($30 exercise price - $10 grant price)). This would be included on the W-2 as compensation income. Since the exercise price of the option was $30 on the date of exercise, this is the cost basis when the shares are sold.

If the shares were immediately sold after the exercise at $30, the capital gain reported on the Form 1099-B would be either:

- $300,000: $300,000 proceeds - $0 (basis not being available)
- $200,000: $300,000 proceeds - $100,000 (10,000 options x original $10 grant price)

The taxpayer would then need to manually adjust the cost basis to $300,000 exercise price. This adjustment would need to be made on Form 1040, Schedule D and Form 8949.

**Procedure for adjusting the cost basis of employee stock options sold**

In cases when the cost basis is reported incorrectly on Form 1099-B, take the following steps:

1. Report the proceeds reported on Form 1099-B in column d of Form 8949.
2. Report the cost basis reported on Form 1099-B in column e of Form 8949.
3. Enter code B in column f of Form 8949.
4. Calculate the adjustment to the cost basis and report in column g of Form 8949. Input as a negative number for an increase in basis or a positive number for a decrease in basis.

**Example:** Employee sells 10,000 shares of stock acquired from an employer’s NQSO plan where the grant price was $10 and exercise price was $30.

**NQSO transaction details**

- $100,000 = cost basis per original grant price of the option
- $200,000 = additional cost basis per exercise of the option (spread between the grant price and the exercise price)
- $300,000 = sales proceeds reported on Form 1099-B
- $100,000 = cost basis reported on Form 1099-B

**Form 8949 is completed as follows**

- Column d: $300,000
- Column e: $100,000
- Column f: B
- Column g: $(200,000)
- Column h: $0 (computed)

*Please note that if the cost basis was not reported on Form 1099-B, report the correct cost basis in column e of Form 8949.*
Several employer provisions expired as of January 1, 2015; here's what employers need to do

An “extender” is a legislative item that Congress has set to expire or “sunset” and frequently applies to tax breaks or tax credits. There are a number of extenders tied to federal income tax and hiring incentives, such as the Work Opportunity Tax Credit (WOTC).

The budget debate over the last several years has caused frequent delays in dealing with “extenders”; consequently, numerous tax provisions expire only to be retroactively reinstated. In 2014, for instance, the parity in transit and parking benefits was retroactively reinstated to January 1, 2014, resulting in last-minute adjustments to taxable wages and, for some employers, Forms W-2c and employment tax refunds.

Roughly 55 tax extenders, 6 of them relevant to employers, expired on December 31, 2014. This means that employers again face uncertainty about certain tax provisions and the resulting complexities that retroactive legislation creates.

Shown on the next page are a list of employer tax provisions that were temporarily extended through December 31, 2014, under the Tax Increase Prevention Act of 2014 (Pub. Law 113-295).

What employers need to do now

When there is a possibility that an extender will be reinstated, employers may need to take certain steps during the period a tax provision has lapsed (termed the “hiatus”). Consider these items, for instance:

- **Work Opportunity Tax Credit (WOTC).** History has shown that this extender will be reinstated. However, to be eligible for the tax credit if it is retroactively reinstated, employers must have continued to certify their eligible employees with the appropriate state workforce agency during the hiatus. Certification is made by filing the Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit.

  It is hoped that like last year, the U.S. Department of Labor (DOL) will issue a directive to state workforce agencies to accept, date stamp, log and retain certification requests for employers’ new hires made on or after January 1, 2015. In 2014, the DOL told state workforce agencies that they should issue Conditional Certifications (ETA Form 9062) and may, if they have resources, conduct all steps necessary to process certification requests up to, but not including, issuance of the actual certification or denial.

- **Transit benefits.** In Rev. Proc. 2014-61, the IRS announced that the monthly tax-free limit for transit benefits for tax year 2015 is $130, while the limit for parking rises to $250. Should Congress reinstate the parity provision, the transit benefit limit could retroactively increase from $130 to $250. With this in mind, employers should consider the prudence of allowing employees to contribute the monthly gap of $120 ($250 less $130) on an after-tax basis. In this way, an adjustment can be made in taxable wages for the hiatus period by reclassifying after-tax contributions to pretax.

  See page 14 for more on the 2014 retroactive increase in the monthly transit benefit limit.

- **Other extenders.** Keep adequate records during the hiatus so that tax credits can be easily identified and claimed.
Employer provisions set to sunset on December 31, 2014

<table>
<thead>
<tr>
<th>Provision</th>
<th>Details</th>
<th>Effective period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fringe benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mass-transit benefit parity</td>
<td>Under current law, the monthly exclusion for employer-provided transit and vanpool benefits was set at $125, while the monthly limit for parking was set at $240. HR 8 reinstates parity for these benefits, increasing the monthly exclusion for transit and vanpool assistance to $240 (indexed for inflation for 2013).</td>
<td>January 1, 2014, through December 31, 2014</td>
</tr>
<tr>
<td><strong>Tax credits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian tax credit</td>
<td>Prior to 2014, the law made a business tax credit available to employers with qualified employees that work and live on or near an Indian reservation. Effective January 1, 2014, the tax credit is reinstated, making available through December 31, 2014, a tax credit of 20% of the excess of wages and health insurance costs paid to qualified employees (up to $20,000 per employee) in the current year over the amount paid in 1993.</td>
<td>January 1, 2014, through December 31, 2014</td>
</tr>
<tr>
<td>Wage credit for military reservists</td>
<td>Retroactive to January 1, 2014, eligible small-business employers are eligible for a credit against their income tax liability for a taxable year equal to 20% of the sum of differential wage payments made to active military reservists.</td>
<td>January 1, 2014, through December 31, 2014</td>
</tr>
<tr>
<td>Work Opportunity Tax Credit</td>
<td>Retroactive to January 1, 2014, employers are eligible to claim the Work Opportunity Tax Credit (WOTC) of up to 40% of the first $6,000 of wages paid to new hires in one of eight targeted groups.</td>
<td>January 1, 2014, through December 31, 2014</td>
</tr>
<tr>
<td>Empowerment Zone tax incentives</td>
<td>Retroactive to January 1, 2014, businesses and individual residents within designated Empowerment Zones are eligible for special federal tax incentives.</td>
<td>January 1, 2014, through December 31, 2014</td>
</tr>
</tbody>
</table>
Federal withholding rates for 2015

The IRS has released the 2015 Publication 15, Circular E, Employer’s Tax Guide. Here is what you need to know about withholding federal taxes from wages.

**Social Security and Medicare tax**

As previously reported, the 2015 Social Security wage base increases to $118,500.

The Social Security and Medicare tax rates for both the employer and the employee remain unchanged at 6.2% and 1.45%, respectively.

Also unchanged is the Additional Medicare Tax. Employers are required to withhold Additional Medicare Tax of 0.9% on Medicare wages in excess of $200,000. There is no employer contribution.

**Nonresident alien employee income tax calculation**

For 2015, apply the following procedure to determine the amount of federal income tax withholding to be deducted from the wages of nonresident alien employees performing services within the US. Add the amounts shown in the chart below to their wages, and apply the withholding tables to compute the federal income tax withholding.

*Note:* nonresident alien students from India and business apprentices from India are not subject to this procedure.

**Amount to add to nonresident alien employee’s wages for calculating 2015 income tax withholding only**

<table>
<thead>
<tr>
<th>Payroll period</th>
<th>Add additional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily or miscellaneous</td>
<td>$8.80</td>
</tr>
<tr>
<td>Weekly</td>
<td>$44.20</td>
</tr>
<tr>
<td>Biweekly</td>
<td>$88.50</td>
</tr>
<tr>
<td>Semimonthly</td>
<td>$95.80</td>
</tr>
<tr>
<td>Monthly</td>
<td>$191.70</td>
</tr>
<tr>
<td>Quarterly</td>
<td>$575.00</td>
</tr>
<tr>
<td>Semiannually</td>
<td>$1,150.00</td>
</tr>
<tr>
<td>Annually</td>
<td>$2,300.00</td>
</tr>
</tbody>
</table>

For more information concerning supplemental wages, see page 18 of IRS Publication 15.

Check out the Ernst & Young LLP 2014 payroll checklist here.
2015 annual percentage method withholding

The following is a reprint of the tax year 2015 annual percentage method of federal income tax withholding.

<table>
<thead>
<tr>
<th>Payroll period</th>
<th>One withholding allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily or miscellaneous</td>
<td>$15.40</td>
</tr>
<tr>
<td>Weekly</td>
<td>$76.90</td>
</tr>
<tr>
<td>Biweekly</td>
<td>$153.80</td>
</tr>
<tr>
<td>Semimonthly</td>
<td>$166.70</td>
</tr>
<tr>
<td>Monthly</td>
<td>$333.30</td>
</tr>
<tr>
<td>Quarterly</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Semianually</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Annually</td>
<td>$4,000.00</td>
</tr>
</tbody>
</table>

Table 7 — Annual payroll period (for 2015)

(a) Single person (including head of household)

<table>
<thead>
<tr>
<th>If the amount of wages (after subtracting withholding allowances) is</th>
<th>The amount of income tax to withhold is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $2,300</td>
<td>$-0-</td>
</tr>
<tr>
<td>Over</td>
<td>Of excess over</td>
</tr>
<tr>
<td>$ 2,300</td>
<td>$ 2,300</td>
</tr>
<tr>
<td>$ 11,525</td>
<td>$ 11,525</td>
</tr>
<tr>
<td>$ 39,750</td>
<td>$ 39,750</td>
</tr>
<tr>
<td>$ 93,050</td>
<td>$ 93,050</td>
</tr>
<tr>
<td>$ 191,600</td>
<td>$ 191,600</td>
</tr>
<tr>
<td>$ 413,800</td>
<td>$ 413,800</td>
</tr>
<tr>
<td>$ 415,500</td>
<td>$ 415,500</td>
</tr>
</tbody>
</table>

(b) Married person

<table>
<thead>
<tr>
<th>If the amount of wages (after subtracting withholding allowances) is</th>
<th>The amount of income tax to withhold is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $8,600</td>
<td>$-0-</td>
</tr>
<tr>
<td>Over</td>
<td>Of excess over</td>
</tr>
<tr>
<td>$ 8,600</td>
<td>$ 8,600</td>
</tr>
<tr>
<td>$ 27,050</td>
<td>$ 27,050</td>
</tr>
<tr>
<td>$ 83,500</td>
<td>$ 83,500</td>
</tr>
<tr>
<td>$ 159,800</td>
<td>$ 159,800</td>
</tr>
<tr>
<td>$ 239,050</td>
<td>$ 239,050</td>
</tr>
<tr>
<td>$ 420,100</td>
<td>$ 420,100</td>
</tr>
<tr>
<td>$ 473,450</td>
<td>$ 473,450</td>
</tr>
</tbody>
</table>
Effective January 1, 2015, the business standard mileage rate (including vans, pickup trucks and panel trucks) increases from $0.560 per mile to $0.575 while the rate for medical and relocation decreases from $0.235 per mile to $0.230. Mileage related to charity is set by law and remains at $0.140 per mile. (*IRS Notice 2014-79.*)

Note that the business standard mileage rate may not be used (1) after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), (2) after claiming the IRC §179 deduction for that vehicle, (3) after claiming depreciation using a method other than straight-line for the estimated useful life, or (4) to compute the deductible expenses for more than four vehicles used simultaneously. (*Rev. Proc. 2010-51, IRB 883.*)

For the rates and limits applicable in 2014, see our special report.

Summary of mileage rates – 2015 compared to 2014

<table>
<thead>
<tr>
<th>Type of mileage</th>
<th>Effective January 1, 2015</th>
<th>Effective January 1, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business standard</td>
<td>$0.575</td>
<td>$0.560</td>
</tr>
<tr>
<td>Charity</td>
<td>$0.140</td>
<td>$0.140</td>
</tr>
<tr>
<td>Relocation and medical</td>
<td>$0.230</td>
<td>$0.235</td>
</tr>
</tbody>
</table>
2015 state disability insurance rates and limits

Six jurisdictions – California, Hawaii, New Jersey, New York, Puerto Rico and Rhode Island – operate state disability insurance (SDI) programs. Depending on the state or jurisdiction, the employee may pay all of the contributions to the program through wage withholding, or the employer and the employee may share the cost of the insurance coverage. The following chart lists the state SDI rates and taxable wage limits for 2015 based on information currently available.

<table>
<thead>
<tr>
<th>State/jurisdiction</th>
<th>Employee contribution</th>
<th>Employer contribution</th>
<th>Taxable wage limit if applicable (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>0.9%</td>
<td>None</td>
<td>$104,378</td>
</tr>
<tr>
<td>Hawaii</td>
<td>50% of cost but not more than 0.5% of covered weekly wages up to max. Weekly contribution of $4.76</td>
<td>None</td>
<td>$951.23 (weekly)</td>
</tr>
<tr>
<td>New Jersey</td>
<td>0.25% (3)</td>
<td>New employers pay 0.5% of taxable wages if in state plan; experience rating applies (2)</td>
<td>$32,000</td>
</tr>
<tr>
<td>New York</td>
<td>0.5% with contribution limit of: $0.14 daily $0.60 weekly $1.20 biweekly $1.30 semimonthly $2.60 monthly (4)</td>
<td>Balance of costs over employee contributions necessary to provide benefits</td>
<td>None</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>0.3% (4)</td>
<td>0.3% (4)</td>
<td>$9,000 (4)</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>1.2%</td>
<td>None</td>
<td>$64,200</td>
</tr>
</tbody>
</table>

(1) Represents maximum annual earnings unless another period is specified. Where employer contribution is stated as a percentage, the taxable wage limit applies.
(2) New Jersey. For 2015, employer disability experience rates range from 0.1% to 0.75%.
(3) Effective January 1, 2015, employees pay at 0.09% for family leave insurance (FLI).
(4) Not anticipated to change for 2015.
California

2015 unemployment, disability and Employment Tax Training rates and limits; 2015 meals and lodging values

The California Employment Development Department (EDD) has released the 2015 state unemployment insurance (SUI), state disability insurance (SDI) and Employment Training Tax (ETT) rates and limits to its website.

2015 SUI tax rates and taxable wage base

The SUI taxable wage base for 2015 remains at $7,000 per employee.

The 2015 California employer SUI tax rates will continue to range from 1.5% to 6.2% on Schedule F+. The new employer SUI tax rate remains at 3.4% for 2015.

The state's unemployment trust fund deficit was $9.7 billion at the end of 2013. The trust fund is projected to have a deficit of $8.7 billion at the end of 2014, $7.4 billion by the end of 2015 and $5.5 billion by the end of 2016 if changes are not made to the financing structure (e.g., increasing the $7,000 taxable wage base).

The Department’s October 2014 UI forecast shows that employers will remain on Contribution Rate Schedule F+ through at least calendar year 2016. (Unemployment Insurance Fund Forecast, California Employment Development Department, October 2014.)

Unemployment Insurance Trust Fund surcharge

Because the ratio of the California Unemployment Insurance Trust Fund to the total wages paid by all employers remains under 0.6%, the 2015 SUI tax rates will continue to include a 15% surcharge.

Unemployment insurance voluntary contributions

Because Schedule F+ is in effect, by law voluntary contributions to reduce the 2015 SUI tax rates will not be allowed for 2015.

Mailing of rate notices and protest deadline

The SUI, ETT and SDI tax rates are combined on a single rate notice, Notice of Contribution Rates and Statement of UI Reserve Account (DE 2088). The Department plans as usual to mail the 2015 SUI rate notices to employers in December, with a mailing date of December 31, 2014.

Employers will have 60 days from the mailing date to protest any item on the rate notice except SDI and ETT, which are specifically set by law.

2015 state disability insurance (SDI) rates and taxable wage base

The 2015 employee SDI withholding rate, which includes disability insurance and paid family leave, will decrease to 0.9%, down from 1.0% for 2014.

The maximum SDI to withhold from employees’ paychecks for 2015 is $939.40, down from $1,016.36 for 2014.

The 2015 SDI taxable wage base will increase to $104,378, up from $101,636 for 2014.

Employment Training Tax (ETT)

The ETT rate for 2015 remains at 0.1%.

The ETT taxable wage base for 2015 remains at $7,000 per employee.

California unemployment trust fund status

Beginning on January 26, 2009, California began borrowing from the federal government to pay UI benefits. As of December 15, 2014, California has an outstanding federal UI loan balance of $8,341,218,415. Because the state was unable to repay all its federal UI loans by November 10, 2014, there is a 1.2% FUTA credit reduction for calendar year 2014, to be paid with employers’ fourth-quarter 2014 FUTA tax deposit, due February 2, 2015.

California employers ran the risk for calendar year 2014 of an even higher FUTA cost through the addition of the Benefit Cost Rate (BCR) factor because the state is in its fifth year of carrying a federal loan balance. California Governor Jerry Brown requested and received a waiver of the BCR for 2014.

Interest on the federal loan began accruing on January 1, 2011, and the resulting four interest payments of $303.5 million, $308.2 million, $259 million and $217.4 million were made to the Department of Labor on September 30 in 2011, 2012, 2013 and 2014, respectively. An estimated additional $184.4 million is due in 2015, and $146.9 million is due in 2016. Interest for 2011 and 2012 was paid through a loan from the state’s disability fund. This loan must be repaid with interest within five years. The interest for 2013 and 2014 was paid from the state’s general fund.

While making no specific recommendations for regaining UI trust fund solvency in its 2014-15 budget proposal (i.e., the Department’s July 2013 proposal for increasing the SUI taxable wage base to $9,500 in 2015 and to $12,000 in 2016), the California Department of Labor and Workforce Development stated the following:
“A solvency solution should be developed with the following goals and principles:

- Achieve a prudent reserve by 2021 substantial enough to withstand a recession.
- Repay the Disability Insurance Fund and General Fund for interest payments made by the state.
- Phase in changes to the financing structure to smooth the impact on employers to the extent possible.
- Include reforms to improve the integrity of the unemployment insurance program.

“No benefit increases can be contemplated until the fund becomes solvent, has a sufficient reserve, and can support the proposed increase ongoing.” (See here.)

How much does California’s federal debt cost its employers?

The EDD doesn't anticipate repaying its federal unemployment insurance loan until after 2016.

The Department forecasts that the cost of the FUTA credit reduction increases California employers’ FUTA taxes as follows:

2011: $290 million
2012: $292.7 million
2013: $601.0 million
2014: $945.2 million
2015: $1.3 billion
2016: $1.7 billion

These additional FUTA tax payments are applied to California's federal unemployment insurance loan balance.

Keep in mind that all California employers pay these additional FUTA taxes without regard to their California unemployment claims history.

### 2015 meals and lodging values

#### 2015 meal values for non-maritime employees

<table>
<thead>
<tr>
<th>Meal</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakfast</td>
<td>$2.25</td>
</tr>
<tr>
<td>Lunch</td>
<td>$3.40</td>
</tr>
<tr>
<td>Dinner</td>
<td>$5.40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$11.05</td>
</tr>
</tbody>
</table>

| A meal not identified as either breakfast, lunch or dinner | $3.95 |

#### Lodging value

Value is set at 66% of the ordinary rental value to the public but not in excess of $1,255.00 per month or less than $40.70 per week.

2015 meal and quarters values for licensed maritime employees*

<table>
<thead>
<tr>
<th>Licensed personnel</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meals</td>
<td>$11.05</td>
</tr>
<tr>
<td>Quarters</td>
<td>$8.70</td>
</tr>
<tr>
<td><strong>Total per day</strong></td>
<td>$19.75</td>
</tr>
</tbody>
</table>

2015 meal and quarters values for unlicensed maritime employees*

<table>
<thead>
<tr>
<th>Unlicensed personnel</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meals</td>
<td>$11.05</td>
</tr>
<tr>
<td>Quarters</td>
<td>$5.90</td>
</tr>
<tr>
<td><strong>Total per day</strong></td>
<td>$16.95</td>
</tr>
</tbody>
</table>

*Maritime employees’ values of meals and lodging are different from all other employees and are shown in the above tables. Lodging values for maritime employees apply only when the facilities meet specific minimum standards.

Fishermen

Lodging value is $41.75 per week or $5.90 per day for periods of less than a week.
Colorado

2015 SUI tax rates decrease, with wage base to rise

The 2015 SUI tax rates will range from 0.78% to 10.20% (including the 2015 bond principal surcharge), down from a range of 0.81% to 10.87% for 2014. The 2015 bond principal surcharge is computed by multiplying the base SUI tax rate (ranging from 0.62% to 8.15%) by 25.2% (up from 22.19% for 2014).

The 2015 new employer rate, including bond principal, for non-construction employers will be 2.13%; for general construction and trades, 6.34%; and for heavy construction, 9.67%. (Colorado Department of Labor & Employment website, December 2014.)

Employers should not include the bond principal surcharge when showing SUI contributions on the federal Form 940 worksheet.

2015 SUI wage base

As we reported previously, the Colorado state unemployment insurance (SUI) taxable wage base will increase to $11,800 for calendar year 2015, up from $11,700 for 2014.

Mailing of 2015 rate notices; voluntary contribution deadline is March 14, 2015

The 2015 SUI tax rate notices were mailed to employers on November 30, 2014.

Experience-rated employers may make a voluntary contribution to reduce their tax rate by March 14, 2015. Employers that disagree with the figures used in computing their tax rate may file a protest within 30 days of the mailing date on the rate notice by going to the Department's website.

No bond interest assessment for remainder of bond repayment

As we reported in the October 2014 issue of Payroll Perspectives, Colorado employers will not pay UI bond interest assessments for the remainder of the bond repayment period, expected to be completed in 2017.

However, employers will continue to pay the bond principal surcharge that is added to each employer’s SUI tax rate until the bonds are retired.

For more information on SUI taxes in Colorado, see the Department's website.

Previous electronic reporting system replaced; registration required

The Quarterly Premium and Wage Report website, used by employers that file quarterly UI return electronically, was replaced as of December 1, 2014, with a new website called MyUI Employer.

Employers that have been filing electronically should have received a letter regarding registration for the new system, including a temporary password and username.

Employers must register with MyUI Employer for access to their account.

For more information, see the Colorado Department of Labor & Employment's website.

Colorado minimum wage increases effective January 1, 2015

Colorado's state minimum wage rate will increase effective January 1, 2015, to $8.23 per hour (up from $8.00 for 2014). For tipped employees, the minimum wage for 2015 increases to $5.21 per hour (up from $4.98 for 2014). (Colorado Department of Labor and Employment website, December 2014.)

Exception: employees whose physical disability has been certified by the director to significantly impair such disabled employee's ability to perform the duties involved in the employment, and unemancipated minors under 18 years of age, may be paid 15% below the current minimum wage less any applicable lawful credits ($7.00 per hour effective January 1, 2015), for all hours worked.

For more information, call +1 303 318 8441 or +1 888 390 7936, or see the Division's website.
Hawaii

2015 SUI tax rates to decrease; taxable wage base to increase

The 2015 Hawaii state unemployment insurance (SUI) tax rates will range from 0.2% to 5.8% on Rate Schedule D, down from a range of 0.6% to 6.0% on Rate Schedule E for 2014. New employers will pay at 3.0% for 2015, down from 3.4% for 2014. Hawaii employers will continue to pay an Employment & Training Assessment for 2015 at a rate of 0.01%. (Hawaii Department of Labor & Industrial Relations website, December 2014.)

2015 SUI wage base

As we reported in EY Payroll NewsFlash Vol. 15, #283 (dated December 10, 2014), the 2015 Hawaii SUI taxable wage base will increase to $40,900, up from $40,400 for 2014.

Mailing of SUI rate notices

The Department typically mails individual SUI tax rate notices to employers during March. For more information, contact the Department at +1 808 586 8913 or see the Department’s website.

Change in rate schedule means 22% reduction in SUI taxes for 2015

According to a Hawaii State Department of Labor and Industrial Relations news release, SUI rates for 2015 will be reduced by an average of 22%, resulting in employers paying $50 million less in taxes, or $100 less per employee on average for 2015.

“This is welcome news to many small businesses throughout the state who can now consider investing the savings in their businesses and personnel,” said Governor David Ige. “The Trust Fund is designed to replenish its balance when times are better so the taxes on employers do not rise when the economy falters and when employers can least afford higher taxes.” (News release, December 15, 2014.)

Hawaii’s improved jobless rate aids in state’s trust fund recovery

The state’s UI trust fund went bankrupt in December 2010, and the state had to borrow $183 million from the federal government to pay UI benefits but was able to repay its loan during the first week of August 2011. As a result, employers did not see a FUTA credit reduction for calendar years 2011–14.

The current UI trust fund balance is at 0.99 of the Average High Cost Multiple (AHCM) standard set by the U.S. Department of Labor, at a level to pay about 12 months of benefits.

The unemployment benefit rate has dropped to 4.1% from a high of 6.8% in December 2010, which has helped contribute to the replenishment of the UI trust fund.

As of October 2014, Hawaii had the sixth-lowest unemployment benefit rate among states.
Idaho

Withholding tax guide updated without change in tables; 2014 Form W-2 filing reminders

The Idaho State Tax Commission has updated the publication A Guide to Idaho Income Tax Withholding to remove references to the split-monthly filing cycle, which was replaced by the semimonthly filing cycle as of January 1, 2014, and to update links in the guide. No changes were made to the withholding tables that were last adjusted in June 2014 (see the August 2014 issue of Payroll Perspectives). (Electronic news, Idaho State Tax Commission, December 11, 2014.)

The Idaho personal income tax schedules are adjusted for inflation each year, and the withholding calculation methods are revised if the inflation adjustments cause a substantial change, usually occurring midyear.

For more information on the change to semimonthly filing for certain employers, see the January 2014 issue of Payroll Perspectives.

2014 Form W-2 filing

The Idaho State Tax Commission released its calendar year 2014 Form W-2 Electronic Reporting Manual to its website.

Employers required by the IRS to file Forms W-2 electronically and that have 50 or more Idaho employees must file electronically with Idaho. The filing deadline for both electronic and paper 2014 Forms W-2 is February 28, 2015.

All split-monthly specific fields in the RV record have been changed to filler, to reflect the change to semimonthly filing. Effective December 15, 2014, online services will be hosted by the commission’s Taxpayer Access Point (TAP) system. Use TAP for filing electronic Forms 967, Annual Withholding Report; W-2; and 1099.

More information on withholding taxes in Idaho is available here.

Illinois

Illinois 2015 income tax withholding reflects lower rate of 3.75%

The Illinois Department of Revenue released the wage-bracket withholding tables for 2015 to its website, reflecting the anticipated decrease in the income tax withholding rate to 3.75%, down from 5.0%.

In addition, the 2015 standard exemption amount will increase from $2,125 to $2,150.

The revised wage-bracket tables for wages paid on and after January 1, 2015, are available here.

History

In January 2011, Illinois Governor Pat Quinn signed into law legislation that increased the state personal income tax rate for four years to 5.0%, effective through December 31, 2014. Under the legislation, the income tax rate decreases to 3.75% effective January 1, 2015, and to 3.25% effective January 1, 2025. (SB 2505, Public Act 96-1496, Laws 2011, passed and signed by the governor on January 13, 2011.)

The legislation also increased the corporate income tax rate from 4.8% to 7.0% effective January 1, 2011. The corporate rate drops to 5.25% effective January 1, 2015, and 4.8% as of January 1, 2025.

2015 automated income tax withholding

If you use an automated payroll method to figure your withholding, use the following formula for 2015:

\[
0.0375 \times \left( Wages - (IL-W-4, \text{Line 1 allowances} \times 2,150) + (IL-W-4, \text{Line 2 allowances} \times 1,000) \right) / \text{the number of pay periods in a year}
\]

To determine how much to withhold using the automated payroll method formula, follow these steps:

Step 1: Determine the wages paid for the payroll period.

Step 2: Figure your employee's exemptions using the allowances claimed on Form IL W 4.

a. Multiply the number of allowances your employee claimed on Form IL-W-4, Line 1, by $2,150.

b. Multiply the number of allowances your employee claimed on Form IL-W-4, Line 2, by $1,000.

c. Add your answers from Step 2a and Step 2b.

d. Divide the result of Step 2c by the number of pay periods from the table. The result is your employee's exemptions.
Step 3: Subtract the exemptions from the wages paid. The result is the taxable amount.

Step 4: Multiply the taxable amount by 3.75% (0.0375). You must withhold this amount.

Step 5: Add any additional amount from Form IL-W-4, Line 3. This is the total amount you withhold.

Is a future hike in Illinois personal income tax likely?
The drop in the 2015 income tax rate is estimated to create a $2 billion shortfall for the second half of FY 2015. For this reason, Governor Quinn proposed to make the 5% income tax rate permanent, a measure that did not make it into the final FY 2015 budget.

Voters on November 4, 2014, indicated their support for an additional 3% income tax for those with income in excess of $1 million; however, any tax increase would need to be passed by the 2015 Illinois Legislature and signed into law by the new incoming Republican governor, a proposition that many see as unlikely.

Several other states, such as California and Connecticut, have successfully instituted an additional tax on high-wage earners in recent years.

Illinois 2015 SUI tax rates to decrease, with taxable wage base unchanged
The 2015 Illinois state unemployment insurance (SUI) tax rates range from 0.55% to 8.15%, a decrease for employers rated higher than the minimum rate. The 2014 SUI tax rates ranged from 0.55% to 8.55%. (Illinois Department of Employment Security website, December 2014.)

Most new employers pay at 3.75% for 2015, down from 4.15% for 2014. For 2015, new construction employers (NAICS sector 23) pay at 5.45%; new management of companies employers (NAICS sector 55) at 4.05%; new transportation and warehousing employers (NAICS sector 48-49) at 3.95%; new manufacturing employers (NAICS sector 31-33) at 3.95%; new administration support and waste management employers (NAICS sector 56) at 4.85%; and new mining employers (NAICS sector 21) at 4.65%.

2015 taxable wage base
The SUI taxable wage base remains at $12,960 for 2015.

Mailing of 2015 rate notices
The Department mailed the 2015 SUI tax rate notices to employers during the last week of November 2014. For more information, contact the Illinois Department of Employment Security's Employer Services Hotline at +1 800 247 4984 or see the Department's website.

2015 SUI tax rate outlook
The 2015 Illinois SUI tax rates decreased for employers with a history of benefit charges because the State Experience Factor used in the calculation of the 2015 tax rates is 118%.

The State Experience Factor for 2014 was 125%. The 2015 SUI tax rates continue to include a 0.55% Fund Building Rate.

Legislation enacted in 2011 (SB 72, signed by the governor on November 19, 2011) decreased the minimum basic rate to zero, down from 0.2%. As a result, as in 2012–14, an employer with no history of layoffs will pay only the 0.55% Fund Building Rate. According to an Illinois Department of Employment Security news release, more than 150,000 employers will pay at the minimum rate for 2015, while 167,380 businesses, nearly 50% of employers that pay unemployment insurance taxes, will see tax rates decline. (News release, December 1, 2014.)

Illinois' approach to trust fund debt financing fairly distributes cost burden based on employer experience
As previously reported, Illinois sold nearly $1.5 billion in bonds on July 18, 2012, to use to repay the over $1.2 billion outstanding federal UI loan balance and over $50.8 million in interest due on the loan by September 30, 2012. On July 31, 2012, Illinois paid off its loan with the bond sale proceeds. As a result, Illinois employers regained their full FUTA credit, resulting in a net FUTA rate of 0.6% for calendar years 2012-14.

The state is paying for the bonds by raising the statewide multiplier used in the calculation of the SUI tax rates for calendar years 2013 through 2018. This will distribute the debt financing burden in proportion to an employer's experience. (SB 72, Public Act 97-0621, signed by the governor on November 18, 2011.)
Kansas

2015 SUI tax rate schedule to decrease; taxable wage to increase

The 2015 Kansas state unemployment insurance (SUI) tax rates will decrease for most employers to range from 0.07% to 5.4% for positive-balanced employers and from 5.5% to 7.4% for negative-balanced employers. New non-construction employers will pay at 2.7% and new construction employers at 6.0. (Kansas Department of Labor website, December 2014.)

2015 SUI taxable wage base

The 2015 SUI taxable wage base will increase to $12,000, up from $8,000.

Mailing of 2015 SUI rate notices

The Kansas Department of Labor mailed the tax rate notices to employers on November 12, 2014. Experience-rated employers could make a voluntary contribution to reduce their assigned tax rate by December 12, 2014 (30 days from the mailing date of the rate notice). (Email responses to inquiry, Kansas Department of Labor, December 1-2, 2014.)

Voluntary contribution elections simplified

Under Kansas law, an experience-rated employer is allowed to make a voluntary contribution within 30 days of the mailing date on the rate notice to reduce its assigned SUI tax rate. Previously, a positive-balanced employer was limited in making a voluntary contribution to reduce its assigned rate by only five rate brackets. A negative-balanced employer could make a voluntary contribution to bring its account balance to positive and then only to within the first five positive rate brackets. Legislation removed these restrictions by allowing an employer to make a voluntary contribution to reduce its rate to any of the brackets on the rate tables.

On the Experience Rating Notice, each contributing, experience-rated employer was provided a “voluntary contribution computation,” showing all the voluntary contribution options available to the employer. Voluntary contributions are not refundable, so the employer should take care in determining if a voluntary contribution payment is beneficial to the business.

Legislation enacted in 2013 increases taxable wage base in 2015 and 2016

Legislation enacted in 2013 increases the Kansas SUI taxable wage base, starting in calendar year 2015, to $12,000 in 2015 and to $14,000 in 2016, up from the previous $8,000. The bill also reduced the contribution rate for new non-construction employers, from 4.0% to 2.7%, effective with the 2014 rate year. (HB 2105, signed by the governor on April 16, 2013.)

Legislation enacted earlier this year reduced the 2014 SUI tax rates

Legislation enacted in early 2014 reduced by 15% the Kansas 2014 SUI tax rates for positive-balanced, merit-rated employers. For example, a minimum-rated employer saw a revised rate of 0.09%, down from 0.11%. Tax rates for new and negative-balanced employers did not change. Employers received revised rate notices in early April 2014.

For more information, see May 2014 issue of Payroll Perspectives.

Status of Kansas’ federal UI loan

Starting in March 2010, Kansas began receiving federal UI loans in order to pay SUI benefits. The outstanding loan balance was repaid in full on May 4, 2012, through a loan from Kansas Pooled Money Investment Board. This loan was repaid through a surcharge imposed on negative-balanced employers through calendar year 2014.

As a result, employers did not see a FUTA credit reduction for calendar years 2012-14. The state's UI trust fund balance stood at $240,103,474 as of October 31, 2014, up from $95,729,000 as of October 31, 2013.

Additional surcharge taxes also go down in 2015

All eligible contributing employers with a negative account balance are assigned the maximum base rate provided in the law of 5.4%. In addition to the maximum rate of 5.4%, negative account balance employers are subject to a surcharge, which goes to strengthen the trust fund and is credited to the employer's account balance.

The surcharge is based on the size of the employer's negative reserve ratio, ranging from a minimum of 0.1% to a maximum of 2.0% for 2015. Due to legislation enacted in 2013, this is a reduction of as much as 1.0% from 2014. (HB 2105, signed by the governor on April 16, 2013.)

Another surcharge which ranged from 0.1% to 2.0% for 2014 is not in effect for 2015. This surcharge went to repay loans from the Kansas Pooled Money Investment Board, used by the Department to repay the federal UI loan balance and the interest due on the loan for 2011 and 2012.
Kansas 2015 income tax withholding tables released; 2014 Form W-2 filing reminders

The Kansas Department of Revenue has issued a revised employer withholding guide and tables effective January 1, 2015, to its website. (Publication KW-100, 2015 Kansas Withholding Tax Guide, Kansas Department of Revenue.) A reproduction of the annual percentage is provided on the next page.

Supplemental wages

Supplemental wages are compensation paid to an employee in addition to the employee's regular wage. They include, but are not limited to, bonuses, commissions, overtime pay, accumulated sick leave, severance pay and back pay. Kansas withholding is required on all supplemental wage payments.

Kansas withholding on a supplemental wage payment is computed using the same method that you use at the federal level. If you are adding regular and supplemental wages together and computing federal withholding on the total using the federal tables, compute the Kansas withholding using the same steps. For example, you pay an employee a $1,000 bonus in addition to her regular wage of $1,000. Since you are not separating the payment, you calculate federal and state withholding using a gross wage amount of $2,000 for the period.

In contrast: If you state the supplemental wage separately and compute federal withholding as a percentage of the payment (usually 25%), then compute Kansas withholding at 4.5% of the gross payment. For example, the Kansas withholding on a $1,000 bonus paid would be $45 ($1,000 X 4.5%).

Legislation affecting withholding tax

Legislation passed during the 2012 legislative session made significant changes to Kansas withholding tax. These changes began with tax year 2013 and will continue through tax year 2018.

The tax rates were lowered at all levels and the tax structure went from three tiers to two tiers. The calculation of an individual’s Kansas income tax starts with federal adjusted gross income. Certain modifications, either additions or subtractions, required by K.S.A. 79-32,117 are made to arrive at Kansas adjusted gross income. Provisions of HB 2117 add five new addition modifications and one new subtraction modification to K.S.A. 79-32,117. The overall effect of these new provisions is to exempt certain categories of income from Kansas income tax. (HB 2117, signed by the governor on May 22, 2012.)

Also, Senate Bill 265, signed by the governor on April 17, 2014, repeals K.S.A. 79-32,100e, which required withholding from a nonresident shareholder of an S corporation, a nonresident partner or a nonresident member of a limited liability company. As a result of this repeal, the use of Kansas Forms KW-7, KW-7S or KW-7A will no longer be required. See Department Notice 14-09 here.
Kansas income tax withholding percentage method - Table 7

### Kansas
For wages paid on and after January 1, 2015

#### (a) Single person (including head of household)

<table>
<thead>
<tr>
<th>Over</th>
<th>But not over</th>
<th>Withholding + percent</th>
<th>Of excess over</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ -0-</td>
<td>$ 3,000</td>
<td>$ 0 + 0.0%</td>
<td>$ -0-</td>
</tr>
<tr>
<td>$ 3,000</td>
<td>$ 18,000</td>
<td>$ 0 + 2.7%</td>
<td>$ 3,000</td>
</tr>
<tr>
<td>$ 18,000</td>
<td>And over</td>
<td>$ 405 + 4.6%</td>
<td>$ 18,000</td>
</tr>
</tbody>
</table>

The annual amount for each withholding allowance is $2,250.

#### (b) Married person

<table>
<thead>
<tr>
<th>Over</th>
<th>But not over</th>
<th>Withholding + percent</th>
<th>Of excess over</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ -0-</td>
<td>$ 6,000</td>
<td>$ 0 + 0.0%</td>
<td>$ -0-</td>
</tr>
<tr>
<td>$ 6,000</td>
<td>$ 36,000</td>
<td>$ 0 + 2.7%</td>
<td>$ 6,000</td>
</tr>
<tr>
<td>$ 36,000</td>
<td>And over</td>
<td>$ 810 + 4.6%</td>
<td>$ 36,000</td>
</tr>
</tbody>
</table>

The annual amount for each withholding allowance is $2,250.

### 2014 Form W-2 filing reminders

The Kansas Department of Revenue continues to require that all withholding tax returns be filed electronically.

In addition, employers filing 51 or more Forms W-2 are required to file electronically.

The annual withholding tax return (Form KW-3) and corresponding Forms W-2 are due annually on the last day of February (February 28, 2015, for calendar year 2014).

For more information, see the Department's website here.
Louisiana

2015 SUI rates to increase, while wage base remains unchanged

The Louisiana 2015 SUI tax rates will range from 0.10% to 6.20%, with rates within the table increasing as much as 0.04% from 2014.

The 2015 Louisiana SUI tax rates continue to include variable Incumbent Worker Training Program and Integrity Social Charge Fund rates that must be deducted as shown on the employer’s SUI tax rate notice and quarterly SUI tax reports before using for Form 940 calculation purposes. New employers continue to be rated based on the average rate in an employer’s industrial classification.

2015 unemployment insurance wage base

The Louisiana 2015 state unemployment insurance (SUI) taxable wage base will remain at $7,700. (Louisiana Workforce Commission website, December 2014.)

Mailing of 2015 rate notice

The Louisiana Workforce Commission plans to mail the SUI tax rate notices to employers no later than December 31, 2014. Employer may also at that time access their tax rates over the Commission’s website. (Email response to inquiry, representative, Louisiana Workforce Commission, December 1, 2014.)

Filing written protests. An employer has 20 days following the mailing date of the rate notice to file a written protest of the tax rate assignment if the employer finds discrepancies in the factors used in determining the tax rate. (Louisiana R.S. 23:1541(E)-(F).)

Voluntary contributions could lower your 2015 SUI rate

An experience-rated employer has 30 days following the mailing date of the rate notice (estimated voluntary contribution deadline of January 30, 2015) to be to make a voluntary contribution to reduce its assigned 2015 SUI tax rate.

Keep in mind that before a voluntary contribution is made, you should first determine if the additional payment will result in a potential future tax reduction.

If you have questions, contact an Ernst & Young LLP Employment Tax Services professional.

Maine

2015 withholding tables released; electronic tax payment threshold reduced; 2014 Form W-2 filing reminders

Maine Revenue Services (MRS) released the 2015 Maine employer withholding tax guide, including the annual percentage method and wage-bracket tables. (2015 Withholding tables for individual income tax, Maine Revenue Services, posted to website November 2014.)

The 2015 withholding tables are available here.

Supplemental wages

The supplemental rate of income tax withholding for 2015 remains at 5%.

If supplemental wages (such as bonuses, commissions, overtime pay) are paid with regular wages, the withholding tax is calculated as if the total were a single payment of wages for the regular payroll period. If the supplemental wages are paid separately, the payer may withhold a flat 5.0%. (2015 Withholding tables for individual income tax, Maine Revenue Services, posted to website November 2014.)

Electronic filing required

All employers and non-wage payers registered for Maine income tax withholding and unemployment compensation accounts must electronically file Maine quarterly withholding and unemployment tax returns and the annual reconciliation of Maine income tax withholding (Form W-3ME). Waivers from this requirement are available if the requirement causes undue hardship. (MRS Rule 104.)

Electronic payment requirements change in 2015

Beginning in 2015, taxpayers that have a combined tax liability for all Maine taxes of $10,000 or more during the look-back period ending in 2014 must remit all Maine tax payments electronically. Thus, in addition to other entities affected by the requirement, employers and non-wage payers required to remit on a semiweekly basis must do so electronically. (MRS Rule 102.)
Change in quarterly reporting effective first quarter 2015

As we previously reported, combined quarterly filing of Maine unemployment contributions and Maine income tax withholding is discontinued effective first quarter 2015.

All Maine unemployment contributions will be reported quarterly on new Form ME UC-1 (now available here) and all Maine withholding will be reported quarterly on Form 941ME. The due dates for both returns will remain unchanged, with each quarterly return and payment of liability due electronically with MRS the final day of the month following quarter-end (i.e., April 30, 2015, for the first quarter 2015).

Separate payments will be remitted to MRS for unemployment contributions and income tax withholding. Separate file specifications are now available for filing withholding returns or unemployment tax and wage reports on the MRS website.

Employers are reminded that these changes do not affect the filing of the fourth-quarter 2014 combined Form 941/C1-ME, due January 31, 2015.

Further guidance issued by Maine Revenue Services (NEW)

The 2015 MEETRS e-file system is now available to test files. The 2015 MEETRS specifications for withholding and unemployment taxes have been posted to the MRS website. (Maine Revenue Services, December 8, 2014.)

MRS is in the process of modifying the I-file and electronic payment systems to support separate reporting and payment of the withholding and unemployment taxes for 2015. It is expected that the updated systems will be available by February 28, 2015.

ACH credit payments

Employers that use the ACH credit method to pay withholding and unemployment taxes must, for tax periods beginning on or after January 1, 2015, utilize separate addendum record layouts to remit the amount due for each tax. ACH credit payments for periods prior to 2015 utilized a single addendum record layout to remit a combined payment for both taxes. For tax periods beginning on or after January 1, 2015, there will be an addendum record layout for withholding tax payments and a separate addendum record layout for unemployment tax payments. The addendum record layouts are available here. Information about the changes to the ACH credit addendum record layouts will be mailed to affected employers in the near future. For questions about ACH credit payments, contact the Revenue Services EFT Unit at +1 207 624 5625 or email efunds.transfer@maine.gov.

2014 Forms W-2 filing reminders

Employers of 250 or more employees must file Forms W-2 and the annual reconciliation (Form W-3ME) electronically with the MRS. Employers of fewer than 250 employees should report the amount of Maine withholding for each employee or payee on either Form 941ME, Schedule 2 or Form 941/C1-ME, Schedule 2/C1 for each quarter. If this is done, small employers are required to electronically file only Form W-3ME (no need to include Forms W-2). However, if an employer did not report the amount of Maine withholding for each employee or payee on its quarterly return for each quarter, the employer must submit Forms W-2 electronically with its Form W-3ME.

Employers that file federal Forms W-2 electronically with the SSA have until March 31, 2015, to file Forms W-2 with the MRS. However, the annual reconciliation (Form W-3ME) must be filed electronically by March 2, 2015. MRS does not accept paper copies of Forms W-2 and 1099.

For a copy of the 2014 Form W-2 specifications, go here.
Massachusetts

2015 state income tax withholding rate drops; 2014 Form W-2 filing reminders

The Massachusetts Department of Revenue has released revised state income tax withholding tables for 2015 that reflect the reduced income tax (and supplemental withholding rate) of 5.15%. (Massachusetts Circular M, Income Tax Withholding Tables, effective January 1, 2015, released December 2014.)

Beginning January 1, 2015, the 5.2% tax rate on most classes of taxable income will drop to 5.15%. The Department has certified that baseline revenues this year met growth thresholds set by statute which automatically triggered the 0.05% decrease. The Department will continue to certify any revenue growth every year until the income tax rate reaches 5%. (DOR news, Massachusetts Department of Revenue, December 8, 2014.)

See the following for directions on how to compute annual withholding under the percentage method of withholding. See the 2015 Massachusetts Circular M (located on the Department's website).

Transportation fringe benefits

For tax year 2015 the Massachusetts monthly exclusion amounts are $250 for employer-provided parking and $130 for combined transit pass and commuter highway vehicle transportation benefits.

Massachusetts income tax withholding system (annual percentage method for wages paid on and after January 1, 2015)

From employee's total wages:

1. Subtract the amount deducted for the US Social Security (FICA), Medicare, Massachusetts, United States or Railroad Retirement systems. The total amount subtracted may not exceed $2,000. When, during the year, the total amount subtracted reaches the equivalent of the $2,000 maximum allowable as a deduction by Massachusetts, discontinue this step.

2. Subtract the total of the exemption factors (i.e., the dollar value of the employee's exemptions, for the applicable payroll period). Annually, $4,400, if claiming one exemption; if claiming more than one exemption, $1,000 multiplied by the number claimed, plus $3,400. If an employee claims "0" exemptions, discontinue this step.

3. After subtracting the amounts specified in steps 1 and 2 above from the employee's total wages, multiply the result by 5.15% (0.0515) and withhold the resulting amount.

4. If the employee will file as head of household on their tax return, either (a) add to the amount computed in step 2 and subtract the total from the wages (annually, $2,400) or (b) subtract the head of household tax value from the step 3 result (annually, $123.60).

5. If the employee and/or his/her spouse is blind, either (a) add the blind exemption factor to the other exemption factors in steps 2 and 4(a), if applicable, before subtracting the total from the wages (annually, $2,200) or (b) subtract the blindness tax value amount from the result from steps 3 and 4(b), if applicable (annually, $113.30).

Important note: do not withhold from employees who claim one or more exemptions if their wages are less than $8,000 annually.

2014 Form W-2 filing reminders

Any employer filing 50 or more Forms W-2 for calendar year 2014 must submit the file electronically by file upload through the Massachusetts Webfile for Business system.

These electronic files are due by April 1, 2015. Employers filing 49 or fewer W-2s must file Forms W-2 with the Department of Revenue, either electronically or on paper.

Paper copies of Forms W-2 must be accompanied by reconciliation Forms M-3 or M-3M and must be filed on or before February 28, 2015.

Employers filing electronically do not file Forms M-3 and M-3M with the Department.

For a copy of the Form W-2 handbook for 2014 is available here.
Minnesota

2015 income tax withholding and 2014 W-2/1099 filing reminders

The Minnesota Department of Revenue has released the 2015 withholding computer formula and wage-bracket withholding tables to its website. The annual computer formula in effect for wages paid on and after January 1, 2015, is reproduced below.

For a copy of the 2015 instruction booklet, and for more information, go here.

Supplemental withholding rate for 2015

The supplemental rate of income tax withholding is unchanged at 6.25% (0.0625).

Overtime, commissions, bonuses and other supplemental payments. Supplemental payments made to an employee separately from regular wages are subject to the 6.25% Minnesota withholding regardless of the number of withholding allowances the employee claimed. Multiply the supplemental payment by 6.25% (0.0625) to calculate the Minnesota withholding.

If you make supplemental payments to an employee at the same time you pay regular wages and you list the two payments separately on the employee's payroll records (regardless of whether you list the amounts separately on the paycheck), choose one of the following methods to determine how much to withhold:

Method 1. Add the regular wages to the supplemental payment and use the tax tables to find how much to withhold from the total.

Method 2. Use the tax tables to determine how much to withhold from the regular wages alone. Multiply the supplemental payment by 6.25% (0.0625) to determine how much to withhold from that payment.

If you do not list the regular wages and the supplemental payment separately on the employee's payroll records, you must use Method 1. (2015 Minnesota Income Tax Withholding Instruction Booklet and Tax Tables, December 2014.)

Backup withholding

Minnesota follows the federal provisions for backup withholding on nonwage payments for personal services. Personal services include work performed for your business by a person who is not your employee. If the person performing services for you does not provide a Social Security or tax ID number or if the number is incorrect, you must withhold tax equal to 9.85% (0.0985) of the payment(s). If you do not, you may be assessed the amount you should have withheld. The assessment is subject to penalty and interest. (2015 Minnesota Income Tax Withholding Instruction Booklet and Tax Tables, December 2014.)

Electronic filing of Forms W-2 for tax year 2014

For the filing of Forms W-2, W-2c and 1099 for calendar year 2014, employers filing 10 or more Forms W-2 continue to be required to file electronically. (2008 Minn. Laws, Chapter 154, Article 11, Section 3; Minnesota Department of Revenue website.)

To file electronically, employers use one of the department's Internet filing options:

- e-Services (see Fact Sheet 2a)
- The Department's Electronic Data Exchange (EDE) system (see Fact Sheet 2).

Fact Sheet 2 is available here.

Fact Sheet 2a is available here.

The deadline to file calendar year 2014 Forms W-2 with the Department is February 28, 2015.

Minnesota transit benefit reminder

Effective retroactive to January 1, 2014, legislation permanently continues the parity between the federal exclusion for parking expenses and vanpool and transit passes, setting the limit for both at $250 per month. See the Department's explanation here.

Accordingly, Minnesota's exclusion for vanpool and transit passes is higher than the 2014 federal limit of $130 per month. The difference of $120 per month ($250–$130) is subtracted from federal taxable income to arrive at Minnesota taxable income.

For tax years 2009 through 2013, the federal exclusion for transit passes and vanpooling expenses was temporarily increased to match the parking exclusion and Minnesota recently retroactively conformed to the higher monthly limit for vanpool and transit passes for 2012 and 2013.

Congress has not yet reinstated the parity provision for transportation fringe benefits for 2014 creating, perhaps temporarily, a lack of conformity between Minnesota and federal law.

Forms 1099

Minnesota participates in the combined federal/state magnetic media program for reporting 1099 information. This program allows the payer or its agent to file information returns with the IRS and authorizes the release of the information to the appropriate state. See IRS Publication 1220 for more information on the combined program.

If you do not participate in the combined program but are required to electronically submit your 1099 information to the IRS, you must use magnetic media to submit the information to Minnesota. Prepare the 1099 magnetic media (PC 3½-inch diskettes or PC CDs) using the federal IRS Publication 1220 record format.
Legislation enacted in mid-2014 made several withholding tax changes

As we reported in EY Payroll NewsFlash Vol. 15, #100 (dated May 28, 2014), legislation permanently extends the transportation fringe benefit parity on a state level, authorized a new income tax reciprocity agreement with Wisconsin, shortens the due date of the fourth-quarter withholding tax return in 2016, and updates conformity with the federal income tax law. (HF 3167, signed by the governor on May 20, 2014.)

• Minnesota-Wisconsin income tax reciprocity

HF 3167 authorized the commissioner of revenue to enter into a new income tax reciprocity agreement with Wisconsin by September 30, 2014. The provision was estimated to result in a net revenue loss to Minnesota of up to $1 million.

The original reciprocity agreement between Minnesota and Wisconsin expired January 1, 2010. The agreement allowed residents of one state to file a single income tax return with their home state if they worked across the border. It was estimated at the time that the cancellation of the reciprocity agreement affected 57,000 Wisconsin residents and 22,000 Minnesota residents.

However, as we reported in EY Payroll NewsFlash Vol. 14, #157 (dated August 14, 2014), the states have been unable to come to an agreement regarding shortfall to Minnesota caused by the newly double the number of Wisconsin residents that work in Minnesota as compared to those Minnesota residents working in Wisconsin. It is hoped that an agreement is possible in 2015.

• Fourth-quarter withholding tax return deadline shortened to January 31

Effective for returns due after January 1, 2016, HF 3167 changes the due date of the fourth-quarter income tax withholding tax return from February 28 to January 31, or to February 10 if all withholding deposits for the quarter have been timely made. This change makes the state fourth-quarter withholding tax due date the same as the federal Form 941 due date.

This change affects only the fourth-quarter return filing deadline – it does not affect payment due dates and frequencies or the February 28 deadline for filing Forms W-2, as the sections of state law pertaining to these deadlines were not changed. (Email response to inquiry, Minnesota Department of Revenue, May 27, 2014.)

• Seasonal employers. Effective for wages paid after December 31, 2015, the law relieves some seasonal employers from the requirement to file income tax withholding returns for periods of anticipated inactivity, unless they pay wages during that period.

Minnesota income tax withholding computer formula (effective January 1, 2015)

1. Determine the employee’s total wages for one payroll period.

2. Multiply the total wages from step 1 by the number of payroll periods in the year (i.e., 360 if daily, 52 if weekly, 26 if biweekly, 24 if bimonthly, 12 if monthly). The result is the employee's annual wage.

3. Multiply the number of the employee’s withholding allowances by $4,000.

4. Subtract the result in step 3 from the result in step 2.

5. Use the chart below to figure an amount for step 5.

6. Divide the result in step 5 by the number of payroll periods used in step 2. The amount may be rounded to the nearest dollar. The result is the amount of Minnesota income tax to withhold from the employee’s wages.

<table>
<thead>
<tr>
<th>Minnesota income tax withholding for 2015: Single person</th>
<th>More than</th>
<th>But not more than</th>
<th>Subtract this amount from the result in step 4</th>
<th>Multiply result by</th>
<th>Add</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 2,300</td>
<td>$ 27,370</td>
<td>$ 2,300</td>
<td>5.35%</td>
<td>$ 0.00</td>
<td></td>
</tr>
<tr>
<td>$ 27,370</td>
<td>$ 84,660</td>
<td>$ 27,370</td>
<td>7.05%</td>
<td>$ 1,341.25</td>
<td></td>
</tr>
<tr>
<td>$ 84,660</td>
<td>$ 157,250</td>
<td>$ 84,660</td>
<td>7.85%</td>
<td>$ 5,380.20</td>
<td></td>
</tr>
<tr>
<td>$ 157,250</td>
<td>And over</td>
<td>$ 157,250</td>
<td>9.85%</td>
<td>$ 11,078.52</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minnesota income tax withholding for 2015: Married person</th>
<th>More than</th>
<th>But not more than</th>
<th>Subtract this amount from the result in step 4</th>
<th>Multiply result by</th>
<th>Add</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 8,600</td>
<td>$ 45,250</td>
<td>$ 8,600</td>
<td>5.35%</td>
<td>$ 0.00</td>
<td></td>
</tr>
<tr>
<td>$ 45,250</td>
<td>$ 154,220</td>
<td>$ 45,250</td>
<td>7.05%</td>
<td>$ 1,960.78</td>
<td></td>
</tr>
<tr>
<td>$ 154,220</td>
<td>$ 266,860</td>
<td>$ 154,220</td>
<td>7.85%</td>
<td>$ 9,643.17</td>
<td></td>
</tr>
<tr>
<td>$ 266,860</td>
<td>And over</td>
<td>$ 266,860</td>
<td>9.85%</td>
<td>$ 18,485.41</td>
<td></td>
</tr>
</tbody>
</table>
Nebraska

2015 state unemployment insurance rates to decrease; voluntary contributions due January 12

The 2015 Nebraska combined state unemployment insurance (SUI) tax rates will range from 0.0% to 5.4%, with rates within the table decreasing as much as 0.47%. New non-construction employers will pay at 1.25%, down from 1.39% for 2014, and new construction employers at 5.4%. (A guide to understanding Nebraska’s unemployment insurance combined tax rates for 2015, Nebraska Department of Labor, November 2014.)

2015 SUI wage base

The 2015 SUI taxable wage base will remain at $9,000.

2015 mailing of rate notices

The Nebraska Department of Labor plans to mail the 2015 paper tax rate notices to employers on December 4, 2014. Alternatively, employer tax rates are now available online on the Department’s website.

State unemployment insurance tax (SUIT) surcharge

A portion of the SUI tax rate for 2015 will continue to go to the state unemployment insurance (SUIT) fund. For 2015, the SUIT rate remains at 5% of the combined SUI tax rate.

An employer will receive credit for only 95% of the contributions it pays for 2015 to its reserve account. The remaining 5% will be diverted to the SUIT account. For example, an employer assigned the 2015 SUI tax rate of 0.82% will receive credit for only 0.78% to its reserve account.

When completing the federal Form 940 worksheet for 2015, only 95% of the combined contribution rate should be used. The SUIT fund is a dual-purpose fund. One purpose is to generate interest to fund grants to employers through Nebraska’s Worker Training program. The other purpose is to hold funds in reserve in case they are needed to pay unemployment benefits.

Higher rates apply to employers with delinquent or missing UI reports

Any employer that has not submitted all quarterly SUI tax reports when the 2015 SUI rates are calculated is assigned the maximum SUI tax rate, or 5.4% for 2015. An employer assigned the maximum rate for this reason may submit any delinquent or missing report by mail or on the online UICONNECT system on or before December 31, 2014, to receive a revised SUI tax rate.

Potential to lower rates if you act by January 12

Experience-rated employers may make a voluntary contribution by January 12, 2015, to reduce their assigned 2015 combined SUI tax rate.

Eligible employers are informed of the amount of the voluntary contribution necessary to reduce the SUI tax rate by one rate bracket in the 2015 SUI rate notice, which is available by mail or online.
Nevada

Overall increase in 2015 SUI tax

The Nevada Department of Employment, Training and Rehabilitation proposed to increase the average state unemployment insurance (SUI) tax rate for 2015 to 2.0% (up from the current 1.95%), while decreasing bond contribution rate from an average of 0.63% to an average of 0.56%. Combined, the overall average tax rate would decrease to 2.56%, down from 2.58% for 2014, although the average cost per employee will increase due to the increase in the taxable wage base for 2015. (Hearing notice and agenda, Nevada Department of Employment, Training and Rehabilitation.)

The proposed change would increase the estimated UI revenue collected by the Department by $15 million in 2015 and would increase the average employer cost per employee with wages greater than or equal to $27,800 (the 2015 taxable wage base) by $14. Due to the increase in the taxable wage base, the cost per employee could rise from $706.92 in 2014 to $711.68 in 2015, a 0.7% increase.

Employer SUI tax rates are usually issued in mid- to late December. For more information, see the Department’s website.

Quarterly bond assessment

The Department repaid its federal loan during the first week of November 2013 through the issuance of bonds. This allowed the net FUTA tax rate to return to 0.6%, beginning with calendar year 2013. As a result, contributory employers are required to pay a quarterly bond assessment to cover the principal, interest and administrative payments on the bonds. Collection of bond contributions began with the first quarter 2014 and will continue to be collected quarterly from employers until the bonds are fully repaid in late 2017 or early 2018.

The bond assessment is computed on a four-tier system, varying based on the employer’s SUI experience, as the quarterly SUI taxable wages multiplied by the employer’s assigned bond factor rate.

Employers should be notified by the Department of their 2015 bond factor rates in late January 2015. The bond factor rates will be reviewed annually after SUI tax rates are computed and will be based on the employer’s previous SUI experience. Employers with low SUI tax rates will have lower bond factor rates than employers with higher SUI rates.

New Mexico

2015 SUI wage base unchanged, with tax rates to increase

New Mexico’s state unemployment insurance (SUI) tax rates for 2015 will be computed based on a new benefit ratio system and will increase to range from a minimum of 0.33% to a maximum of 6.4%, including a new “excess claims rate” for maximum-rated employers.

2015 SUI taxable wage base

The New Mexico 2015 employer SUI taxable wage base will remain at $23,400, the same as for 2014.

Mailing of 2015 rate notices

2015 tax rate notices were mailed to employers during the week of December 8, 2014.

Legislation changes rate calculation method in 2015

Legislation enacted in 2013 will, effective January 1, 2015, change the method for computing employer SUI tax rates to the benefit ratio formula rather than the reserve ratio formula. (SB 334, Chapter 133, signed by the governor on April 3, 2013.)

The 2015 SUI experience rates were computed by dividing the employer’s UI benefit charges for the previous three years by the employer’s taxable payroll over the same time period to equal the benefit ratio. The benefit ratio is then multiplied by a “reserve factor” of 4.0 to equal the 2015 SUI tax rate, ranging from a minimum of 0.33% to a maximum base rate of 5.4%. The reserve factor will range each year from 0.5 to 4.0, as set by the Department based on the solvency of the state’s unemployment trust fund.

New excess claims premium to be imposed on maximum-rated employers

In addition to the computed SUI rate, beginning for 2015 maximum-rated employers will pay an “excess claims premium,” which is capped at 1% of taxable payroll up to the 2015 SUI wage limit of $23,400. Should an employer’s calculated SUI contribution rate exceed 5.4%, prior to adjusting to the 5.4% maximum rate an “excess claims rate” is calculated. The excess claims rate is the contribution rate that would have applied if not capped at 5.4%, minus 5.4%, multiplied by 10%, and then capped at 1%. As a result, the maximum total rate is 6.4%.

Department example: An employer with high benefit charges has a computed benefit ratio multiplied by the reserve factor to equal 15.4% (the calculated contribution rate prior to capping at 5.4%). The difference between 15.4% and the maximum 5.4% tax rate is 10%.
Ten percent of 10% is 1%. Accordingly, the employer in this example is responsible for a 1% excess claims premium in addition to its 5.4% SUI contribution rate, for a total rate of 6.4%.

Calculation of the excess claims rate appears separately on the employer’s tax rate notice, but the additional percentage will be combined with the SUI contribution rate on the electronic reporting system. (Telephone conversation, representative, New Mexico Department of Workforce Solutions, December 1, 2014.)

2015 new employer rate to be based on average industry

2013 SB 334 also changes the SUI tax rate assigned to new employers from a set 2.0% to an average industry rate. Starting in 2015, new contributing employers will have a rate that is the greater of their industry average rate or 1%. Based on the North American Industry Classification System (NAICS) code for the establishment, the average industry rate will remain in effect until the employer has acquired two years as an experience-rated employer.

More details on the rate calculation method beginning in 2015 are available here.

Weekly UI benefit amounts for 2015

The maximum weekly UI benefit amount for 2015 will increase to $412 (up from $406 for 2014), and the minimum weekly UI benefit amount for 2015 will be $77 (up from $75 for 2014). The minimum qualifying wage for 2015 will be $1,871.03 (up from $1,822.43 for 2014).

Voluntary contributions paid by March 1 could lower your rates

New Mexico gives employers the opportunity to potentially lower their SUI rates by making a voluntary contribution.

Voluntary contributions for the 2015 rate year are due by March 1, 2015. (Telephone conversation, representative, New Mexico Department of Workforce Solutions, December 1, 2014.)

Keep in mind that it is important to verify that the voluntary contribution will reduce the future rate before it is paid to the state.

For more information, contact Ernst & Young LLP.

New York

State and city of Yonkers income tax withholding tables revised for 2015

The New York Department of Taxation and Finance released the wage bracket and percentage method income tax withholding tables for the state of New York and city of Yonkers, effective with wages paid on or after January 1, 2015. The percentage method tables are reproduced on the following pages.

The 2015 New York State personal income tax rate schedules have been updated to reflect the cost of living adjustment required under New York tax law. As reported in the December 2014 issue of Payroll Perspectives, the withholding tables for Yonkers residents are also changed because the Yonkers withholding tax rate of 19.2% in effect over the period August 1 through December 31, 2014, has been lowered to the annualized rate of 16.75%.

Under the Yonkers FY 2015 budget act, signed by the governor on June 11, 2014, beginning with tax year 2014, the Yonkers resident personal income tax surcharge is increased from 15% to 16.75% of the net state tax.

The revised New York state withholding tables are in NYS-50-T-NYS, New York State Withholding Tax Tables and Methods, and the revised Yonkers withholding tax amounts are in Publication NYS-50-T-Y, Yonkers Withholding Tax Tables and Methods.

Supplemental withholding rates

If you pay supplemental wages (bonuses, commissions, overtime pay, sales awards, etc.) with regular wages but do not specify the amount of each, withhold income tax as if the total were a single payment for a regular payroll period.

If you pay supplemental wages separately (or combine them in a single payment and specify the amount of each), the income tax withholding method depends partly on whether you withheld income tax from your employee’s regular wages:

- If you withheld income tax from an employee’s regular wages, you can use one of the following methods for the supplemental wages:
  - a. Withhold at the supplemental rates shown on the next page.
  - b. Add the supplemental and regular wages for the most recent payroll period this year. Then figure the income tax withholding as if the total were a single payment. Subtract the tax already withheld from the regular wages. Withhold the remaining tax from the supplemental wages.
- If you did not withhold income tax from the employee’s regular wages, use method b. (This would occur, for example, when the value of the employee’s withholding allowances claimed on the Form W-4 is more than the wages.)
Also see federal Publication 15, *Circular E*, for a list of other payments that may be considered supplemental wages.

Effective January 1, 2015, if you pay supplemental wages (bonuses, commissions, overtime pay, sales awards, etc.), the following withholding rates apply:

- **New York State**............ 9.62% (unchanged)
- **New York City**................4.25% (unchanged)
- **Yonkers resident** .......... 1.61135% (changed)
- **Yonkers nonresident** ....... 0.50% (unchanged)

**Form IT-2104, Employee’s Withholding Allowance Certificate**

New York State Form IT-2104 is revised for 2015 to reflect the New York state personal income tax rate changes. The 2015 form can be found on the Department’s website.

### New York state income tax withholding tables (Percentage method II)

**Effective for wages paid on and after January 1, 2015**

#### Single taxpayer

<table>
<thead>
<tr>
<th>If annual wages (after subtracting deductions and exemptions) are:</th>
<th>Subtract Col. 3 amount from taxable portion of annualized pay:</th>
<th>Multiply the result by Col. 4 amount:</th>
<th>Add the result to Col. 5 amount. The resulting sum is the annualized tax:</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least</td>
<td>But less than</td>
<td>Col. 1</td>
<td>Col. 2</td>
</tr>
<tr>
<td>0</td>
<td>$ 8,400</td>
<td>$ 8,400</td>
<td>0</td>
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<tr>
<td>$ 8,400</td>
<td>$ 11,600</td>
<td>$ 8,400</td>
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<tr>
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<td>$ 13,750</td>
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<td>$ 21,150</td>
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<tr>
<td>$ 21,150</td>
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<td>$ 212,500</td>
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<td>$ 1,062,650</td>
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<td>$ 1,115,850</td>
<td>Or more</td>
<td>$ 1,115,850</td>
<td>0</td>
</tr>
</tbody>
</table>

The amount of one annual combined deduction and exemption allowance is $7,350.

#### Married taxpayer

<table>
<thead>
<tr>
<th>If annual wages (after subtracting deductions and exemptions) are:</th>
<th>Subtract Col. 3 amount from taxable portion of annualized pay:</th>
<th>Multiply the result by Col. 4 amount:</th>
<th>Add the result to Col. 5 amount. The resulting sum is the annualized tax:</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least</td>
<td>But less than</td>
<td>Col. 1</td>
<td>Col. 2</td>
</tr>
<tr>
<td>0</td>
<td>$ 8,400</td>
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<td>Or more</td>
<td>$ 1,115,850</td>
<td>0</td>
</tr>
</tbody>
</table>

The amount of one annual combined deduction and exemption allowance is $7,850.
City of Yonkers income tax withholding tables (Percentage method II)
Effective for wages paid on and after January 1, 2015

**Single taxpayer**

<table>
<thead>
<tr>
<th>At least But less than</th>
<th>Subtaxable portion of annualized pay:</th>
<th>Multiply the result by Col. 4 amount:</th>
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</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$8,400</td>
<td>0</td>
<td>$0.0400 $0</td>
</tr>
<tr>
<td>$8,400</td>
<td>$11,600</td>
<td>0</td>
<td>0.0450 $336</td>
</tr>
<tr>
<td>$13,750</td>
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<td>0.0590 $593</td>
</tr>
<tr>
<td>$21,150</td>
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<td>0.0665 $4,800</td>
</tr>
<tr>
<td>$79,600</td>
<td>$115,350</td>
<td>0</td>
<td>0.0758 $5,860</td>
</tr>
<tr>
<td>$115,350</td>
<td>$212,500</td>
<td>0</td>
<td>0.0808 $6,667</td>
</tr>
<tr>
<td>$212,500</td>
<td>$265,600</td>
<td>0</td>
<td>0.0815 $7,767</td>
</tr>
<tr>
<td>$265,600</td>
<td>$1,062,650</td>
<td>0</td>
<td>0.0962 $103,752</td>
</tr>
</tbody>
</table>

The amount of one annual combined deduction and exemption allowance is $7,350.

**Married taxpayer**

<table>
<thead>
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</tr>
</tbody>
</table>

The amount of one annual combined deduction and exemption allowance is $7,850.

All employers must file electronically starting in 2015

As we reported in the December 2014 issue of Payroll Perspectives, effective with returns due on and after April 30, 2015, all employers must electronically file the following forms:

- Forms NYS-45, Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return
- NYS-45-ATT, Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return – Attachment
- NYS-1, Return of Tax Withheld. The associated taxes must also be paid electronically. (New York Department of Taxation and Finance telephone conversation, October 22, 2014.)

To learn more about the options for electronic reporting, see the Department’s website or call +1 518 591 1596.

New York tax filing extensions for lake-effect snowstorms

The New York State Department of Taxation and Finance announced extensions for individuals and businesses directly affected by the strong lake-effect snowstorms that began on November 18, 2014. For the notice, go here.

Employers in the affected counties were allowed an extension to December 1, 2014, for remittances of withholding tax using Form NYS-1, Return of Tax Withheld, and those payments required to be made through the PrompTax electronic payment system (including the metropolitan commuter transportation mobility tax (MCTMT)).

The relief applied to taxpayers directly affected by the storms in the counties of Allegany, Cattaraugus, Cayuga, Chautauqua, Clinton, Erie, Essex, Franklin, Fulton, Genesee, Hamilton, Herkimer, Jefferson, Lewis, Livingston, Madison, Monroe, Montgomery, Niagara, Oneida, Onondaga, Orleans, Oswego, Otsego, St. Lawrence, and Wyoming.
Ohio

Legislation to simplify local income tax withholding tax rules heads to governor for signature

On December 19, 2014, Governor John Kasich signed into law Am. Sub. HB 5 (HB 5), which makes significant changes to Ohio’s municipal income tax regime in an effort to bring uniformity to the myriad city income tax ordinances in effect.

In particular, and generally effective January 1, 2016, the bill would simplify employer local income tax withholding, remittance and return filings through the following provisions.

Nonresident income tax exemption for occasional entrants

The safe harbor that exempts nonresident compensation from income tax and withholding would be increased from 12 to 20 days. The employer would not be required to withhold income tax from compensation paid to a nonresident employee who works 20 or fewer days in another municipality but would be required to withhold income tax for the municipality in which the employee’s principal place of work is located. Once an employee’s time in the municipality exceeds 20 days, the employer would be required to withhold on compensation earned from the 21st day forward.

The 20-day safe harbor would generally apply only to employers that have offices or operations in Ohio.

For purposes of this safe harbor, employees would generally be considered to have worked a “day” in another municipality if they spend the preponderance of their hours in the municipality.

Time spent traveling to and from the location where employees start or end the workday and other travel time spent going to locations to perform services for the employer will be considered spent at the employees’ principal place of work.

Professional athletes, entertainers and other public figures would not be entitled to this 20-day safe harbor. Special rules would apply for employers, such as construction contractors, that have employees working at construction sites or other temporary workplaces.

Small-business withholding exception

Smaller employers, defined as those with total gross receipts of less than $500,000, would be required only to withhold income tax based on the location of their permanent place of business in Ohio.

Withholding payments

The bill would adopt uniform schedules for the remittance of local income taxes withheld from employees. Specifically, local income withholding would be required to be remitted monthly if either they exceed $2,399 in the previous calendar year or $200 in any month during the previous calendar quarter. If the foregoing thresholds are not met, then local income tax withholding would be required to be remitted on a quarterly basis.

Municipalities would be allowed to enact ordinances requiring income tax withholding to be remitted semimonthly if they exceed either $11,999 during the prior calendar year or $1,000 during any month during the prior calendar quarter. Although the bill intends to further uniformity among municipalities, this is one area that will require continued monitoring for inconsistencies.

Ernst & Young LLP insights

Am. Sub. HB 5 would implement the most comprehensive set of municipal tax reforms in over a decade and is a result of significant negotiations and compromises among interested parties. While the legislation is intended to bring uniformity in the withholding, remittance and reporting of Ohio local income tax, some aspects of administration continue to be left to the discretion of the municipalities.

We will continue to monitor developments and provide updates as this bill is adopted and implemented throughout the state.
Pennsylvania

2015 SUI taxable wage base to increase; SUI tax rate factors unchanged

The calendar year 2015 employer state unemployment insurance (SUI) tax rates will continue to range from 2.801% to 10.8937%. (UC Issues Update newsletter, Fall 2014; Act 60, enacted on June 12, 2012.)

The 2015 employee SUI withholding rate will continue at 0.07% on total wages.

2015 SUI wage base

The taxable wage base will increase for 2015 to $9,000, up from $8,750, due to legislation passed in 2012.

2015 mailing of rate notices

The 2015 SUI tax rate notices are scheduled to be mailed to employers by December 31, 2014. Employers will also be able to access their rate notice information in their UCMS employer portal.

2015 SUI tax rates

Based on the current level of the Pennsylvania SUI trust fund and economic forecasts for the coming year, the following solvency measures are in effect for calendar year 2015:

- 5.1% (0.051) surcharge on employer contributions (unchanged from 2014). The surcharge adjustment (a component of the SUI tax rate) is computed by multiplying the employer’s 2015 basic rate by the 5.1% surcharge. The surcharge adjustment will be factored into the total 2015 contribution rate.
- 1.0% (0.010) state adjustment factor (unchanged from 2014). The state adjustment factor acts as an assessment on all employers and uniformly levies the common benefit costs that are paid out of the Pennsylvania UC Fund, but which are not charged to any specific employer account. The state adjustment factor is uniformly applied to all experience-rated employers.
- 0.65% (0.0065) employer additional contribution tax (unchanged from 2014). The additional contribution tax is added on to the employer’s assigned tax rate. This tax is not subject to the surcharge adjustment and is not applicable to newly liable and reimbursable employers.
- 1.10% (0.011) interest tax factor (unchanged from 2014). This additional contribution tax is added on to the employer’s assigned tax rate. This tax is not subject to the surcharge adjustment. The Department will use monies collected to pay the principal and interest due on the bonds sold to repay the federal UI loan.
- 0.07% (0.0007) tax on employee wages (unchanged from 2014). The employee withholding SUI tax is submitted with each Form UC-2/2A Quarterly Report. Employee withholding is not limited to the $9,000 taxable wage base for employer contributions; it applies to the total wages paid in 2015 (resulting in 70 cents per $1,000 earned).
- New employer rate of 3.6785% (0.036785) (unchanged from 2014). The newly liable non-construction employer rate is 3.6785% for 2015 (including the 5.1% surcharge only, because the 0.65% additional contribution tax and 1.10% interest tax factor do not apply to newly liable employer rates).
- New construction employer rate of 10.1947% (0.101947) (unchanged from 2014). The newly liable construction employer rate is 10.1947% (including the 5.1% surcharge only, because the 0.65% additional contribution tax and 1.10% interest tax factor do not apply to newly liable employer rates).
- Additional 3.0% (0.030) for delinquent employers. As in the past, if a delinquency exists on the account through the second quarter of 2014, 3.0% is added to the basic tax rate.

Taxable wage base will continue to increase through 2018

As part of the Act 60 amendments to the Pennsylvania UI law, the taxable wage base for employer contributions will increase each year from 2013 through 2018. At the same time, the maximum state adjustment factor has been decreased from 1.5% to 1.0% through 2016 and will decrease further thereafter. The following chart lists the taxable wage base and state adjustment factor amounts beginning 2013:

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Taxable wage base for employer contributions (per employee per year)</th>
<th>Maximum state adjustment factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$8,500</td>
<td>1.0%</td>
</tr>
<tr>
<td>2014</td>
<td>$8,750</td>
<td>1.0%</td>
</tr>
<tr>
<td>2015</td>
<td>$9,000</td>
<td>1.0%</td>
</tr>
<tr>
<td>2016</td>
<td>$9,500</td>
<td>1.0%</td>
</tr>
<tr>
<td>2017</td>
<td>$9,750</td>
<td>0.85%</td>
</tr>
<tr>
<td>2018 and thereafter</td>
<td>$10,000</td>
<td>0.75%</td>
</tr>
</tbody>
</table>
Reimbursable employers

The annual Reimbursable Employer’s Election for Relief from Charges and Notice of Solvency Fee form for calendar year 2015 was mailed in early November 2014.

If you are a reimbursable employer and wish to be eligible to request relief from UI benefit charges with an effective date in the upcoming year, your solvency fee payment must be postmarked within 30 days of the mailing date of the notice. Also, all reports required by the Pennsylvania UC Law for calendar quarters through the second quarter of 2014 must be filed.

Note: the Pennsylvania UC Law requires the Department to periodically redetermine the solvency fee rate, which is used to compute the employer’s solvency fee. The solvency fee rate effective for calendar year 2015 is 0.24%, the same as for 2014. This rate will remain in effect until 2018, when it will be recalculated for calendar years 2019 through 2023.

A reimbursing employer’s 2015 solvency fee is determined by multiplying the solvency fee rate of 0.24% by the employer’s gross wages for fiscal year 2014 (third quarter 2013 through second quarter 2014). If the result of this calculation is an amount that is less than $25, a minimum solvency fee of $25 is due.

Important Pennsylvania 2015 SUI deadlines

Employers that received a 2015 UC Contribution Rate Notice with a mailing date other than December 31, 2014, will need to adjust these deadlines according to the instructions on the reverse side of the form.

January 30, 2015, is the last day to file a timely voluntary contribution (VC) to lower the computed 2015 SUI tax rate. (A VC must be filed within 30 days of the mailing date of the UC Contribution Rate Notice or no later than April 30, 2015, whichever is earlier.)

March 31, 2015, is the last day to file a timely rate appeal to the SUI tax rate reflected on the UC Contribution Rate Notice. (A timely rate appeal must be filed within 90 days of the mailing date of the UC Contribution Rate Notice.) The surcharge adjustment, additional contributions and interest factor are not appealable items.

April 30, 2015, is the last day to file a timely election for a debit reserve account balance adjustment.

South Dakota

2015 SUI tax rates down, wage base up; voluntary contributions due December 31, 2014

The South Dakota state unemployment insurance (SUI) tax rates for 2015 are based on a new lower rate schedule and will range from 0.0% to 9.5%. Additionally, an investment fee surcharge of 0.0% to 0.53% applies to experience-rated employers.

New employers continue to pay at 1.2% for the first year of liability (6.0% for construction) and 1.0% for the second and third years of liability (3.0% for construction), plus the investment fee surcharge of 0.55%. (Email response to inquiry, tax manager, South Dakota Department of Labor, November 18, 2014; South Dakota Department of Labor website, November 2014.)

2015 SUI taxable wage base increase

The 2015 SUI taxable wage base will increase to $15,000, up from $14,000 for 2015.

Mailing of 2015 rate notices

2015 SUI tax rate notices were mailed to employers on October 31, 2014. For more information, contact the Department at +1 605 626 2312 or see the Department’s website.

Legislation enacted in early 2014 reduced the 2015 SUI tax rate schedule

As we reported in May 2014 issue of Payroll Perspectives, legislation passed earlier this year reduces South Dakota SUI taxes for experience-rated employers by a projected $11.3 million in 2015. (HB 1045, signed by the governor on March 31, 2014.)

HB 1045 kept the range of SUI tax rates from 0.0% to 9.5%, but adjusted tax rates and reserve ratio ranges within the new rate table to provide for reduced tax rates for most experience-rated employers. The legislation did not impact new employer or investment fee surcharge rates.

Earlier proposals would have frozen the SUI wage base at $14,000, but this reduction did not make it into the final bill language.

For more information, go here.

Voluntary contributions by December 31 could lower rates

Experience-rated employers may make a voluntary contribution to reduce their assigned SUI tax rate (and potentially the investment fee surcharge) by December 31, 2014.

Keep in mind that before a voluntary contribution is made, you should first determine if the additional payment will result in a potential future tax reduction.
Texas

2015 SUI tax rates to decrease generally, with wage base unchanged

The 2015 Texas state unemployment insurance (SUI) tax rates will range from 0.47% to 7.49%, down generally from the 2014 range of 0.51% to 7.41%. New employers will continue to pay at 2.7% or at a higher industry average, if applicable, for 2015. (Texas Workforce Commission website, December 2014; email response to inquiry, TWC experience rating unit, December 8, 2014.)

The average SUI tax rate for all employers will be 1.54% for 2015, down from 1.66% for 2014. The average 2015 SUI tax rate for experience-rated employers is 1.40%, down from 1.54% for 2014.

2015 SUI taxable wage base

The 2015 SUI taxable wage base continues at $9,000.

2015 mailing of SUI rate notices

According to a Texas Workforce Commission (TWC) representative, the TWC began mailing the 2015 SUI tax rate notices to employers on December 8, 2014.

Voluntary contributions can lower your SUI rate

Experience-rated employers may make a voluntary contribution to reduce their assigned 2015 SUI tax rate within 60 days of the mailing date of the employer tax rate notice. According to a TWC representative, the voluntary contribution deadline is February 6, 2015.

In Texas, voluntary contributions are applied against the amount of benefits charged against the employer’s account (referred to by the TWC as “chargebacks”). Texas employers can voluntarily pay an amount equal to all or part of the benefits charged against their accounts for the three-year rate computation period. By electing to “pay back” all or part of the benefit charges, the effective tax rate is recalculated and a revised tax rate notice is issued. Any partial voluntary contribution will be applied first to the most recent benefits charged against the employer’s account.

Each December, when the TWC notifies employers of their tax rate for the forthcoming year, Form C-24, Voluntary Contribution Election, is included with the tax rate notice for accounts charged with unemployment benefits within the three-year computation period. Employers can use the voluntary contribution calculator provided on the TWC website to analyze their individual account history and determine whether the voluntary contribution election is cost-effective.

The TWC cautions that the voluntary contribution election may not be withdrawn once the agency has recomputed the tax rate, and that if an adjustment to taxable wages or benefit charges for the three-year computation period occurs after the voluntary contribution has been made, the original resulting tax rate recomputation may be affected.

Texas’ future looks bright!

Texas started borrowing from the federal government in mid-2009. The 78th Texas Legislature granted TWC the authority to find alternative methods of financing shortfalls in the Unemployment Compensation Trust Fund. At the end of 2010, the Texas Workforce Commission sold bonds through the Texas Public Finance Authority and paid off the federal UI loan in order to avoid interest and FUTA credit reductions that would have become due on federal advances. As a result, employers in Texas avoided a FUTA credit reduction for calendar years 2011-2014. The state unemployment trust fund balance as of November 30, 2014 was $1,857,789,339.

As we reported in the June 2014 issue of Payroll Perspectives, the TWC reissued $709,785,000 of the unemployment insurance (UI) bonds sold in 2010 at a lower interest rate of 0.99%. This will allow TWC to retire the bonds an anticipated three years earlier than originally expected, in mid-2017, saving employers almost $25 million.
Computation of the SUI contribution rate

The 2015 Texas SUI experience tax rates consist of four components, as follows:

- **General tax rate.** The general tax rate is calculated by dividing the past three fiscal years ending third quarter 2014 of benefit charges by the same three years of taxable payroll and multiplying by a replenishment ratio of 1.32 for 2015 (down from 1.34 for 2014).

- **Replenishment tax rate.** This is a flat tax paid by all employers to replenish the trust fund for one half the benefits paid to claimants that were not charged to a specific employer’s account. The replenishment tax rate for 2015 is 0.31% (down from 0.35% for 2014).

- **Unemployment obligation assessment.** The third component of your 2015 tax rate is the unemployment obligation assessment. The purpose of the unemployment obligation assessment is to collect the amounts needed to pay bond obligations due in 2015. The unemployment obligation assessment rate for 2015 is calculated as your 2014 rate (less the ETA) multiplied by the obligation assessment ratio of 0.17 (up from 0.15 for 2014), then multiplied by the yield margin percentage of 1.0 (same as for 2014).

- **Employment and training investment assessment (ETA).** This is a flat tax of 0.10% paid by employers to fund the Skills Development Fund. This tax is not certified by Texas to the federal government as unemployment contributions and should not be used in calculating the federal unemployment tax credit. The employment and training assessment shows as a separate line item on the Texas Employer’s Quarterly Tax Report.

There is no deficit or interest tax rate for 2015. As a result, the Texas total SUI tax rate for 2015 will equal the general tax rate + the replenishment tax rate + the unemployment obligation assessment + the employment and training investment assessment, resulting in a minimum computed SUI tax rate of 0.47% and a maximum computed SUI tax rate of 7.49%.

Utah

2015 employer SUI tax rates to decrease, with taxable wage base to increase

The Utah state unemployment insurance (SUI) computed tax rates for 2015 range from 0.3% to 7.3%, down from a range of 0.4% to 7.4% for 2014, because the reserve and social cost factors decreased for 2015. New employer rates will vary, depending on the employer’s industry. (Live chat, Utah Department of Workforce Services, Employer Accounts Division, December 2014; Utah Department of Workforce Services website.)

2015 SUI taxable wage base

The SUI taxable wage base for 2015 will be $31,300, up from $30,800.

2015 mailing of SUI rate notices

Employer tax rate notices were issued to employer on November 24, 2014. Employers may also access their tax rate notices electronically on the Department of Workforce Services website.

Calculation of 2015 Utah employer SUI tax rates

The 2015 SUI tax rates are calculated using the following three components:

- **Benefit ratio** – determined by dividing the total of all UI chargeable benefits paid to an employer’s former employees in the last four fiscal years (July 1–June 30) by the employer’s SUI taxable wages for the same time period. The benefit ratio portion of the overall tax rate is unique to each employer.

- **Reserve factor** – adjustment to the benefit ratio used to maintain an adequate balance in the benefit reserve fund. For 2015, the reserve factor is 1.0 (down from 1.05 for 2014), meaning the reserve fund is at an adequate level.

- **Social cost** – applied to all employers to recover benefit costs that cannot be attributed to a specific employer. Social costs will vary year to year and are “fixed” at that year’s percentage for all employers. For calendar year 2015, the social cost is fixed at 0.3% (0.003) for all employers, down from 0.4% for 2014.

In addition, a 1% surcharge will be added to the overall tax rate if the employer or the previous owner of the business has unpaid contributions for the prior fiscal year (July 1, 2013–June 30, 2014).
Washington

2015 workers’ compensation rates to increase less than originally projected

The Washington Department of Labor & Industries (L&I) announced that the final workers’ compensation insurance premiums will increase by an average of 0.8% for 2015, lower than the 1.8% increase proposed in September of this year (see the October 2014 issue of Payroll Perspectives).

According to the Department’s news release, 2015 rates reflect an increase of about a half-cent per hour worked. (News release, Washington Department of Labor & Industries, November 25, 2014.)

The rate increase is an average for all Washington employers. Individual employers could see their rates go up or down, depending on their recent claims history and any changes in the frequency and cost of claims in their industry. L&I held public hearings on the proposed rates around the state in October.

According to the Department, credit for the lower increase goes to improved third-quarter financial numbers for the state workers’ compensation system. The agency also took public input about the proposed increase before making a final decision.

Washington is the only state where workers contribute a substantial portion of the premium charge. Under the current rate adjustment, workers will pay on average about 25% of the premium, a similar percentage to that paid in 2014.

For the 2015 rates by industry, see the Department’s website.
# Federal employment tax
due dates for January 2015

<table>
<thead>
<tr>
<th>Due date</th>
<th>Deposit or filing requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 5</td>
<td>Semiweekly deposit due date for liabilities incurred December 27–30</td>
</tr>
<tr>
<td>January 7</td>
<td>Semiweekly deposit due date for liabilities incurred December 31</td>
</tr>
<tr>
<td>January 7</td>
<td>Semiweekly deposit due date for liabilities incurred January 1–2</td>
</tr>
<tr>
<td>January 9</td>
<td>Semiweekly deposit due date for liabilities incurred January 3–6</td>
</tr>
<tr>
<td>January 12</td>
<td>Form 4070 is due from employees who received $20 or more in tips in December.</td>
</tr>
<tr>
<td>January 14</td>
<td>Semiweekly deposit due date for liabilities incurred January 7–9</td>
</tr>
<tr>
<td>January 15</td>
<td>If the monthly deposit rule applies, deposit the tax for payments made in December.</td>
</tr>
<tr>
<td>January 16</td>
<td>Semiweekly deposit due date for liabilities incurred January 10–13</td>
</tr>
<tr>
<td>January 22</td>
<td>Semiweekly deposit due date for liabilities incurred January 14–16</td>
</tr>
<tr>
<td>January 23</td>
<td>Semiweekly deposit due date for liabilities incurred January 17–20</td>
</tr>
<tr>
<td>January 28</td>
<td>Semiweekly deposit due date for liabilities incurred January 21–23</td>
</tr>
<tr>
<td>January 30</td>
<td>Semiweekly deposit due date for liabilities incurred January 24–27</td>
</tr>
<tr>
<td>February 2</td>
<td>Forms W-2 and 1099 must be provided to employees and contractors no later than today. The 2014 Form 940 and all FUTA tax payments made for tax year 2014 must be filed by today. The 2014 Form 941, Quarter 4, is due today. If all Form 940 and Form 940 taxes were paid timely and for the full amount, an extended due date of February 10, 2015, applies.</td>
</tr>
<tr>
<td>February 3</td>
<td>Semiweekly deposit due date for liabilities incurred January 28–30</td>
</tr>
<tr>
<td>February 6</td>
<td>Semiweekly deposit due date for liabilities incurred January 31–February 3</td>
</tr>
</tbody>
</table>
Are you ready for year-end?

A glitch in your payroll system or employment tax processes can easily go undetected and may result in costly errors in Forms W-2 and other employment tax returns.

Get the support you need for 2014!

Take a look at how Ernst & Young LLP’s employment tax professionals are assisting businesses in meeting their year-end requirements.

Access our free year-end resources [here](#).

**Tax process review**

Through staff interviews, data analysis and random sampling, our team identifies areas of opportunities and risk involving:

- Cash management
- Employee master file and pay/deduction transactions
- Recordkeeping, data management and reporting
- Federal, state, local and provincial tax reporting
- Efficiency/accuracy safeguards
- Reconciliation and third-party oversight

**Employment Tax (ET) Rapid Assessment™**

With our ET Rapid Assessment™, businesses can access our secure web-based portal, or schedule an on-location meeting to complete our assessment questionnaire and receive a report highlighting potential risks and opportunities within their employment tax operations. Our team of qualified tax professionals support the process by reviewing the flags, ranking their priority, and co-developing any follow-up action plans.

**Tax configuration review**

Employment tax processes are driven by configuration tables, payroll codes and attributes that direct the tax treatment of compensation and how it is ultimately mapped to returns and information statements. Our employment tax team reviews these data elements and assists businesses in designing and managing workflows to maintain their integrity.

**System implementation support**

Adding our skilled resources to the system implementation team adds integrity to the employment tax processes while freeing staff resources to focus on their routine responsibilities. Implementation support is available in all phases including:

- Data migration planning and implementation
- Design and specifications
- Testing and data sampling

**Co-sourcing**

Our qualified professionals are available to meet your employment tax operational needs whether it be staffing, training or responding to one-off questions.

*The scope of the these services may be limited for Ernst & Young LLP SEC registrant audit clients*
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