

# The General Ledger

The Complete Newsletter for Professional Bookkeepers

MAY 2024  
VOL. 41, NO. 5

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## **State taxes on remote workers still hurt.**

In response to hybrid and remote work, some states are seeking tax revenue.

**Potential employer risk:** Incorrect SITW and owing UI, worker's comp, etc., in many states.

**Potential employee risk:** Multiple states seeking SIT on their wages and, in some states, getting no credit for taxes paid to other states.

Although almost 20 states have reciprocity agreements that allow a worker to pay taxes and file a return in only one state, such agreements are usually between bordering states—e.g., someone working from home in Iowa for a New York employer gets no help.

Many states do not impose SIT until the individual has been present and working in the state for a minimum number of days, but others tax a worker present for even one day.

**Worst case:** The “for the convenience of the employer” law. Unless the employer *has a business reason* for requiring the work be done outside the employer's home state, all of the employee's wages in the remote state are taxed by the remote state. In other words, simply working in the remote state for the convenience of the employee does not exempt the employee from the remote state's taxes. CT, DE, NE, NJ, NY and PA have this law.

Alabama put its own spin on this rule when a state court held that a resident who moved to Idaho but

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continued to work for an Alabama- firm owed Alabama SIT on wages because he was “transacting business” in Alabama.

Currently, there seems to be no complete list of state-by-state remote worker taxation.

**Bottom line:** Employers must hunt down the rules in any state where its employees work during the year—possibly for only one day. [*Financial Advisor; Tax News Today*]

**IRS warning: Employers/employees being misled into bad medical expense claims.**

The IRS warns that some sellers are misleading potential customers by incorrectly saying amounts spent on their products or services are qualified medical expenses. Some sellers say the expenses can be deducted on customers’ income tax returns or reimbursed by employer-sponsored health flexible

spending arrangements, health savings accounts, health reimbursement arrangements, or medical savings accounts.

**Medical expense dreamland:** Quasi-medical and health care expenses can be turned into medical expense deductions with the right words or documents.

**Medical expense reality:** The opposite: An employer-paid or reimbursed non-medical expense disqualifies the plan under the tax code. In other words, all payments or reimbursements made under the plan become taxable and must be included in employees’ gross income, *even if they were made for qualified medical expenses*. However, the plan’s expense remains tax deductible for the employer.

Contrary to what these sellers say, a doctor’s note based on the patient’s self-reported health information

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does not magically convert the costs of weight loss programs, non-medical food, or wellness and exercise programs into qualified medical expenses.

Expenses for general health and wellness are personal, rather than qualified, medical expenses. To qualify, the expense must be made to treat, cure, or alleviate a specific disease or medical condition. For details see [IRS wellness, nutrition, etc. expense FAQs](#). [IR-2024-65]

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**When deductions are accepted without documentation—and when they are not.** While this case involves a sole proprietor, it applies to any entity—S or C corp or partnership.

The Cohan rule permits taxpayers who lack records of actual expenditures to ask the IRS and Tax Court to rely on reasonable estimates. But the estimates must have a factual or at least rational basis.

**The case:** G took deductions for virtual office expenses on his Schedule C. The IRS denied the deductions, for lack of evidence that he paid the expenses.

**Held:** For the IRS. The taxpayer said he paid a monthly fee for the virtual office for several years and submitted to the court one month's invoice. He also submitted the credit card authorization he had given to the virtual office host so it could obtain payment. The taxpayer had computed his deduction by multiplying the amount of one month's invoice by 12.

But the court pointed out that neither the operator's invoice nor his credit card authorization pertained to the tax year at issue.

When the taxpayer asked the court to estimate the office expense under the Cohan rule, the court said the evidence was insufficient to allow such an estimate.

**The problem:** The documents did not prove the taxpayer *paid* for the virtual office during the year at issue (or for any other year). An invoice or bill does not prove payment, and a credit card authorization form does not prove that the credit card was charged.

Instead, the taxpayer provided bank account statements with images of canceled checks and some credit card statements that did not show charges for a virtual office.

**The result:** The court said that if bank statements were available for other expenses, the taxpayer should have been able to provide them for the virtual office expense.

Lacking either evidence that payments were made for a virtual office, or records from which the court could estimate the expenses, the deductions were denied.

[*Aulisio Jr. v. Commissioner*, T.C. Memo 2024-29]

## 2024 SUMMER HIRING

### 2024 federal rules and regs

#### Rules for 100% parent-owned businesses

- **Owners' children of any age**

- ✓ Can work any number of hours or time of day. No one under 16 can do hazardous work (e.g., with lawn mowers, sewing machines), work near flammable or hazardous materials, or where food is cooked.
- ✓ If all employees are immediate family, owners' children need not be paid the minimum wage—but if others are regularly employed, even family must be paid the minimum wage.

- **Owners' children under 21**

- ✓ Wages are exempt from FUTA.

- **Any children under 18**

- ✓ If the business is 100% parent-owned, the children under 18 are exempt from FICA.
- ✓ If not the owners' children, obtain an age certificate that is recognized by both the U.S. Department of Labor (DOL) and your state Wage and Hour Division (WHD). DOL often accepts state age certificates, but ask your state or local WHD to be sure. Return the certificate to the worker at termination.
- ✓ These workers may not do hazardous work.

#### Workers aged 14-15 not owners' children

- Can work 8 hrs./day, 40 hrs./wk., June 1-Labor Day, between 7 a.m.-9 p.m. if school is not in session. **Exceptions:** Limits do not apply to news carriers or children who are employed exclusively by a parent/sole proprietor. For agricultural jobs, contact the DOL.

#### Children under 14

- Cannot be hired unless they work for a parent/sole owner.

#### Employment tax rules

- **Obtain W-4s from all employees**—owners' children, student part-timers and foreign students.
- **Withhold FITW from all employees**, including the owner's spouse or child, unless a W-4 claims exempt.

- **Withhold FICA from all employees**, even high school students and those receiving SS benefits. **Exception:** Children under 18 working for sole-owner parents.

**Pay overtime** for hours *actually worked* over 40 hours in the workweek. You are not required to include as hours worked paid time off (holidays, vacation days). Do not substitute paid nonwork hours for work hours to make all hours straight time, thus avoiding overtime pay.

**Example:** Lee works 12 hours a day the first 4 days of the workweek, but not on the 5th day, a holiday, for which he is paid for 8 hours. He is correctly paid 40 hours' straight time + 8 hours' overtime + 8 holiday (nonwork) hours. Lee's employer cannot substitute the 8 hours' holiday pay for the 8 hours' overtime to avoid paying the overtime rate.

#### Paid holiday and vacation requirements

Under federal law:

- paid holidays for part-time and summer help are optional—as they are for all employees—but check state laws.
- paid vacation is not required—but if you give paid vacation, some federal and state laws apply.

#### Fringe benefits

- **Temps and part-timers.** Fringe benefits are optional, but if offered, should be explained in a written benefits plan.

#### Always check your state's laws.

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### Vacation pay journal entries.

#### To accrue paid vacation for the pay period:

Accrued Vacation Expense	xxx	
Vacation Payable		xxx

#### To record distribution of vacation pay:

Vacation Payable	xxx	
Cash		xxx

## STATE NEWS

**California.** Starting July 1, 2024, the majority of employers in California must establish, implement and maintain a Workplace Violence Prevention Plan. See the [model plan fact sheet](#) to help your company comply with the requirement.

**Maryland.** As the result of recalculated UI tax rates, no employer should see an increase, some will see a decrease, and the majority will see no change from January's Tax Rate Notice. (See [Recalculation FAQs](#)). If you appealed the 2024 rate and the recalculation satisfied you, you can withdraw the appeal. **Exception:** Employers with a new rate and foreign contractors were not recalculated (they have fixed rates). [Administrative reinterpretation of Labor & Employment Article §8-606(d)]

**New Jersey.** An [updated SITW guide](#) includes a formula for computing SITW for nonresident employees (scroll to page 10).

**Oregon.** The [revised employer guide](#) updates SITW, workers' comp, UI insurance, paid leave contributions, state and local transit taxes, state rules for worker classification, and other topics. [CD, Publication No. BICGUI1103, Oregon Employer's Guide, rev. February 2024]

**South Carolina.** Effective Mar. 1, 2024, employers with at least 10 employees must respond electronically to DEW requests for information related to UI benefits claims. The DEW may waive the electronic filing requirement in cases of hardship, such as unreasonable cost to the employer. [H.B. 3726, L. 2024]

### Certification Honor Roll

#### AIPB congratulates these newly *Certified Bookkeepers (CBs)*:

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## WINNING UI BENEFITS CLAIMS DISPUTES: WRITTEN RECORDS ARE CRUCIAL

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by Lorelei M. Krucki, CPP, Dept. of Corporate Training,  
St. Petersburg College (Florida), Member, AIPB Board of Advisors

If a former employee files a claim for UI benefits, your company or client must decide whether to contest it. And the former employer has considerable power over whether a UI claim will be paid.

If an individual was fired for cause—i.e., the employer had a valid reason—most states deny UI benefits claims. A valid reason is a willful action(s) or behavior or unacceptably poor performance that substantially injured the company's interests.

But simply firing for cause is not enough—your firm must be able to *prove* cause with documentation. Lacking documentation, the individual will likely get benefits—regardless of their action(s), behavior or job performance.

**Tricky point:** What qualifies as cause is a matter of interpretation and degree. Annoying coworkers may not be a degree of misconduct that disqualifies an individual from receiving UI benefits—but intentionally angering an entire department, and continuing to do so after repeated warnings, may be.

**Start early.** The company handbook or policies statement should spell out company expectations (as should an employee's supervisor or manager) and should be regularly updated and distributed.

**Best defense.** Today, most companies use *progressive discipline*, a multi-step process that helps prevent the firing of minorities, women and older employees, for example, without cause, thereby creating lawsuits or discrimination investigations.

For a first violation, there is an oral warning that includes an explanation of the violation and the specific improvement expected—e.g., if Alice reports to work 10 minutes late, "You were late to work four times this month. Our company has a strict policy that requires employees to start work on time."

However, if Alice's first violation is for using foul language where customers could hear her, her supervisor might give her an oral warning *and* drop a dated memo in her personnel file that describes the warning.

For a second or subsequent infractions, or if the employee's behavior does not improve, the supervisor issues a written warning.

For serious violations—substance abuse, violating a safety rule, theft, etc.—company policy may stipulate immediate termination.

The second written and possibly final letter of warning is issued after the employee's failure to improve has been reviewed by the supervisor and/or upper management.

### Denial of UI benefits

When a former employer denies UI benefits, state UI agencies usually demand complete, accurate documentation to support the denial. The documentation must be detailed, directly related to the claim, and provided to the state in full in a timely manner.

**What should be in a written warning.** An objective summary of the facts—no judgments or opinions—describing the behavior. For example, instead of undefined generalities, such as "hostile behavior," say "Al threatened, then physically attacked his supervisor."

Or, instead of "Joan comes to work late too often," say "on four separate occasions, Joan reported to work after the start of her shift: May 5 (half an hour late), June 28 (2 hours late), and August 14 and 28 (1 hour late on both days)."

### Four "musts" for written warnings

Every written warning should include:



1. *What the violation or unacceptable performance is.* A detailed summary of the event or behavior in language that can be easily understood by the employee. Describe why it is unacceptable, which company policy was violated (if possible, citing the policy page/paragraph or number), the dates and times, and names of any witnesses.
2. *Expectation of change:* Outline what behavior or action is expected of the employee in the future.
3. *Time period for required change(s) and consequences of failing to change:* For example—“immediately,” “within 30 [or 60, etc.] days,” etc.—and the consequences of not making the required changes, including if applicable, suspension without pay or termination.
4. *Signature of the employee, supervisor and witnesses (if any).* The warning should state that the employee has received it and understands it (the employee does not need to agree with it). For example:

“I have received a copy of this warning and understand it.”

Employee’s signature \_\_\_\_\_ Date: \_\_\_\_\_

Supervisor’s Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Witness’s Signature: \_\_\_\_\_ Date: \_\_\_\_\_

An employee who refuses to sign the warning should be handed a copy of it in the presence of a witness, and the witness should certify on the file copy that the employee received the warning.

### Other dos and don’ts

Best practices to support challenged UI claims include:

- Have every company policy statement and policy handbook signed by employees acknowledging that they have read it.
- Document all warnings—even oral ones—have the employee initial or sign and date the written

version of what was discussed and put it in the employee’s file. Documentation does not have to be fancy; handwritten notes (signed and dated by the employee) are fine.

- Make sure each warning is strictly related to company policy.
- Make disciplinary action timely—warning Bob in April about infractions in January will shift the focus from the UI claim to how the company treated him.
- Directly give the employee detailed feedback on the unacceptable behavior and the consequences for not changing it—anything from supervisory counseling to suspension or dismissal.
- Be consistent in enforcement—i.e., treat all employees, young or old, minority or white, male or female, etc., the same way for the same infractions.
- Try to have a witness present in all termination meetings.
- Retain and have readily accessible all documentation related to disciplinary actions for at least 18 months to assure a prompt, thorough response to UI agency requests.
- Respond to receipt of UI claims *immediately*. The Unemployment Insurance Integrity Act (2011) requires employer response to UI claims in a “timely and adequate manner.”
- Before responding to a UI claim, verify dates of employment, [employee wages or salary](#), and reason for separation and other facts. Overlooked inaccuracies can result in additional charges to your UI account and possibly penalties.
- Never “build a file” on employees to get rid of them—it is a violation of multiple federal and state laws.

**WARNING:** If your firm does not have a progressive discipline system, do not implement one without consulting a labor lawyer or qualified UI advisor.

### **Incomplete records cost tax preparer business deductions.**

**The case:** C ran a tax prep business as a sole proprietorship, for which she took many deductions on a Schedule C. The IRS denied many of the cell phone and auto deductions.

**Held:** Partly for the taxpayer. Cell phones, certain other devices and autos are listed property, so they are subject to stricter substantiation than other expenses.

The taxpayer had her own cell phone and provided one to an IC. She also had a tablet computer and two other wireless devices. The IRS denied most of the deductions for these.

The taxpayer claimed she used the devices primarily for business, especially during tax return season, but did not offer documentation of business v. personal use of the devices. Deductions are allowed for listed property only when they are used more than 50% of the time for business.

Based on her testimony, the court estimated that her cell phone business use was 80% during tax season and 50% the rest of the year. Because the IC had other cell phones for personal and unrelated business use, the court accepted her claim that the phone she provided to the IC was used 100% for business.

She also had sufficient evidence to convince the court that the other devices were used 100% for business.

But for her vehicles, the taxpayer had no records of business v. personal use during tax season or any other time of the year.

In addition, records of actual expenses for the vehicles were flawed. For example, she charged vehicle expenses to her debit and credit cards, but other people used her cards so there was no way to know if charges from gas stations were for her business or other users' personal purposes. So, the court denied actual vehicle expense deductions.

The court did, however, allow the standard mileage deduction for her business use. From Mar. 23–Dec. 31, the taxpayer used a phone app to record business trips. This log, along with her documents and testimony, was sufficient for the court to determine when the vehicle was used for business and to estimate the business mileage.

But the court limited even the standard mileage deduction to each trip's starting and ending point and to whether the trip was self-evidently for business and what the business purpose was. [*Chappell v. Commissioner*, T.C. Summ. Op. 2024-2]



*AIPB answers your on-the-job bookkeeping, QuickBooks and payroll questions at no charge as a benefit of membership.*

***If an hourly employee quit without notice, can I reduce the pay due for the last 2 weeks to minimum wage?***

Under federal law, the employer is required only to pay the federal minimum wage, and 1.5 times the regular rate of pay for all overtime hours worked. Note that state law and/or a union contract may impose different requirements on the employer.

***Must we pay unused accrued vacation to employees who quit?***

No federal law mandates paid vacation; but some states do, so contact the state wage-hour agency to be sure. Also, under ERISA, employees may be able to sue for payment of unused vacation if the employer has a written policy, pattern or practice of paying it to other similarly situated employees.

***Is a draw on commissions 30 days ahead taxable?***

Under [§451](#), General rule for taxable year of inclusion, wages are taxable and subject to withholding and employment tax at the time of payment, whether or not the wages are actually earned.

***Can you make an employee on maternity leave use up vacation time?***

No federal law prohibits an employer from requiring that vacation time be used for sick leave, but state law and union contracts may impose different requirements.

***Must salaried employees be paid overtime?***

An employee who is paid on a salary basis but is entitled to overtime under federal law (that is, who does not meet the executive, administrative or professional exemption) must be paid at least the minimum wage for all hours worked and overtime at 1.5 times the regular rate of pay for all hours worked over 40 in a workweek.

***When employees travel, are reimbursements for meals taxable?***

Meal expenses reimbursed to an employee while on an overnight travel assignment are not wages

subject to employment tax and withholding, provided the employee substantiates the amount (provides a receipt) and gives information that includes the time, place and business purposes of the travel. (The requirement for a receipt is waived for amounts of \$75 or less.) Substantiation must be provided in a reasonable period (the IRS suggests 30 days from the date an advance is provided to the employee), and there must be an employer requirement to provide such substantiation.

***Can you pay an employee on a per job basis?***

Employees entitled to overtime pay under federal law must be paid the minimum federal rate of pay for each hour of work and 1.5 times the regular rate of pay for all hours worked in excess of 40 in a workweek. If other compensation is paid the employee in addition to the hourly rate of pay, such as a job bonus, this bonus must be factored into the regular rate of pay for overtime pay purposes.

***Are safety awards for having no accident taxable wages?***

Safety awards that are provided to employees who are not managers, administrators, clerical or other professional employees are tax free if the average amount paid to all employees under a qualified plan doesn't exceed \$400 per year and the payment to any one employee doesn't exceed \$1,600. Safety awards are not tax-free if given to more than 10% of employees in a year.

***What do we pay an hourly employee who works 8-5 without taking a lunch break?***

You must pay for 9 hours. State laws govern whether meal times must be given. Or if there is a written company policy that all employees must take a meal period, you still must pay the employee if a meal is not taken. Of course, you can order the employee not to work during mealtimes.

***What is a draw v. an advance?***

Technically, there is no difference. However, many companies use "a draw" to mean a payment against future commissions and "an advance" to mean a payment against future wages. Both are fully taxable when paid.

## Quiz

**Questions 1-3:** To use the standard mileage rate for a vehicle driven for business in 2024:

1. the vehicle cost cannot exceed \$\_\_\_\_\_;
2. separate deductions are allowed for \_\_\_\_\_ and \_\_\_\_\_;
3. but are not allowed for \_\_\_\_\_ or \_\_\_\_\_.
4. Documents, returns or tax payments submitted to the IRS must be delivered by the due date to the IRS, USPS or an IRS "\_\_\_\_\_private delivery service."

**Questions 5-6:** Hana lives and works in San Francisco. One Thursday, she is told to go directly from her home to a San Diego client and spend the day there.

5. Paying Hana for travel time to and from San Diego is (required/optional).
6. Hana's employer can opt to reduce Hana's paid travel time from her home to the San Diego client by the amount of time it normally takes her to commute from home to her \_\_\_\_\_ job site.
7. Employee Rodriguez is on call one weekend but can drive around anywhere he wants as long as he can be reached by cell phone. Must he be paid for the on-call time?
8. If you pay employees every 2 weeks, you can compute overtime pay based on total hours for the 2 weeks. (True/False)

**Answers:** 1. 62,000 2. parking, tolls 3. repairs, fuel 4. designated 5. required 6. regular 7. no 8. False

## Rates, Due Dates & IRS Limits

### CPI-U

March 2024 CPI-U 3.5%

1. Covers all goods/services purchased by urban consumers.
2. Goods costing \$1,000 in March 2023 cost \$1,035 in March 2024.

April 2024 CPI-U Available May 15, 2024

For other CPI indices and more details: 202-691-7000

### 200% GDS nonfarm MACRS property rates

	5-year property*	7-year property**
Year 1	20.00%	14.29%
Year 2	32.00	24.49
Year 3	19.20	17.49
Year 4	11.52	12.49
Year 5	11.52	8.93
Year 6	5.76	8.92
Year 7		8.93
Year 8		4.46

\* Autos, trucks, computers/peripherals, typewriters, calculators, etc.

\*\* Furniture and fixtures, desks, files, etc.

### 2024 IRS depreciation limits

Covers new and used passenger autos (cars), electric cars and light\* SUVs, pickups and vans placed in service in 2024 that did not take bonus depreciation in previous years. [Rev. Proc. 2024-13]

1 <sup>st</sup> year	\$12,400
2 <sup>nd</sup> year	\$19,800
3 <sup>rd</sup> year	\$11,900
4 <sup>th</sup> yr. and after	\$ 7,160

\* 6,000 lbs. or less, built on truck chassis and not specially modified.

### Federal per diems

Within the continental U.S.

Outside the continental U.S.

### Payroll rates and bases

**2024**

Employee SS and Medicare	6.20%/1.45%*
Employer SS and Medicare	6.20%/1.45%
Social Security wage limit	\$168,600
Medicare wage limit*	Unlimited
FUTA-taxable wage base	\$7,000
FUTA rate	6.0%
FUTA maximum credit	5.4%
Min. FUTA deposit rate (most firms)	0.6%

\* Withhold added Medicare tax of .9% on wages over \$200,000.

### Standard mileage rates

**2023**

**2024**

Business*	65.5¢/mi.	67¢/mi.
Relocation**	22¢/mi.	21¢/mi.
Medical	22¢/mi.	21¢/mi.
Charitable rate	14¢/mi.	14¢/mi.

\* For owned/leased passenger autos, vans, pickups or panel trucks and up to 4 taxis used for hire on which no §179 or depreciation was taken.

\*\* Starting in 2018, all relocation payments are taxable to the employee and tax deductible for the employer.

### Qualified retirement plan limits **2023** **2024**

Pretax contributions for 401(k) and SEP plans and 403(b) annuities	\$ 22,500	\$ 23,000
Workers aged 50 or over (catch-up)	\$ 7,500	\$ 7,500
Sec. 415(b)(1)(A) defined benefit plan annual benefit ceiling	\$265,000	\$275,000
Combined employer/employee pay-in limits for all defined contrib. plans	\$ 66,000	\$ 69,000
Annual compensation limit under Sec. 401(a)(17) and Sec. 404(1)	\$330,000	\$345,000
Sec. 408(k)(3)(C) IRA, SEP or SIMPLE plan limits	\$330,000	\$345,000
SIMPLE pretax contribution limit	\$ 15,500	\$ 16,000
Workers aged 50 or over (catch-up)	\$ 3,500	\$ 3,500

**IRS forms and pubs 800-829-3676**

## Applicable Federal Rates (AFR) for May 2024

Under [IRC §1274](#), if your firm extends a loan due more than 6 months after a customer purchased or exchanged an item and there is no stated interest rate, the IRS imputes one. The IRS-imputed interest rates for May are as follows [REV. RUL. 2024-09]:

	Annual	Semiannual	Quarterly	Monthly
<b>Short-term:</b> 3 years or less	4.97%	4.91%	4.88%	4.86%
<b>Mid-term:</b> Over 3 but not more than 9 years	4.42%	4.37%	4.35%	4.33%
<b>Long-term:</b> Over 9 years	4.55%	4.50%	4.47%	4.46%

## Tax Calendar

Due date	Day of week	Deposit FICA and FITW for wages paid for the period from
May 15	Wed.	Deposit Tax Liabilities for April 2024.
May 15	Wed.	May 8 - 10      Fri.
May 17	Fri.	May 11 - 14      Tues.
May 22	Wed.	May 15 - 17      Fri.
May 24	Fri.	May 18 - 21      Tues.
May 27	Mon.	Bank Holiday – Memorial Day
May 30	Thur.	May 22 - 24      Fri.
May 31	Fri.	May 25 - 28      Tues.
June 5	Wed.	May 29 - 31      Fri.
June 7	Fri.	June 1 - 4      Tues.
June 10	Mon.	Form 4070 due from tipped employees.
June 12	Wed.	June 5 - 7      Fri.
June 14	Fri.	June 8 - 11      Tues.

- The only acceptable reason for delaying deposit of payroll taxes due is a legal federal holiday.
- Deposits of \$100,000 or more must be made within one business day of the day that the tax liability is incurred.