

The General Ledger

The Complete Newsletter for Professional Bookkeepers

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Dear AIPB Member:

QuickBooks reports do not substantiate expense deductions. Although this case involves a business owner, it applies equally to any business.

The case: K relied on accountants to handle the recordkeeping for the businesses he owned.

After filing a tax return, K filed an amended return claiming net operating losses from some businesses—losses not included on the original return. The result: A significant refund was due.

When the IRS did not pay the refund right away, K sued the IRS, asking the court to direct payment of the claimed refund.

Held: For the IRS. The taxpayer did not produce any *original documentation* [emphasis added] to support the expenses that generated the net operating losses. K claimed that the records for which the losses were claimed had been lost. Some records that could not be located had been sent to the accountant to prepare the business tax return.

But the accountant testified that he did not rely on source documents to prepare the tax returns—he relied

on P&Ls and similar documents compiled by the businesses.

To prove this assertion—i.e., to prove the deductions—the taxpayer presented QuickBooks reports, which he claimed were prepared using the original source documents and, in his opinion, substantiated the returns.

But tax regs require taxpayers to keep permanent books of accounts or records to substantiate amounts on tax returns. These records must be retained for as long as they might be material to complying with tax law.

Key point: Software summaries and reports are not sufficient to support a tax return—even if the software entries were prepared by accountants using original source materials. Taxpayers still must provide the original source materials used to produce the QB or other software reports.

The shortfall: K did not produce canceled checks, bank records, receipts, sales slips, charge slips, check registers or other documents as evidence of expense payments. The loss deductions were denied.

[*Kouza v. United States*, No. 2:21-cv-12790, E.D. Mich. 2023]

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Avoiding payroll disasters. Does your company have detailed how-to on every important step in its payroll processing?

What happens if you are unexpectedly absent and someone must fill in for you? If your firm is audited—for any reason—can you explain the key details of your firm’s payroll process, including each staffer’s role and responsibilities? If you had to train an assistant, could you do so without saying, “oh, good question—forgot to tell you . . .”?

What to do: Create a written—computerized or hard copy—step-by-step description of each step in payroll processing, including but not limited to, the following:

- How employee data is captured and maintained
- How time and attendance (T&A) data is captured and maintained
- How new hires are entered in your payroll system
- How leaves of absence are processed and entered
- How a terminating employee’s final pay is issued and how the individual’s name is maintained in the payroll system
- How your payroll software is updated, adjusted or added on to

- How payroll is processed, including but not limited to:
 - ✓ How hourly v. salary pay is calculated
 - ✓ How deductions and garnishments are computed, entered and maintained
 - ✓ How taxable wages are determined for each jurisdiction
 - ✓ How, where and when taxes are applied
 - ✓ Any differences in payroll distribution among employees (electronic v. manual v. pay card v. direct deposit)
 - ✓ How errors are corrected and corrections are reconciled
 - ✓ How and when payroll audits are done
 - ✓ How off-cycle payrolls are produced and acceptable reasons for them
- How payroll data is entered in company financial systems
- If you use a payroll service, how delivery is monitored, including:
 - ✓ How to find answers to employee questions
 - ✓ How to track trending Key Performance Indicators (KPIs)
 - ✓ How to monitor Service Level Agreements (SLAs)

continued

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- How your payroll service reports to you and how you evaluate the reports
- How your payroll service interfaces with your company's bank(s)
- How payroll taxes are filed and how filings are monitored
- Your company's plans for payroll-related risks and contingencies
 - ✓ If you have disaster recovery, how and when it is tested
 - ✓ If there is a business continuity plan and whom to contact if the plan must be put into action
 - ✓ Who participates in internal audits

Create a payroll process information system: This can be done using flow charts, standard operating procedures (SOPs), checklists, desk manuals and in other ways.

Before you start, meet with each staffer involved in any payroll process and brainstorm what should be written up. Then decide what you want to write up first, second, third, etc.

To keep your company's payroll process information up to date and available to key staffers, use reliable "online collaboration software." Designate a staffer to be responsible for maintaining and updating the

information on the software—i.e., the flow charts, SOPs, checklists, desk manuals, etc.—and for answering employee or management questions. Update at least annually and inform need-to-know employees of the update.

Firms that put policies in hard copy should use a looseleaf binder or other flexible means.

The payroll process information system you create may be a little bumpy at first but it will almost automatically streamline as everyone involved discovers easy ways to improve it.

A reminder to employees, clients (and you).

Before tax season starts, obtain an identity protection personal identification number (IP-PIN). The IRS urges all taxpayers to add this extra layer of identity theft protection, and to remind your employees or clients to do so.

Initially developed by the IRS for victims of identity theft, the six-digit IP-PIN is known only to the IRS and the taxpayer. It is used to file all tax returns under the filer's SSN. Each year, the IRS mails the person a new IP-PIN.

A free IP-PIN can be obtained at [IRS IP-PIN](#). [IR-2023-226]

STATE NEWS

Although you may know about the items reported below if you are in the affected state, we report them for members whose company or clients have multistate locations.

Alabama. In effect as of Jan. 1, 2024, previously announced [HB 217](#). This law excludes from gross income—i.e., from SITW—overtime pay for work in excess of 40 hours in the workweek.

Arkansas. Now available: 2024 [SITW tables/formula](#), and [Low-Income SITW tables](#) are available. The 2024 supplemental wage rate is 4.4%.

California. Starting in 2024:

- [SB700](#) expressly prohibits requesting from a job applicant information relating to prior use of cannabis.
- There are new thresholds for being exempt in 2024 for [computer software employees](#); [physicians](#); [administrative, professional, and executive employees](#) and [healthcare employees](#).
- Now available: 2024 [wage bracket](#) and [exact calculation](#) tables. The supplemental wage tax rate remains at 6.6%; for stock options and bonus payments, 10.23%. [EDD, [Withholding Schedules](#)]

Delaware. [New details](#) on the Paid Leave (Family and Medical Leave Insurance Program) spell out the rollout dates for businesses of different sizes.

Idaho. The 2024 UI taxable wage base is \$53,500.

Illinois. Chicago. Starting on July 1, 2024, the tip credit is 32% of the city's minimum wage. [[Ordinance S02023-0002995](#), L. 2023]

Kentucky. See the updated [2024 Form K-4](#). Employers must retain copies of all K-4s. [Department of Revenue, [Employer Payroll withholding](#)]

Also, now available: [2024 computer formula](#) withholding amounts and [2024 SITW instructions](#). [Department of Revenue, [Employer Payroll Withholding](#)]

Maine. Now available: [2024 Withholding Tables](#). The supplemental wage tax rate remains at 5%. [Revenue Services, [Employment Tax Returns - 2024](#)]

Missouri. The 2024 minimum wage is \$12.30; the tip credit, \$6.15. [Department of Labor and Industrial Relations, [Minimum Wage](#)]

Montana. The DOR recommends having all employees complete the redesigned [2024 Form MW-4](#) to ensure correct SITW. Now available: the [2024 withholding tables](#). The 2024 supplemental wage rate is 5%, and tip income is no longer exempt from SITW. [[Montana Employer Guide](#), rev. November 2023.]

North Dakota. The 2024 supplemental wage rate is 1.5%. [[ND SITW Rates and Instructions](#), rev. July 2023, Email, 11-16-20]

Ohio. Employers must now upload 2023 W-2s due on Jan. 31, 2024, at [Ohio Business Gateway](#) (OBG). No paper IT 3 is required because OBG creates one from the W-2 data. For filing formats and other details, visit [W-2/1099 Info Page](#). [DOT, [W-2 Upload Specifications Version 1](#), October 2023]

Oregon. The 2024 UI taxable base is \$52,800. [Employment Department, [News Release](#), 11-15-23]

South Carolina. Now available: 2024 [withholding tables](#) and [withholding formula](#). The supplemental wage tax rate is 6.4% for supplemental wages paid separately from regular wages [DOR, Pub. WH1603, rev. 10-31-23 Pub. WH-1603F, rev. 11-1-23]

West Virginia. The 2024 UI taxable wage base is \$9,521. [Workforce West Virginia, Email, 11-17-23]

STATE BAD NEWS

Bad news for some on 2023 FUTA. If your company operates in a state that took a federal loan to meet its liabilities for SUI benefits, the state must repay the loan within the allowable period or your company will not get the usual credit—i.e., your company will pay more FUTA tax for 2023.

Employers subject to FUTA that paid wages in one of the jurisdictions below will see higher FUTA on their 2023 Form 940, which is due by Jan. 31, 2024. These states' 2023 net FUTA rates are as follows:

SUI jurisdiction	2023 net FUTA rate
California	1.2% [0.6% + 6%] 1.2% [0.6% + 0.6%]
New York	1.2% [0.6% + 0.6%]
Virgin Islands	4.5% [3.9% + 0.6%]

Businesses in these locales will have to deposit the additional portion over 0.6% for each employee when filing their 2023 Form 940. The scheduled reduction in the FUTA credit is 0.3% for the first

year the state is in arrears, another 0.3% total for the second year (total, 0.6% reduction), and still another 0.3% for each year thereafter (0.9%, 1.2%, etc.) until the state's loan is repaid.

Additional credit reductions may apply in locales in arrears in the 3rd and 5th taxable years if they do not meet certain criteria.

Example: BizBy is in a state that has not repaid a federal loan, so BizBy computes its FUTA tax by reducing the 6.0% FUTA tax rate by a credit of only 5.1%. Thus, it will pay a FUTA tax of 0.9% instead of 0.6%.

To calculate: 6.0% FUTA rate - 5.4% normal credit - 0.3% lost due to the state's unrepaid loan = 5.1% credit = 0.9% FUTA rate. If at the end of the next year the state has not repaid the loan, BizBy will lose another 0.3% on its credit and pay a FUTA tax rate of 1.2%, the year after that 1.5%, and so on.

Certification Honor Roll

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

Melissa Tucker, CB, New York, NY
Preethi Guduri, CB, Frisco, TX
Lisette L. Dohrman, CB, Lake Saint Louis, MO
Emily G. Kneier, CB, Chardon, OH
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Ying Hsuan Lu, CB, Dix Hills, NY

NEW STATE MINIMUM WAGES

2024 minimum wage increases. Below are the states, cities, counties and locales that increased their minimum wage for work performed on or after Jan. 1, 2024, unless otherwise noted.

State	As of Jan. 1, 2024	After Jan. 1, 2024	Tipped workers
Alaska	\$11.73		
Arizona Flagstaff	\$14.35 \$17.40		\$11.35 \$15.90
California Oakland San Diego San Jose	\$16.00 \$16.50 \$16.85 \$17.55		
Colorado Denver	\$14.42 \$18.29		\$11.40 \$14.27
Connecticut	\$15.69		
Delaware	\$13.25		
District of Col.	\$17.00	7/1/24	
Florida	\$13.00	9/30/2024	\$9.98
Hawaii	\$14.00		
Illinois	\$14.00		\$8.40
Maine Portland Rockland	\$14.15 \$15.00 \$15.00		\$7.08 \$7.50
Maryland	\$15.00		
Massachusetts	\$16.25		
Michigan	\$10.33 if 18 or more employees \$8.78 if 16-17 years of age		\$3.93
Minnesota Minneapolis St. Paul	\$10.85 if annual gross revenues of \$500,000 or more; \$8.85 under \$500,000 \$15.57 if over 100 employees \$15.57 if up to 100 employees \$15.57 if over 100 employees \$14.00 if 6-100 employees \$12.25 if under 6 employees	7/1/2024	
Missouri	\$12.30		\$6.15
Montana	\$10.30		
Nebraska	\$12.00		
Nevada	\$12.00 (2-tier dropped)	7/1/2024	
New Jersey	\$15.13 \$13.73 if seasonal or under 6 employees		\$5.26

State	As of Jan. 1, 2024	After Jan. 1, 2024	Tipped workers
New Mexico	\$12.00		\$3.00
Las Cruces	\$12.36		\$4.95
New York NYC Long Island/ Westchester	\$15.00 \$16.00 \$16.00	12/31/2023	
Ohio	\$10.45 if annual gross receipts are over \$385,000		\$5.25
Oregon	TBD	7/1/2024	
Puerto Rico	\$10.50	7/1/2024	
Rhode Island	\$14.00		
South Dakota	\$11.20		\$5.60
Vermont	\$13.67		\$6.84
Washington Seattle SeaTac	\$16.28 \$19.97 if under 501 employees and do not offer health insurance \$17.25 if under 501 employees and offer health insurance. \$19.71		

When wages are paid is irrelevant. For example, for a 2023 biweekly pay period of Dec. 18-31, a paycheck dated Jan. 5, 2024, is computed using the 2023 minimum wage, even though it is paid in 2024.

When a pay period straddles two calendar years, pay some days at the old rate, some at the new. Since this can be a quagmire, see if you can get authorization to pay the entire pay period at the new rate. If, when you read this, there has been a 2024 payroll, verify that payments were processed correctly.

Reminder: If your state has a rate change, you will need to update your state labor poster.

As of Jan. 1, 2024, FLSA-covered employers in the following 20 states will continue to pay at the federal minimum wage rate of \$7.25.

Alabama	Kansas	N. Dakota	Tennessee
Georgia	Kentucky	New Hampshire	Texas
Idaho	Louisiana	Oklahoma	Utah
Indiana	Mississippi	Pennsylvania	Wisconsin
Iowa	N. Carolina	S. Carolina	Wyoming

2024 TAX TABLE CEILINGS AND LIMITS

Helping employees or clients with 2024 FITW.

Here's how to use these tables:

- Since you are not allowed to give tax advice, when employees ask you how much they should withhold, show them the tables below.
- You need to know what's in your payroll software—don't just rely on the numbers it generates. Use the tables to see if the numbers generated make sense.
- Have the tables in front of you when talking to employees or clients about related issues.

Married Individuals Filing Jointly and Surviving Spouses			
If taxable income is over ...	but not over ...	the tax is ...	of the amt. over ...
\$ -0-	\$ 23,200	10% of the taxable income	\$ -0-
\$ 23,200	\$ 94,300	\$ 2,320 + 12%	\$ 23,200
\$ 94,300	\$201,050	\$ 10,852 + 22%	\$ 94,300
\$201,050	\$383,900	\$ 34,337 + 24%	\$201,050
\$383,900	\$487,450	\$ 78,221 + 32%	\$383,900
\$487,450	\$731,200	\$111,357 + 35%	\$487,450
\$731,200		\$196,669.50 + 37%	\$731,200
Standard deduction: \$29,200			

Unmarried Individuals (other than Surviving Spouses and Heads of Households)			
If taxable income is over ...	but not over ...	the tax is ...	of the amt. over ...
\$ -0-	\$ 11,600	10% of the taxable income	\$ -0-
\$ 11,600	\$ 47,150	\$ 1,160 + 12%	\$ 11,600
\$ 47,150	\$100,525	\$ 5,426 + 22%	\$ 47,150
\$100,525	\$191,950	\$ 17,168.50 + 24%	\$100,525
\$191,950	\$243,725	\$ 39,110.50 + 32%	\$191,950
\$243,725	\$609,350	\$ 55,678.50 + 35%	\$243,725
\$609,350		\$183,647.25 + 37%	\$609,350
Standard deduction: \$14,600			

No personal and dependent exemptions. Eliminated under the Tax Cuts and Jobs Act.

2024 aged or blind. The additional standard deduction amount for an aged or blind individual who is married is \$1,550—if unmarried and not a surviving spouse, \$1,950.

2024 Kiddie Tax. Kicks in when a dependent child's unearned income exceeds \$1,300. Kiddie Tax AMT exemption may not exceed the sum of the child's earned income for the taxable year, plus \$9,250.

2024 monthly qualified transportation fringe. Transit passes or commuter highway vehicles, \$315; parking, \$315.

2024 adoption assistance program limits. \$16,180 is excludable from an employee's gross income for the adoption of a special needs child or other adoptions. Phaseouts begin at AGIs over \$252,150 and end with complete phaseout at \$292,150.

- For a client, it can be faster and easier to decide whether to defer some income or other decisions by inputting these data into a calculator or spreadsheet.
- Use the tables to see the breakpoints between tax brackets and to see other tax factors.
- You may be expected to know some of this data—no one wants to be told, "Let's see what the computer says."

Do not use for 2023 personal tax returns.

Heads of Households			
If taxable income is over ...	but not over ...	the tax is ...	of the amt. over ...
\$ -0-	\$ 16,550	10% of the taxable income	\$ -0-
\$ 16,550	\$ 63,100	\$ 1,655 + 12%	\$ 16,550
\$ 63,100	\$100,500	\$ 7,241 + 22%	\$ 63,100
\$100,500	\$191,950	\$ 15,469 + 24%	\$100,500
\$191,950	\$243,700	\$ 37,417 + 32%	\$191,950
\$243,700	\$609,350	\$ 53,977 + 35%	\$243,700
\$609,350		\$181,954.50 + 37%	\$609,350
Standard deduction: \$21,900			

Married Individuals Filing Separate Returns			
If taxable income is over ...	but not over ...	the tax is ...	of the amt. over ...
\$ -0-	\$ 11,600	10% of the taxable income	\$ -0-
\$ 11,600	\$ 47,150	\$ 1,160 + 12%	\$ 11,600
\$ 47,150	\$100,525	\$ 5,426 + 22%	\$ 47,150
\$100,525	\$191,950	\$17,168.50 + 24%	\$100,525
\$191,950	\$243,725	\$39,110.50 + 32%	\$191,950
\$243,725	\$365,600	\$55,678.50 + 35%	\$243,725
\$365,600		\$98,334.75 + 37%	\$365,600
Standard deduction: \$14,600			

2024 health flexible spending account limit on employee pretax contributions, \$3,200. The maximum carryover amount, if the plan allows for a carryover, is \$640.

2024 Medical Savings Accounts.

- **Self-only coverage.** The term "high deductible health plan" means, for self-only coverage, a health plan that has an annual deductible that is not less than \$2,800 and not more than \$4,150, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed \$5,500.
- **Family coverage.** The term "high deductible health plan" means, for family coverage, a health plan that has an annual deductible that is not less than \$5,500 and not more than \$8,300, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed \$10,200.

[Rev. Proc. 2023-34; 2023-48 IRB 1287]

Verifying 2023 Form W-2 information box by box

by Lorelei M. Krucki, CPP, Instructor, St. Petersburg College, St. Petersburg, Florida

Important reminder: If you provide W-2s online, you must still provide a paper copy upon request.

☐ **Void box.** Check only if a W-2 is incorrect and is being corrected before Copy A is filed with the SSA, even if the employee already has the incorrect W-2.

☐ **Box a.** Employee's SSN. If applied for but not received, enter on paper forms "Applied for"; on electronic W-2s, "000-00-0000." The TTIN is allowed if entered as XXX-XX-1234 or ***-**-1234. Copy A must have the complete number.

☐ **Box b.** This is for the EIN used on Forms 941, 943 or 944 (not for the owner's SSN). If an EIN was "Applied for but not received," enter on paper forms, "Applied for"; on electronic forms, zeros. Do not truncate the EIN.

☐ **Box c.** Employer's name/address/ZIP *must match employer quarterly and annual tax returns.*

☐ **Box d.** Control number – optional.

☐ **Box e.** The exact name on the SS card or W-4. To change a name, ask for a new SS card. Omit titles, suffixes (Jr., Sr., Mr., Ms.) and degrees (R.N., Dr., M.D.). Use a hyphen or space in compound names (Smith-Jones or Smith Jones), *even if there is no hyphen on the SS card.* Join or use an apostrophe for O', D', etc. (e.g., O'Brian or OBrian). No period after a middle initial.

Note: The SSA prefers no suffix on Copy A despite the [Suff] box unless "Jr." or "Sr.", II or III is on the SS card.

☐ **Box f.** Last known address (with ZIP code). If a foreign address, enter in order: city, province or state, country name (no abbreviations) and postal code.

☐ **Box 1.** Wages/tips/other compensation constructively received during the calendar year—and:

- Taxable prizes/length-of-service/safety awards;
- Noncash payments (include reportable fringe benefits);
- Unsubstantiated business expense reimbursements; accident/health premiums paid for S corp 2%-or-more shareholder-employees. Exclude from Boxes 3 and 5 premiums paid for non-shareholders;
- \$457 or nonqualified deferred compensation plan distributions to statutory employees;
- Taxes paid for the employee by the employer;
- Payments for nonqualified moving expenses;
- Taxable benefits, such as cash taken under a cafeteria plan, scholarships or fellowship grants;
- Total reported tips (not allocated tips);
- Taxable employer Archer MSA or HSA contributions;
- Military differential wage payments;
- Nonqualified deferred compensation plan amounts included in income for noncompliance with §409A;
- Group-Term Life in excess of \$50,000;
- Employer contributions to long-term care services provided through a flexible spending account (FSA).

☐ **Box 2.** Total FITW. Includes FITW on third-party sick pay (unless reported by vendor), withheld taxes on military differential wages, and the 20% excise tax withheld on excess golden parachute payments.

☐ **Box 3.** Total wages subject to SS tax, excluding tips (actual or allocated). Include in Box 12 with Codes D, E, F, G and S any elective/nonelective deferrals to §457 plans; taxable group-term life over \$50,000; employee and non-excludable employer MSA contributions and employee contributions made to a SIMPLE plan. For 2023, Box 3 + Box 7 should not exceed \$160,000.

continued

- ☐ **Box 4.** SS tax withheld or paid by the employer should not exceed \$9,932.40 for 2023.
- ☐ **Box 5.** Total wages (include reported tips) subject to Medicare. No limit on Medicare wages.
- ☐ **Box 6.** Medicare tax withheld or employer-paid, including additional tax on wages over \$200,000.
- ☐ **Box 7.** Enter reported tips, even if funds were insufficient to collect SS tax. The total of Boxes 3 and 7 should not exceed \$160,000 for 2023 for employees.
- ☐ **Box 8.** Enter allocated tips (do not include this amount in Boxes 1, 3, 5 or 7).
- ☐ **Box 9.** Reserved. Do not enter any amount.
- ☐ **Box 10.** Employer-provided dependent care (paid or incurred) under §129, including the fair market value of employer-provided or employer-sponsored daycare facilities, even if over \$5,000. Report amounts over \$5,000 in Boxes 1, 3 and 5. Note: Employees report dependent care benefits on Form 2441.
- ☐ **Box 11.** Used by the SSA to see if Boxes 1, 3 and 5 include prior year earnings; to verify that the SS earnings test was applied and SS recipients were paid correctly; and to report §457 or nonqualified deferred comp plan distributions related to prior years.
- ☐ **Box 12 A-HH.** Use uppercase letters to the left of the amount at right. Paper W-2s can have only 4 items on the first W-2 (electronic W-2s can have more)—additional items are reported on a second W-2. No dollar signs or commas.
- ☐ **Box 13.** *Check applicable boxes:*
 - Statutory Employee wages subject to FICA but not FITW;
 - Retirement Plan *if eligible* (even if nonparticipant);
 - Third-Party Sick Pay (only if the business is both payer and W-2 filer).
- ☐ **Box 14.** If you report 100% of the lease value of a company-provided car as income in Box 1, also report it here or in a separate statement. You can also report here—and should label: withheld SDI, health premiums, union dues, education assistance, payment for uniforms, nontaxable income, payments made on the employee's behalf, charitable contributions, matching employer retirement plan contributions, and additional Box 6 Medicare tax.
- ☐ **Boxes 15-20.** State/local tax data (might not equal Box 1). Put the 2-letter state name at left. Note: Your state may require reporting *all* employee wages, even wages reported in other states (this is not duplicating Box 1).

2023 FRINGE BENEFITS REPORTING FOR FEDERAL FORMS

"In" indicates that the benefit is reported in this area of the form. **"Out"** indicates that the benefit is not reported in this area of the form.

BENEFIT TYPE	W-2 Box 1	W-2 Box 3/5	W-2 Box 10	W-2 Box 12 ¹⁰	W-2 Box 13 ⁶	W-2 Box 14	941 Line 2	941, Lines 5a and 5c	940, Part 2, Line 3	940, Part 2, Line 4 ⁹
Adoption Assistance up to \$15,950 for 2023	out	in	out	in ("T") ¹⁴	out	out	out	in	in	out
Business Expenses: Unsubstantiated or Excess Payments ¹	in	in	out	in ("L")	out	out	in	in	in	out
Dependent Care Assistance Under \$5,000 ²	out	out	in ²	out	out	out	out	out	in	in
Group-Term Life Over \$50,000	in	in	out	in ("C")	out	out	in	in	in	in
Group-Term Life: Former Employees	in	in	out	in ⁸	out	out	in	in ¹²	in	in
Health plan, aggregate employer cost ¹⁶	out	out	out	in ("DD")	out	out	out	out	out	out
Third-Party Sick Pay: Taxable Portion ¹¹	in	in	out	out	out	out	in ⁷	in	in	out
Health insurance-employer provided	out	out	out	in ("DD") ¹⁶	out	out	out	out	out	out
Health Savings Account – employer and employee pretax	out	out	out	in ("W")	out	out	out	out	in	out
Third-Party Sick Pay: Nontaxable Portion ¹¹	out	out	out	in ("J")	out	out	out	out	in	in
Tips: FICA Not Withheld ³	in	in	out	in ("A/B")	out	out	in	in ¹²	in	out
Tips: Allocated ⁴	out	out	out	out	out	out	out	out	out	out
Reimbursed Moving Expenses: Taxable	in	in	out	out	out	in ¹³	in	in	in	out
Reimbursed Moving Expenses: Nontaxable	out ¹³	out	out	out ¹³ ("P")	out	in ¹³	out ¹³	out	in	in
§401(k) Pretax Contributions	out	in	out	in ("D")	in ⁶	out	out	in	in	out
Roth §401(k) Post tax Contributions	in	in	out	in ("AA")	in ⁶	out	in	in	in	out
Roth §457(b) Post tax Contributions	in	in	out	in ("EE")	out	out	in	in	in	out
SEP: Employer Contributions	out	out	out	out	in ⁶	out	out	out	out	out
SEP: Employee Contributions	out	in	out	in ("F")	in ⁶	out	out	in	in	out
§125 Pretax Contributions	out	out	out	out	out	out	out	out	in	in
§501(c)(18)(D) Plans	in	in	out	in ("H")	in ⁶	out	in	in	in	out
Personal Use Company Car	in	in	out	out	out	in ¹⁵	in	in	in	out
Wages Paid After Death: Year of Death ⁵	out	in	out	out	out	out	out	in	in	out
Wages Paid After Death: Year After Death ⁵	out	out	out	out	out	out	out	out	out	out

* This chart is reprinted from Principles of Payroll Administration, Debera J. Salam. ©Copyright 2023. All rights reserved.

- (1) Report the amount equal to the government-set rate on the W-2 in Box 12, and the excess or unsubstantiated reimbursement in Boxes 1, 3 and 5.
- (2) Report 100% of employer-provided dependent care assistance in Box 10, even if the value exceeds \$5,000. Also report the excess over \$5,000 in Boxes 1, 3 and 5 of the W-2. Remind dependent care assistance plan participants to include Form 2441 with their federal tax return or the taxpayer may be disallowed the \$5,000 exclusion.
- (3) Report wages even though FICA tax not withheld. Report in Box 12 of the W-2 with an "A" for Social Security tax not collected from tips and a "B" for Medicare tax not collected and do not report in Boxes 4 and 6 of the W-2.
- (4) Report this amount only in Box 8.
- (5) Report the federal taxable amount of the payment on the 1099-MISC (rather than in Box 1 of the W-2) issued to the beneficiary or recipient of the wages. Wages paid after death but in the year of death are FICA- and FUTA-taxable and reported as such on the W-2, 941 and 940. Wages paid in the year after death are not FICA- or FUTA-taxable and are only on the 1099-MISC—not on the W-2, 941 or 940. Federal taxable income in connection with nonqualified deferred compensation paid to the deceased employee's beneficiary is reported on a 1099-R.
- (6) Box 13 "retirement plan," is checked for all participants in a retirement plan. This may include those employees who are eligible but elected not to participate. Discuss with your organization's benefits consultant.
- (7) See the 941 instructions for Line 2.
- (8) Report taxable group-term life insurance over \$50,000 in Box 12 with the amount preceded by a "C." Report uncollected Social Security tax from former employees' taxable group-term life insurance in Box 12 preceded by an "M." Report uncollected Medicare tax in Box 12 preceded by an "N." To avoid being assessed the amounts reported in Box 12, Codes M and N, you must show the taxable group-term life in Box 12 preceded by Code C.
- (9) Check the appropriate box for the wage type that is exempt from FUTA. For example, check Box 4(a), "fringe benefits" for pretax health contributions under a cafeteria plan arrangement and 4(b), "group-term life" for taxable group-term life in excess of \$50,000.
- (10) Letters shown in this column must precede the dollar amount in Box 12 with at least one space between the code and dollar amount.
- (11) Report sick pay received in the first 6 months from the last day of the month the employee last worked on the W-2 in Boxes 1, 3 and 5; report sick pay received after this 6-month period only in Box 1. Report nontaxable sick pay in Box 12 with code J. If the 941 and W-2 will not agree (usually applies to third-party payers), Form 8922 is required.
- (12) Show a credit for the amount of Social Security and/or Medicare tax not withheld from tips and/or group-term life insurance over \$50,000 on Line 9 of the 941.
- (13) **For expenses incurred through December 31, 2017:** Exclude nontaxable amounts from Box 1 of the W-2 and Line 2 of the 941. Taxable relocation expenses are also reported as Social Security and Medicare wages on Forms W-2 and 941. Report nontaxable relocation reimbursements made directly to employees in Box 12 of the W-2 preceded by a "P." Do not report nontaxable payments made directly to third parties in Box 12, but include these amounts on Form 940, Part 2, Line 3, and Part 2, Line 4 (check Box 4e). Box 14 reporting is optional. **For expenses incurred on and after Jan. 1, 2018:** Reimbursements or payments made to third parties for moving expenses are no longer excluded from taxable wages. Exception: Moving expenses incurred by members of the Armed Forces—use Box 12, Code P, for reimbursements made to members of the Armed Forces.
- (14) When reporting adoption assistance in Box 12, exclude amounts forfeited under an adoption assistance flexible spending account.
- (15) If 100% of vehicle use is reported on the W-2 in Box 1, also include the amount in Box 14, or provide this information to the employee in a separate statement.
- (16) Employers are required to report in the W-2, Box 12, code DD, the aggregate cost of employer-provided group health care if they filed 250 or more Forms W-2 the previous tax year for informational purposes only (it does not affect taxable wages).

FREELANCING

New state law on freelancers' rights may spread to other states. New York State's new "Freelance Isn't Free" law is effective for contracts entered into on or after May 20, 2024.

The new law covers full-time and part-time freelancers in the state paid at least \$800 for freelance services by a hiring party during the prior 120 days. The \$800 threshold can be met in one contract or be an aggregate of contracts during the 120 days.

A *freelancer* can be a person or a single-owner legal entity, such as an S corp or LLC.

A *hiring party* is any person or nongovernment entity that retains a freelancer to provide a covered service.

Covered: Almost all freelancer services.

Not covered:

- sales reps, practicing attorneys, licensed medical professionals, and construction contractors;
- anything to do with taxes;
- employee v. IC issues;
- business-to-business deals—the law covers only individual freelancers and single-owner freelance entities such as LLCs and S corps. Hirers may want to see if a vendor is an individual or single-owner entity.

Freelance contracts. The terms of any freelance engagement must be in a written contract—physical or electronic—and the freelancer must receive a copy. The contract must include:

- identification of the hiring party and freelancer;
- itemization of services to be provided;
- value of the services;
- rate and method of compensation;
- the date on which the freelancer must submit a list of services rendered; and
- the date the freelancer will be paid.

The law allows freelancers to sue to enforce their rights and authorizes oversight and enforcement by the state Attorney General, including actions to obtain remedies and impose damages and civil penalties on the hiring party.

The state DOL will post model contracts to consider on its website.

AIPB tip: This law is likely to be a model for other states in the next few years. Most firms that use freelancers already have written agreements that include some or all of the provisions required by the NY law.

Helpful hint: Don't forget to check out the model contracts when the NY AG's website posts them.

[*National Law Review*]

Quiz

1. To avoid ERC claims scams, avoid any provider that uses _____ fees, especially one _____ before your company or client gets a refund.
2. Prepaid expenses require a transaction entry when cash is _____ and an adjusting entry at the end of the _____ or other _____.
3. This transaction entry can debit an _____ account (Prepaid Expense) and credit Cash—or debit an _____ account and credit Cash.
4. Whatever is used to record a prepaid expense, the adjusting entry recognizes the portion of the expense _____ during the period and defers the _____ portion to be used in the future.
5. Unused Supplies is a(n) _____ (asset, liability, owners' equity, revenue, expense) account.
6. Prepaid Insurance is a(n) _____ (asset, liability, owners' equity, revenue, expense) account.
7. You prepay rent and debit Rent Expense. If part of the prepaid period has elapsed and you do not record the adjusting entry, net income will be (a) understated; (b) overstated; (c) unaffected.
8. You prepay rent and debit Prepaid Rent. If part of the prepaid period has elapsed and you do not record the adjusting entry, net income will be (a) understated; (b) overstated; (c) unaffected.

Answers: 1. contingency, payable 2. paid, year, period 3. asset, expense 4. incurred, unused 5. asset 6. asset 7. a 8. b

Rates, Due Dates & IRS Limits

CPI-U

November 2023 CPI-U 3.1%

1. Covers all goods/services purchased by urban consumers.
2. Goods costing \$1,000 in November 2022 cost \$1,031 in November 2023.

December 2023 CPI-U Available January 11, 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.

2023 IRS depreciation limits

Covers new and used passenger autos (cars), electric cars and light* SUVs, pickups and vans placed in service in 2023.

	With 2023 80% bonus depreciation	No bonus used
1 st year	\$20,200	\$12,200
2 nd year	\$19,500	\$19,500
3 rd year	\$11,700	\$11,700
4 th yr. and after	\$ 6,960	\$ 6,960

* 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 January 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 January 2024 are as follows:

	Annual	Semiannual	Quarterly	Monthly
Short-term: 3 years or less	5.00%	4.94%	4.91%	4.89%
Mid-term: Over 3 but not more than 9 years	4.37%	4.32%	4.30%	4.28%
Long-term: Over 9 years	4.54%	4.49%	4.47%	4.45%

Tax Calendar

Due date	Day of week	Deposit FICA and FITW for wages paid for the period from
Jan. 15	Mon.	Banks closed – Martin Luther King Jr. Day
Jan. 16	Tues.	Deposit tax liabilities for December 2023.
Jan. 18	Thur.	Jan. 10 – 12 Fri.
Jan. 19	Fri.	Jan. 13 – 16 Tues.
Jan. 24	Wed.	Jan. 17 – 19 Fri.
Jan. 26	Fri.	Jan. 20 – 23 Tues.
Jan. 31	Wed.	Jan. 24 – 26 Fri.
Jan. 31	Wed.	<ul style="list-style-type: none"> • Deposit any FUTA tax owed through Dec. 2023. • File Form 1099-NEC for nonemployee compensation paid in 2023. • Furnish Forms W-2 to employees and 1099, 1099-NEC for nonemployees paid in 2023. • File Form W-3 with Copy A of Forms W-2. • File Forms 940, 941, 943, 944 and/or 945 if you did not deposit all 2023 employment taxes when due.
Feb. 2	Fri.	Jan. 27 – 30 Tues.
Feb. 7	Wed.	Jan. 31 – Feb. 2 Fri.
Feb. 9	Fri.	Feb. 3 – 6 Tues.
Feb. 12	Mon.	Form 4070 due from tipped employees.
Feb. 14	Wed.	Feb. 7 – 9 Fri.

- 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.