

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JAMES D. MAYBURY, CPA
E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
ASHLEY M. STERN, CPA
JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD
SUITE 1
P.O. Box 192
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

*AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS*

*MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS*

*DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS*

ALLINIAL GLOBAL

SUMMARY OF IMPORTANT TAX MATTERS

Tax Law Changes

In 2022, Congress passed a couple of major pieces of legislation that included tax law changes. The Inflation Reduction Act passed earlier in the year, included little in the way of tax changes that affect our business clients. However, it did enhance several of the energy credit provisions.

At the end of 2022, a government funding package was approved that included a number of provisions affecting retirement plans, commonly known as Secure Act 2.0. Some major changes in this Act include an enhancement to credits for employers starting a new qualified retirement plan, a requirement that new 401k and 403b plans include automatic enrollment provisions, and a requirement starting in 2024 that requires plan catch-up contributions for those earning \$145,000 or more to be subject to Roth tax treatment.

We will continue to monitor our government agencies for any new tax rules and assess the impact on our clients. Should new laws be enacted, you can expect PKS to consider revisions to tax planning strategies.

At the end of this letter, we have highlighted a number of tax law changes that became effective in 2022 and 2023.

Health Care Reporting

Generally, the health care reporting requirements only affect “large” employers. However, they will affect any employer, regardless of the number of employees, if the employer sponsors a self-insured health plan.

Reporting is required related to the health care coverage that was provided during 2022. Employers with 50 or more full-time equivalent employees will use Forms 1095-C to report to the IRS and to each employee information about the health coverage that was offered. The reporting will include information about the health care coverage provided during the year, including the employee’s share of the cost.

Health Care Reporting (Continued)

Health insurance companies have a separate but similar reporting on Forms 1095-B. This reporting will include information about all individuals being covered, including an employee's spouse and each dependent. For employers with self-insured plans, this reporting obligation would normally fall to the employer. However, rather than self-insured employers filing both Forms 1095-C and 1095-B, combined reporting can be done by completing an additional section of the Form 1095-C.

The due date for filing these 2022 reporting forms with the IRS is February 28, 2023 (paper) or March 31, 2023 (electronic). The 2022 forms must be distributed to employees by March 2, 2023.

Electronic Payment of Taxes

The IRS requires nearly all companies to remit their taxes electronically through the Electronic Federal Tax Payment System (EFTPS).

Small employers, whose quarterly federal payroll tax deposits are less than \$2,500, will not be required to use EFTPS for these tax remittances. They will be allowed to send in their tax payments by check with the filing of their payroll tax returns. Similarly, for income taxes that are less than \$2,500 for the year, payments can be made by check with the return filing.

Employers who need to enroll should visit the EFTPS website at www.eftps.gov and select the Enrollment tab to set up their company and bank account information.

Employment Federal Tax Deposit Thresholds

Employers whose combined payroll tax deposits exceeded \$50,000 during the prior "look back period" generally will be required to make deposits on a semi-weekly basis (Wednesday and Friday). If deposits totaled \$50,000 or less, payroll tax deposits can be made monthly by the 15th day of the following month. Employers with less than \$2,500 of accumulated FICA and withheld income tax during a quarter can make payments with their 941, rather than making monthly deposits.

Maryland State Withholding Deposit Requirements

Employers who withheld \$15,000 or more in Maryland state withholding for 2022 and who have \$700 or more in withholding in any one payroll period are required to remit Maryland withholding payments within three business days following that pay date. Employers with less than \$700 of Maryland withholding per quarter may remit the tax withheld on a quarterly basis. If neither of the previous two conditions are met, Maryland withholdings are required to be remitted on a monthly basis.

Non-resident employees from states that have no income tax law or have no reciprocal income tax agreement with Maryland (i.e. Delaware) are subject to Maryland tax and Maryland withholding requirements.

Maryland withholding taxes can be filed and paid online at: www.marylandtaxes.com. If you do not owe tax, you are still required to file a return until you give written notice to the Comptroller of Maryland indicating you no longer have employees, or are no longer liable to file the return.

Unemployment Insurance Rates

Maryland Unemployment Insurance Trust fund has determined the tax rates for 2023 will range from 1.0% to 10.5%. Maryland's taxable wage base remains at \$8,500. You should receive your 2023 Experience Rate Notice mid-January by mail. If need be, you can call 1-800-492-5524 to get your current rate.

Delaware's Unemployment taxable wage base remains at \$14,500 for 2023. Employer contribution rates will range from 0.3% to 8.2%.

Pennsylvania's Unemployment taxable wage base remains at \$10,000 for 2023. Employer contribution rates will range from 1.4190% to 10.3734%. The 2023 employee SUI withholding rate increased to 0.07% on total wages.

If you process your own payroll, be sure to enter your new rate before the first payroll of 2023.

Social Security & Medicare Taxes

The Social Security wage base increases to \$160,200 for 2023. Rates and amounts in effect for 2023 are as follows:

	2023 FICA Wage Base	2023 FICA (OASDI) Tax Rate	2023 FICA (OASDI) Tax on first \$160,200	Medicare Tax Rate on all Earnings	
Employee	\$ 160,200	6.20%	\$ 9,932.40	1.45%	*
Employer	\$ 160,200	6.20%	\$ 9,932.40	1.45%	
Combined	\$ 160,200	12.40%	\$ 19,864.80	2.90%	*
Self-Employed	\$ 160,200	12.40%	\$ 19,864.80	2.90%	*

*These Medicare rates increase by 0.9% when employees' wages exceed \$200,000. This increase affects the employee rate only. The employer rate remains at 1.45% no matter the level of compensation. The 0.9% increase also affects self-employed individuals and those with multiple jobs when combined wages and SE earnings exceed \$200,000 for a single taxpayer and \$250,000 for joint filers.

Social Security Benefits

Social Security benefits will increase 8.7% in January 2023.

If you are not yet collecting Social Security benefits and wish to verify your earnings, you can do so by asking for your Social Security Statement. You can get this by visiting an Administration office, through the mail or via the Internet. You can telephone toll-free (800) 772-1213 and ask for Form SSA-7004 or you can download the form from the Internet by going to the Social Security Administration's website at <http://www.ssa.gov>. At this website, you can submit your Social Security Statement request online. For security purposes, you need to enter your mother's maiden name. The SSA site also has all sorts of information readily available.

Social Security Earnings Limits

The amount of earnings that a Social Security recipient may earn during 2023 without reducing benefits is as follows:

<u>Annual Age</u>	<u>Earned Income Allowed</u>	
62, but less than NRA	\$ 21,240	(1)
Year individual reaches NRA	\$ 56,520	(2)
After reaching NRA	No limit	

(1) One dollar in benefits will be withheld for every two dollars in earnings above the limit

(2) Applies only to earnings for months prior to attaining NRA. One dollar in benefits will be withheld for every three dollars in earnings above the limit. There is no limit on earnings beginning the month an individual attains NRA.

The Normal Retirement Age (NRA) varies depending on the year you were born. If you were born in 1956, you reach your NRA at age 66 and 4 months. NRA for those born in 1957 is 66 years and 6 months.

Voluntary Withholding

IRS Form W-4V must be completed to elect income tax withholding from your Social Security benefits. You may choose one of four rates: 7%, 10%, 12% or 22%. You should have already received this information with your Social Security check. If not, we suggest you call your local Social Security office or visit their website.

2023 Form W-4 Employee's Withholding Certificate

The IRS Form W-4 for 2023 has been revised and the IRS-provided Tax Withholding Estimator that can be found at <https://apps.irs.gov/app/tax-withholding-estimator> has been removed. The amounts used in Step 2(b) and Step 4(b) on the worksheet have been updated.

Overtime requirements

Under the Fair Labor Standards Act (FLSA), salaried employees who earn less than \$684 per week are entitled to receive overtime pay.

Minimum Wages

Delaware's minimum wage will be \$11.75 effective January 1, 2023 and is scheduled for an increase to \$13.25 in 2024.

Maryland's minimum wage will increase to \$12.80 effective January 1, 2023 for employers with less than 15 employees. For employers with 15 or more employees, the minimum wage increased to \$13.25.

Pennsylvania's minimum wage remains at \$7.25 for 2023, the same as the Federal minimum wage rate.

Immigration Law

Employers are required to verify that employees are either U.S. citizens or aliens authorized to work in the U.S. Anyone hired after November 6, 1986 must have a Form I-9 completed and kept on file with the employer for three years after the date of hire or for one year after employment is terminated, whichever is later. The Form I-9 was revised in 2017 and the list of acceptable documents for verifying employment eligibility and identity has been amended. You should be using the most recent Form I-9 for all new hires. You can download Form I-9 by going to <http://www.uscis.gov>. There can be substantial penalties when a required form is not completed and retained.

Employee Background Check

The Consumer Credit Reporting Reform Act of 1996 requires you, the employer (if you use an outside consumer reporting agency to do so) to advise the employee or applicant that you intend to obtain a background check. You must make this disclosure prior to obtaining the background check and the advice must be separate from a handbook or application form.

Group-term Life Insurance

The value of group-term life insurance in excess of \$50,000 must be included in income each year. The amount to report is determined by using IRS Section 79 Table I (rather than the actual cost to the employer). This amount is reduced by any after-tax payments from the employee. The amount added to the employee's compensation is subject to social security and Medicare taxes and is included in the taxable compensation reported on Form W-2.

W-2s

The IRS compares quarterly payroll returns (Forms 941) and the annual federal unemployment tax return (Form 940) with W-2s. Please be sure that the total wages and FICA wages per your W-2s agree with the amounts on the other reporting forms before filing W-2s.

Be sure your W-2s include non-cash compensation in the appropriate boxes such as the value of group term life insurance in excess of \$50,000 coverage and personal use of an employer provided vehicle. It is easier to reissue a W-2 to an individual that had an error on it before you file the original with the tax authorities than it is to file corrected W-2s, 940s or 941s.

Employers are required to file W-2 Forms as well as Forms 1099-NEC with non-employee compensation on or before January 31st of each year.

The Social Security Administration compares names and social security numbers on W-2s with their records. You can verify up to 10 names and SSNs (per screen) online and receive immediate results. To learn more, go to <http://www.ssa.gov/employer/ssnv.htm#verify>.

If you file more than 250 W-2 Forms, you must file your W-2s electronically.

W-2s (Continued)

Please remember to “X” the appropriate box or boxes in Box 13 of the W-2. The retirement plan box needs to be checked for any participant in a qualified SIMPLE, 401(k), profit sharing or other similar plan. A participant is any employee who:

- makes an elective deferral into a plan, or
- receives a contribution from an employer, or
- receives a forfeiture allocation within a plan.

If you have health savings accounts (HSAs) under your company’s medical plan, both employer contributions and employee contributions made through pre-tax payroll deductions need to be reported in Box 12 of Form W-2 using Code W.

Requirements for reporting health insurance costs in W-2s are in effect for employers who file more than 250 W-2 forms. Reporting of health insurance costs on Forms W-2 is optional at this time for employers with less than 250 W-2s. The cost of health insurance coverage is not included as taxable income to employees, but is reported as additional information in box 12 using code DD. Also, please note the reported cost is not reduced by contributions made by employees toward the cost.

PLEASE NOTE THAT THE W-2 INSTRUCTIONS REQUIRE THAT NO DOLLAR SIGNS (\$) OR COMMAS (,) BE ENTERED ON W-2s.

Maryland State W-2 Requirements

Employers with 25 or more W-2s to report must report electronically.

Penalties and Interest

Penalties and interest for lack of filing and late payments are high and nondeductible, so be sure to file and pay on time. The IRS also charges penalties for bad checks.

Employee Auto Expense Policy

If you are an employer who provides an employer-owned vehicle to an employee(s), you must re-notify the affected employee(s) by January 31, 2023 of your withholding policy concerning their personal use of the vehicle. During 2022, the IRS made a mid-year change to the standard mileage rate increasing it from 58.5 cents to 62.5 cents for the last 6 months of the year. For 2023, the IRS increased the standard mileage rate another 3 cents to 65.5 cents per mile.

Form 1099 Information

Generally, businesses are required to furnish 1099 forms to report interest payments of \$10 or more, and for payments for services or rent of \$600 or more to recipients. An exception to the 1099 reporting requirement applies if the recipient is a corporation. However, businesses must file 1099s for payments to lawyers, including payments to incorporated law firms. The dollar requirement of \$600 or more still applies. An additional reporting exception applies for payments made by credit card.

The recipient of the payment must be furnished with a copy of the 1099 form by January 31st.

Form 1099 Information (Continued)

Nonemployees Compensation/Independent Contractor payments are reported on Form 1099-NEC. These Forms 1099-NEC must be filed with the Internal Revenue Service by January 31st. Other 1099 form types are due to the IRS by February 28th.

Payer must provide the telephone number recipients can call if they have questions about data reported on 1099. The number goes in the box with the filer's name and address.

You must get taxpayer identification numbers of the recipients before you remit payments where you will be required to issue a Form 1099. If you do not have a payee's ID number, you can use IRS Form W-9 to mail to the payee to request their identification number.

You must file information returns electronically if you are required to file 250 or more information returns (each type of information return is counted separately). For example, if you have to file 275 Forms 1099-INT and 25 Forms 1098, only the 1099-INT forms are required to be reported electronically. If no single type of information return exceeds 249, you are not required to file electronically.

The IRS and the states are actively looking for misclassified employees. If you are uncertain whether an individual is an independent contractor or an employee, please call PKS.

Form 1099-K

Many businesses receive Forms 1099-K from credit card companies reporting the credit card receipts these companies paid over to the business. Currently, the amounts on these forms are not used in the preparation of business tax returns and do not need to be provided to your tax return preparer. However, internally the IRS is using these reporting forms to help identify businesses that are underreporting their income receipts.

Retirement Plan Salary Deferrals

The maximum contribution to a SIMPLE Plan is \$15,500 for 2023. In addition, those who have reached 50 years of age will be allowed to make an additional \$3,500 "catch-up" contribution for a combined limit of \$19,000.

The maximum contribution to a 401(k) plan is \$22,500 for 2023. Those 50 and older are allowed an additional \$7,500 "catch-up" contribution to a 401(k) plan. Certain individuals who are considered "highly compensated" need to refer to their plan administrator for any other limits that may apply.

Health Savings Accounts and Cafeteria Plans

The maximum amount that can be contributed to a health savings account (HSA) will change in 2023 for family coverage from \$7,300 to \$7,750 and will increase from \$3,650 to \$3,850 for self-only coverage. For those that are 55 or older, an additional \$1,000 can be added to the above limits. For married couples, each spouse that meets the age requirement is entitled to their own \$1,000 additional contribution amount.

Health Savings Accounts and Cafeteria Plans (Continued)

The maximum amount that could be contributed to a health flexible spending arrangement increases to \$3,050 for 2023 (plans could set lower limits).

In addition, cafeteria plans can allow for a \$500 carryover of any unspent amount under a health flexible spending arrangement from one year to the next. This provision relieves some of the “use it or lose it” fears related to contributions to such plans.

Income Tax Law Changes and Reminders

As mentioned earlier, a number of changes go into effect for the 2022 and 2023 tax years. We have listed below some of these important provisions based on their current status:

For Businesses

- Starting with the 2022 tax year, businesses will not be allowed to currently deduct their Research & Experimental expenditures. Instead, these costs must be amortized over 5 years.
- Since 2020, Maryland businesses operating as partnerships and S Corporations have been able to elect to make Maryland state tax payments on behalf of their members and deduct them at the entity level. Starting in 2022, Virginia partnerships and S Corporations will also be allowed to take advantage of this tax saving technique.
- Owners of pass-through entities (partnerships and S corporations), as well as sole-proprietorships and certain rental activities, are allowed a special tax deduction equal to 20% of their qualified business income. A number of limitations and expectations apply, so each taxpayer’s situation will be different.
- The limits on Sec. 179 expensing elections related to new or used equipment purchases are \$1,080,000 and \$1,160,000 for tax years beginning in 2022 and 2023, respectively.
- First year bonus depreciation of 100% applies to acquisitions of new or used equipment and software during 2022. Certain improvements to the interior portion of an existing commercial building (qualified improvement property) are depreciable over 15 years and qualify for 100% bonus depreciation. In 2023, first year bonus depreciation drops to 80% of the asset’s acquisition cost with further decreases scheduled through 2026.
- Larger businesses (those with \$26 million in average annual receipts) face a limitation on interest expense deductions that exceed 30% of the business’s adjusted taxable income. Some exceptions are available to certain business taxpayers to avoid these limitations.
- For 2022, business meals provided by restaurants were not subject to a 50% reduction as in the past and were fully deductible. Starting in 2023, business meals will revert back to the previous 50% deductible limit.

Income Tax Law Changes and Reminders (Continued)

- Net operating losses (NOLs) for 2021 and subsequent years are only allowed to be carried forward to future years and can only offset 80% of future taxable income. NOLs from pre-2021 tax years can offset 100% of taxable income.

For Individuals

- For 2022, the top individual tax rate remains at 37% and the top bracket's starting point is \$647,850 for joint filers and \$539,900 for single filers. Other rate brackets range from 10% to 35%.
- Individuals will continue to benefit from the special tax rates on long-term capital gains and corporate dividends. For those in the lower income tax brackets (for example, married taxpayers with less than \$83,350 in taxable income), the maximum capital gains/dividend rate is 0%. Married taxpayers with taxable income above \$83,350 will receive a 15% rate and, when taxable income exceeds \$517,200, the 20% maximum rate will apply.
- Effective the first of 2023, the starting age for Required Minimum Distributions from retirement accounts was raised from age 72 to age 73.
- Starting in 2024, unused 529 account balances will be allowed to be rolled over tax-free to the beneficiaries Roth IRA. Certain restrictions will apply, however.

We only highlighted some of the new law changes that have gone into effect. We tried to focus on the major provisions that will affect most business taxpayers. During this up and coming tax filing season, we will help you analyze your tax situation and determine the steps to take to minimize your tax bill.

We are also available after-tax season to advise on strategies and planning decisions that will help you minimize taxes and meet your business and financial goals going forward. Please don't hesitate to contact us today to schedule an appointment to begin discussing your options.

PKS & COMPANY, P.A.

See our website (www.pkscpa.com) for monthly updates on taxes and business.

For financial planning resources, see PKS Investment Advisors' website (www.pksadvisors.com).