

Haefele Flanagan 2021 Payroll Tax Highlights

We have summarized the major changes, as of this date, which will affect your payroll tax calculations **effective January 1, 2021**. Check our website, www.hfco.com, for periodic updates.

FEDERAL INDIVIDUAL INCOME TAX

The federal individual tax rates remain the same for 2021. Some of the tax bracket amounts have changed slightly after inflation adjustments. (See schedule 1 for tax brackets, rates and standard deductions)

NEW JERSEY INDIVIDUAL TAX

New Jersey individual income tax rates remain largely the same for 2021 except for those making \$1-\$5 million. Retroactive to January 1, 2020, the tax rate on that income bracket increased from 8.97% to 10.75%, regardless of filing status. Income over \$5 million is already subject to this rate. (See schedule 2 for tax brackets and rates)

PENNSYLVANIA INDIVIDUAL TAX

The Pennsylvania individual income tax withholding rate remains at 3.07% for 2021.

PHILADELPHIA WAGE TAX

Effective July 1, 2020 the Philadelphia City Wage Tax rate for non-residents increased to 3.5019% (or .035019). The rate for residents remains the same at 3.8712% (or .038712).

PHILADELPHIA INCOME INEQUALITY INITIATIVE

Effective January 1, 2015, all Philadelphia employers must provide notice to their employees and non-payroll workers of the federal Earned Income Tax Credit ("EITC") program. This notice should be sent at the same time as the form W-2, 1099, or other comparable form.

SOCIAL SECURITY TAX

The social security wage base for 2021 will increase to \$142,800

Social Security Tax is broken into two sections, Social Security and Medicare. The following is each section's rate and base for 2021:

	Social Security	Medicare
Rate - Employer	6.2%	1.45%
Rate - Employee	6.2%	1.45%
Base	\$142,800	Unlimited
Maximum Employer Portion	\$8,853.60	Unlimited
Maximum Employee Portion	\$8,853.60	Unlimited

An employer must withhold additional Medicare tax from wages it pays to an individual in excess of \$200,000 in a calendar year, without regard to the individual's filing status or wages paid by another employer. The rate on the additional Medicare Tax is 0.9% and is only paid by the employee. This information is subject to change based on the policies of the new federal administration.

As a reminder, 2020 year-end PA W-2 information is due by Jan. 31, 2021, and may be filed via multi-import file upload in e-TIDES at www.etides.state.pa.us. This includes W-2 Transmittals (REV-1667), employee wage statements and 1099R forms. Electronic filing is now a mandatory requirement if filing 10 or more W-2s.

The PA Department of Revenue has expanded the W-2/1099 filing options to include corrections to originally filed W-2/1099 information using the EFW2C or CSV correction format. Corrected W-2/1099 information can only be submitted for original filings done through e-TIDES. If you upload a correction file, you may be required to file an amended REV-1667 Annual Withholding Reconciliation Statement (Transmittal).

If you have any questions regarding electronic filing, please visit the department's Business Tax e-Services Center at www.revenue.state.pa.us or call 717-787-7635.

Employers that file 250 or more federal W-2 forms are required to file electronically; however, all employers are encouraged to file electronically regardless of the number of W-2 forms they file.

FEDERAL UNEMPLOYMENT TAX

The FUTA tax rate decreased to 6.0% beginning July 1, 2011. The maximum state credit is 5.4% for a net tax of 0.6% (.006) on the first \$7,000 of wages per employee. Pennsylvania and New Jersey's maximum state credit is 5.4% for a net tax of 0.6% (.006) for 2021.

NEW JERSEY UNEMPLOYMENT

The maximum taxable wages for New Jersey Unemployment and Workforce Development will increase to \$36,200 per employee. The taxable wage base for Disability and Family Leave insurance will increase to \$138,200 per employee. The taxable wage base for employer paid disability will increase to \$36,200 per employee. The employee percentage for January 1, 2021 to December 31, 2021 is divided as follows:

	Tax rate	Maximum Tax
Unemployment	0.3825%	\$ 138.47
Workforce Development	0.0425%	\$ 15.39
Disability	0.4700%	\$ 649.54
Family Leave Insurance	0.2800%	\$ 386.96
Maximum Employee Portion	1.1750%	\$ 1,190.36

The employer rate varies and is adjusted July 1st of each year. The base week amount increases to \$220 for 2021.

PENNSYLVANIA UNEMPLOYMENT

The maximum taxable wages for employer Pennsylvania Unemployment remain at \$10,000 per employee. The surcharge on employer contributions remains at 5.4% (.054). The employer additional contribution remains at 0.50% (.005). The additional employer interest factor tax remains at 0.0% for 2021. The unemployment tax rate for employees remains at 0.06% (.0006). This 0.06% tax does not have a wage limit. Effective January 1, 2017, these contributions must be paid electronically if the total liability owed is \$5,000 or greater. The base week amount is \$116.

401(K) LIMITS

The maximum employee contributions remains at \$19,500 for 2021. Please note that this contribution is limited to the lesser of \$19,500 or the percentage of wages specified in your 401(k) Plan document. The maximum employee contributions for employees age 50 or older remains at \$26,000 for 2020. The contribution is limited to the lesser of \$26,000 or the percentage of wages specified in your 401(k) Plan document.

QUICKBOOKS

Please note that if you have payroll with QuickBooks and you keep current with all the payroll updates, QuickBooks makes the changes automatically; however, double checking with the rates here is encouraged.

MINIMUM HOURLY WAGE

	<u>Amount</u>	<u>Effective Date</u>
Federal	\$7.25	July 24, 2009
New Jersey	\$12.00	January 1, 2021
Pennsylvania	\$7.25	July 24, 2009

AFFORDABLE CARE ACT (ACA)

In 2016 the federal government required the filing of new forms relating to the Affordable Care Act. These forms: 1094B, 1095B, 1094C and 1095C must be completed by employers with 50 or more full-time employees or equivalents. If you are required to file these forms and need help, please contact one of us directly.

PA WITHHOLDING OF NONEMPLOYEE COMPENSATION AND BUSINESS INCOME

Anyone that pays Pennsylvania source nonemployee compensation or business income to a nonresident individual or pass through entity with a nonresident member and who is required to file a Federal Form 1099-MISC with the Department of Revenue is required to withhold an amount equal to the Pennsylvania personal income tax rate. Withholding is optional if the payee received less than \$5,000.

PA WITHHOLDING ON SOME LEASE PAYMENTS

Anyone leasing Pennsylvania real estate making lease payments in the course of their trade or business to a non-resident lessor must withhold an amount equal to the personal income tax rate. Withholding is optional for amounts under \$5,000 annually. Lease payments include: rents, royalties, bonus payments, damage rents, and other payments made pursuant to a lease.

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT:

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Schedule 1

Federal Personal Income Tax Rates for 2021

	Taxable Income		Tax Bracket
	Over	But Not Over	
Single Individuals	\$0	\$9,950	10% of the taxable income
	\$9,950	\$40,525	\$995.00 plus 12% of the excess over \$9,950
	\$40,525	\$86,375	\$4,664.00 plus 22% of the excess over \$40,525
	\$86,375	\$164,925	\$14,751.00 plus 24% of the excess over \$86,375
	\$164,925	\$209,425	\$33,603.00 plus 32% of the excess over \$164,925
	\$209,425	\$523,600	\$47,843.00 plus 35% of the excess over \$209,425
	\$523,600	Over	\$157,804.25 plus 37% of the excess over \$523,600
Standard Deduction \$12,550			
Married Filing Jointly & Surviving Spouses	\$0	\$19,900	10% of the taxable income
	\$19,900	\$81,050	\$1,940.00 plus 12% of the excess over \$19,900
	\$81,050	\$172,750	\$9,328.00 plus 22% of the excess over \$81,050
	\$172,750	\$329,850	\$29,502.00 plus 24% of the excess over \$172,750
	\$329,850	\$418,850	\$67,206.00 plus 32% of the excess over \$329,850
	\$418,850	\$628,300	\$95,686.00 plus 35% of the excess over \$418,850
	\$628,300	Over	\$168,993.50 plus 37% of the excess over \$628,300
Standard Deduction \$25,100			
Married Filing Separately	\$0	\$9,950	10% of the taxable income
	\$9,950	\$40,525	\$995.00 plus 12% of the excess over \$9,950
	\$40,525	\$86,375	\$4,664.00 plus 22% of the excess over \$40,525
	\$86,375	\$164,925	\$14,751.00 plus 24% of the excess over \$86,375
	\$164,925	\$209,425	\$33,603.00 plus 32% of the excess over \$164,925
	\$209,425	\$314,150	\$47,843.00 plus 35% of the excess over \$209,425
	\$314,150	Over	\$84,496.75 plus 37% of the excess over \$306,175
Standard Deduction \$12,550			
Head of Household	\$0	\$14,200	10% of the taxable income
	\$14,200	\$54,200	\$1,420.00 plus 12% of the excess over \$14,200
	\$54,200	\$86,350	\$6,220.00 plus 22% of the excess over \$54,200
	\$86,350	\$164,900	\$13,293.00 plus 24% of the excess over \$86,350
	\$164,900	\$209,400	\$32,145.00 plus 32% of the excess over \$164,900
	\$209,400	\$523,600	\$46,385.00 plus 35% of the excess over \$209,400
	\$523,600	Over	\$156,355.00 plus 37% of the excess over \$523,600
Standard Deduction \$18,800			

***See IRS Notice 1036 or Circular E (Publication 15 and 15-A) for withholding amounts that should be made through payroll.**

Schedule 2

New Jersey Income Tax Rates for 2021

Please note that these rates are New Jersey Income Tax Rates, not Withholding Tax Rates.

FOR MARRIED/CU PARTNERS FILING JOINTLY, HEADS OF HOUSEHOLDS, AND SURVIVING SPOUSES/CU PARTNERS

Taxable Income	Tax Rate
Not over \$20,000	1.4%
\$20,001 - \$50,000	1.75% minus \$70.00
\$50,001 - \$70,000	2.45% minus \$420.00
\$70,001 - \$80,000	3.5% minus \$1,154.50
\$80,001 - \$150,000	5.525% minus \$2,775.00
\$150,001 - \$500,000	6.37% minus \$4,042.50
\$500,001 - \$1,000,000	8.97% minus \$17,042.50
Over \$1,000,000	10.75% minus \$38,842.5

FOR TAXPAYERS WHOSE FILING STATUS IS SINGLE, MARRIED/CU PARTNERS FILING SEPARATE RETURNS, ESTATES, AND TRUSTS

Taxable Income	Tax Rate
Not over \$20,000	1.4%
\$20,001 - \$35,000	1.75% minus \$70.00
\$35,001 - \$40,000	3.5% minus \$682.50
\$40,001 - \$75,000	5.525% minus \$1,492.50
\$75,001 - \$500,000	6.37% minus \$2,126.25
\$500,001 - \$1,000,000	8.97% minus \$14,513.75
Over \$1,000,000	10.75% minus \$38,313.75