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# Payroll Newsletter

Keeping You Informed for 2018

With the New Year upon us, we would like to update you on some payroll matters for 2018 along with some reminders.

## 125 Cafeteria Plan

The Premium Only Plan (POP) is the optimal solution for employers who want to provide employees with an affordable way to pay for their group health plan. The POP allows for employees to pay for a variety of employer-sponsored benefits, such as health, dental, vision, and supplemental insurance premiums, with pre-tax dollars, ultimately reducing taxable compensation.

The ideal candidate for the POP is an employer sponsored group health plan that requires employees to pay a portion of the premium. A properly implemented POP benefits both the employer and employees. The employee saves Federal, State and FICA taxes, and the employer will also pay less FICA tax. The bottom line: Premium Only Plans allow employers to cut payroll taxes and increase employees' take-home pay.

## Qualified Small Employer Health Reimbursement Arrangement (QSE-HRA)

The QSE HRA allows employers that are not offering group coverage to help their employees pay for qualified medical coverage for themselves and their families, tax-free. The IRS just announced that for tax years beginning in 2018, to qualify as a Qualified Small Employer Health Reimbursement Arrangement, the arrangement must provide that the total amount of payments and reimbursements for any year cannot exceed \$5,050 for single coverage and \$10,250 for family coverage.

Of course, there is a catch. Employees who receive these tax-free reimbursements from employers are **not** eligible for Marketplace premium credits. Offering this benefit to employees may not reduce the employees' net out-of-pocket, but simply replace the premium credit with an employer subsidy. Also, this HRA cannot be used to pay alternative healthcare arrangements, such as medical cost sharing ministries.

Our office can help calculate the tax savings, but we partner with BASE to provide you with the legal documentation for both the 125 Cafeteria Plan and the QSE-HRA. To learn more about BASE, look online at [baseonline.com](http://baseonline.com) or call 888-386-9680.

## Retirement Plans

- Maximum SIMPLE plan deferrals for 2018 are \$12,500 plus a \$3,000 "catch up" provision for employees who are age 50 by the end of 2017.
- Other retirement plans, including 401(k), have a maximum deferral of \$18,500 plus catch up provisions of \$6,000.
- Maximum plan year contribution of \$220,000 through a defined benefit plan.

## Audit Alert!

The Pennsylvania Unemployment auditors are looking at overtime for minority partners and enforcing the overtime rules. Courts are now clear that 1%, 2%, or even 10% partners are considered employees for unemployment tax and labor laws. Contact us if you have any minority-interest ownership in your business.

Questions? Contact our office!

**Willow Street Office:** 717-464-2951 \* 2733 Willow Street Pike N, Willow Street PA 17584

**Ephrata Office:** 717-733-2218 \* 226 S Reading Road, Ephrata PA 17522

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## Documentation

The “new hire” requirements remain the same for 2018. Each employee must complete Form I-9, Form W-4, and Certificate of Residence. Employers must keep these forms on file and file a PA New Hire form either online or by fax. Employers must also notify employees whether or not they provide health insurance. For your convenience, we have enclosed a copy of each form.

Please contact our office in the event you have any questions concerning payroll and would like further assistance. Like us on Facebook to keep up to date on all the latest payroll and income tax changes.

## Federal Withholdings

- Remember to use the charts in Publication 15 if you are not using QuickBooks® payroll to determine the correct amount of federal withholding tax. You can download the Publication from our website at [www.Covenant-CPA.com](http://www.Covenant-CPA.com) under client resources → helpful links → federal resources → Internal Revenue Service and use the search feature on that page. You will also find the Form W-4 there.
- You must use EFTPS to make all federal payroll tax deposits and the frequency is determined by the type of payroll tax and the amount due. Do not ignore a change of frequency notice.

## Social Security & Medicare (FICA)

- The social security percentage will remain at 6.2% for the employee and employer.
- The social security wage base will increase to \$128,400.
- The Medicare portion is an unlimited wage base and all wages earned are subject to the 1.45% rate for the employee and employer. Employees with wages greater than \$200,000 will pay an additional 0.9%.

## Federal Unemployment Tax (FUTA)

- Remains at 0.6% on the first \$7,000 of wages paid unless the employer is exempt\*.

## Pennsylvania Withholdings

- Remains unchanged at 3.07%.
- Employers that report a withholding liability of \$1,000 or more must pay electronically using e-tides.
- Payment frequency is dependent on your tax liability. If you are withholding less than \$300, the payments are quarterly, \$300 - \$999 are monthly and over \$1,000 for semiweekly. Changes of frequency notices for the next year are mailed in the fall.

## Pennsylvania Unemployment Compensation

- The new employer rate will be mailed by December 31, 2017 to be paid on the first \$10,000 of wages paid. If you are using QuickBooks, be sure to update the rate in the payroll items lists. The employee rate will decrease to 0.06% on all wages unless the employer is exempt\*.

## Local Withholdings

- The tax is based on the school district and municipality in which the employee resides. Each employer is required to have a Certificate of Residence on file for each employee. The rates can be found at [www.lctcb.org/employer](http://www.lctcb.org/employer).

## LST

- This tax amount and the agency that collects it are based on the school district and municipality where the business is located.
- An employee may be exempt, but an exemption certificate will need to be completed each tax year.

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\*Exempt employers include churches and some agricultural employers. The farm must employ less than 10 employees for any part of a day in 20 or more calendar weeks in the current or preceding calendar year or pay less than \$20,000 in wages in any calendar quarter of the current or preceding calendar year.

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