

M**D & A****Markovitz Dugan & Associates**

experience
accounting
services
timely
Pittsburgh
clients
advice
trust
cpa
consulting
quality
best
advisor
tax
business
one-stop
professional



To Clients and Friends:

The following information reflects the various tax changes that affect your 2017 payroll. All employers are required to utilize these limits and amounts as they apply to wages paid after December 31, 2016.

HELPING YOU ACHIEVE MORE

Federal Income Tax Withholding

All employers should make sure they are using the 2017 version of Publication 15 (Circular E), Employer’s Tax Guide. The current Circular E should be mailed to all employers in late December. It is also available from the IRS forms web site at www.irs.gov.

The IRS has posted **Notice 1036**, *Early Release Copies of the 2017 Percentage Method Tables for Income Tax Withholding*, to its website. The withholding allowances for 2017 have not changed. The tables in Notice 1036, along with the 2017 wage-bracket withholding tables, will appear in IRS Publication 15, *(Circular E), Employer’s Tax Guide*.

Social Security Wage Base will increase to \$127,200

The Social Security Administration has announced that the 2017 social security wage base is \$127,200 up \$8,700 from 2016. The employee and employer rate will remain at 6.2%. The maximum Social Security tax a taxpayer and employer could each pay will increase to \$7,886.40 which is an increase of \$539.40 over the 2016 maximum.

The Medicare tax rate for employers and employees for 2017 remains at 1.45% of all covered earnings. The additional employee Medicare tax withholding of 0.9% applies to wages in excess of \$200,000 for the year. Employers are NOT subject to the Additional Medicare Tax. As in prior years, there is no limit to the wages subject to the Medicare tax.

An employee may not request that the employer deduct and withhold the additional Medicare tax on wages of \$200,000 or less. However, an employee who anticipates that he or she will be liable for additional Medicare tax, for example if household wages will exceed the married filing jointly threshold, may request that the employer deduct and withhold an additional amount of income tax on Form W-4, Employee’s Withholding Allowance Certificate.

For a quick reference chart of the 2017 social security and Medicare tax rates and limits, see below.

Description	2017	2016	Increase
Social Security Employee Tax	6.20%	6.20%	None
Social Security Employer Tax	6.20%	6.20%	None
Social Security Wage Base	\$127,200	\$118,500	\$8,700
Maximum Social Security Employee Tax	\$7,886.40	\$7,347.00	\$539.40
Medicare Employee Tax	1.45%*	1.45%*	None
	Additional .9% on wages in excess of \$200,000	Additional .9% on wages in excess of \$200,000	None
Medicare Employer Tax	1.45%	1.45%	None
Medicare Wage base	No limit	No limit	None
* Employers must withhold an additional Medicare tax of 0.9% of wages in excess of \$200,000 however there is no employer matching contribution.			

Federal Unemployment Tax (FUTA)

The full FUTA tax rate is 6%; however employers generally receive a FUTA credit of 5.4% for payment of state unemployment taxes, making the effective FUTA tax rate 0.06% (.006) of taxable wages up to a limit of \$7,000 per employee annually or \$42.00. The U.S. Department of Labor announced that employers in Credit Reduction states (California • Ohio • Virgin Islands) will pay their FUTA tax for 2017 at a higher federal unemployment (FUTA) tax rate than employers in other states. Employers in CA, OH and VI have a 1.8% cutback or up to \$126 in additional tax per employee. Unless a state pays off the loan or takes other actions specified by federal law, their FUTA Credit Reduction will increase annually by .3% (.003) or by \$21 per worker. The FUTA liability is calculated quarterly

on the first \$7,000 of wages paid to each employee. Deposits are required when the liability reaches \$500. Liabilities of \$500 or less may be paid with the annual filing of Form 940.

Pennsylvania Payroll Taxes

State Withholding

The Pennsylvania withholding rate for wages in 2017 remains at 3.07%.

Employers currently withhold and remit employees' taxes on wage and salary income according to the following schedule:

- Quarterly – If total withholding is under \$300 per quarter, the taxes are due the last day of April, July, October and January.
- Monthly – If total withholding is \$300 to \$999 per quarter, the taxes are due the 15th day of the following month.
- Semi-Monthly – If total withholding is \$1,000 to \$4,999.99 per quarter, the taxes are due within three banking days of the close of the semi-monthly period.
- Semi-Weekly – If total withholding is \$5,000 or greater per quarter (\$20,000 per year), the taxes are due on the Wednesday following the pay dates for employers whose paydays fall on a Wednesday, Thursday or Friday; and on the Friday following the pay dates for employers whose paydays fall on Saturday, Sunday, Monday or Tuesday.

Employers are also required to file reconciliation returns for each quarter and wage and tax statements (W-2s) for all employees and W-2 transmittals, annually.

1099 Reporting

Pennsylvania only requires those who issue Forms **1099-R** and **1099-MISC** to provide copies to the state. For Pennsylvania personal income tax purposes, the department requires those who issue Forms **1099-R** and **1099-MISC** to file them with the state by January 31.

Forms should be mailed to:

PA Department of Revenue
Bureau of Individual Taxes
Form 1099R
P.O. Box 280509
Harrisburg, PA 17128-0509

If there is PA withholding shown on the Form, the form and the **REV-1667** (complete line 1c.) should be mailed to:

PA Department of Revenue
Bureau of Business Trust Fund Taxes
P.O. Box 280412
Harrisburg, PA 17128-0412

Here is the link for the REV-1667: <http://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/Documents/Employer%20Withholding/rev-1667r.pdf>

Entities issuing the Form **1099-MISC** must have a PA employer withholding account to be able to file the forms electronically through e-TIDES. The forms will have to be filed using a multi-import file upload. This process will allow users to prepare a file and upload all of their records in a single transaction. The file should not exceed 5 MB and be formatted using the .CSV file extension or any other type of a comma delimited/comma separated value file.

If the entity issuing the Form **1099-MISC** has a PA employer withholding account and 250 or more Forms **1099-MISC**, they must be filed through e-TIDES.

If the entity issuing the Form **1099-MISC** has a PA employer withholding account and has less than 250 Forms **1099-MISC**, they should be filed electronically through e-TIDES, but you do have the option to submit the paper forms.

If the entity issuing the Form **1099-MISC** does not have a PA employer withholding account, the form must be submitted in paper format.

State Unemployment Insurance

The 2017 PA Unemployment Contribution (UC) rate notices are mailed to the majority of employers in December of 2016. Employers should note the following important dates:

January 30, 2017 is the last day to file a timely voluntary contribution to lower the 2017 contribution rate.

March 31, 2017 is the last day to file a timely rate appeal to the contribution rate reflected on the UC Contribution Rate Notice.

April 30, 2017 is the last day to file a timely election for a Debit Reserve Account Balance Adjustment.

The Contribution Rate Notice (Form UC-657) shows the rate effective for the coming calendar year. This percentage is to be applied to taxable wages paid to determine the amount of employer contributions due. Rates range from 2.237% to 10.3836% with the standard new employer rate being 3.6785% and 10.1947% for contractors. **Please review your rate computations carefully, in order to appeal your contribution rate, you must do so within 90 days of the mailing date of FORM UC-657.**

The taxable wage base for 2017 for Pennsylvania will be **\$9,750** a \$250 increase over the 2016 taxable wage base.

The rate for employee contributions for **2017** remains at **.07% (.0007)** of all wages paid.

Employers are required to electronically file quarterly UC tax and wage reports through UCMS. The Department of Labor & Industry, or L&I, will not be mailing UC-2 and UC-2A forms to employers for any filing period. Please go online now and access UCMS.

To access UCMS, go to www.uctax.pa.gov or from the www.dli.state.pa.us website, click on the  logo.

Employers or employer representatives must register with the new system (even those previously registered via ETIDES).

Effective January 1, 2017, employers are required to pay Unemployment Compensation (UC) contributions and reimbursement Statement of Accounts electronically if the total liability owed equals or exceeds \$5,000 for a payment period. Once the threshold is met all subsequent payments must also be submitted electronically, even if amounts due for subsequent periods are less than \$5,000. Failure to comply can result in a penalty of 10% of the payment, up to a maximum of \$500 with a minimum of \$25 per occurrence.

Payment Methods

Employers who pay electronically have three payment options within UCMS:

- Automated Clearing House debit (ACH debit),
- Automated Clearing House credit (ACH credit), and
- Credit Cards.

ACH debit provides the most efficient and accurate transfer of information and is therefore the preferred method of the department.

All three methods are simple to complete in UCMS. For more information on electronic payments, please visit the website at

www.dli.pa.gov

Electronic Payment Waivers

Employers that are unable to comply with the electronic payment requirement may complete a waiver request form stating the reason for non-compliance and the anticipated date electronic payment will begin. The request must be returned to the address on the form. The department will review each request and issue a determination. The waiver request form will be available in the near future at www.dli.pa.gov

Local Withholding

Pennsylvania Act 32 of 2008 provided for the restructuring of the Earned Income Tax Collection System for local governments and school districts covered by the Local Tax Enabling Act. As of January 1, 2014, the Earned Income Tax Collection System was restructured into 69 Tax Collection Districts (TCD), predominately based on county boundaries. The collection of taxes for each TCD will be handled by a “certified” tax collector designated by Pennsylvania’s Department of Community and Economic Development (DCED).

Employers should ensure that they are registered with the appropriate Certified Tax Collector for their area. All information pertaining to collectors and rates can be found at the Pennsylvania Department of Community & Economic Development website <http://dced.pa.gov> under Local Government.

Employers will need to have all Pennsylvania-based employees complete a “Residency Certification Form”. A properly completed certificate requires listing the appropriate Political Subdivision Code (PSD) for each Pennsylvania-based employee’s lived in and worked in localities. The certificate refers to the information necessary to look up the appropriate PSD codes.

Employers are required to withhold and report local income taxes for all employees, whether resident or non-resident, working in their Pennsylvania business location. The withholding tax rate will be determined for each employee by comparing the highest rate between their non-resident worksite and residence location rates. The employer should withhold and remit the higher of the two tax rates to the Certified Tax Collector for each of its Pennsylvania employment locations.

Local Service Tax

Pennsylvania Act 7 requires that the \$52 be deducted evenly from paychecks throughout the year. A worker who is paid weekly would have tax deducted at the rate of \$1 per pay, bi-weekly \$2 per pay, etc.

Act 7 also provides for an upfront exemption when:

- Total earned income from all sources is less than \$12,000.
- On active duty.
- Employee is an honorably discharged veteran with 100% service-connected disability.
- An annual upfront exemption certificate must be completed by the employee and submitted to their employer to qualify for the exemptions.

Other Payroll Related Changes

Standard Mileage Rate

The 2017 standard mileage rates for the use of a car (including vans, pickups or panel trucks) are as follows:

- 53.5 cents per mile for business miles driven down from 54 cents per mile for 2016;
- 17 cents per mile driven for medical or moving purposes down from 19 cents per mile for 2016; and
- 14 cents per mile driven in service of charitable organizations, no change from 2016.

Employee Retirement Plan Contributions:

The IRS announced on October 27, 2016, cost-of-living adjustments for the 2017 tax year that apply to dollar limits for 401(k) and other defined contribution retirement plans, as well as defined benefit pension plans. Annual limits and maximums for 401(k) and similar defined contributions retirement plans and for defined benefit pension plans will stay mostly unchanged because the increase in the Consumer Price Index did not meet the statutory thresholds for adjustment.

The announcement highlighted the following:

- The 401(k), 403(b), and certain 457 plan elective deferral limits in 2017 will be **\$18,000**; the catch-up contribution for employees aged 50 and over will be **\$6,000**.
- The annual defined contribution limit from all sources under Code Section 415(c) will be **\$54,000**.

- The maximum amount of employee compensation that can be considered in calculating contributions to defined contribution and defined benefit plans will be **\$270,000**.
- The limit used in the definition of “key employee” for purposes of certain nondiscrimination tests and determining whether a plan is top-heavy will be **\$175,000**.
- The limit used in the definition of a highly compensated employee for the purpose of 401(k) and other nondiscrimination testing will be **\$120,000**.

Defined Contribution Plan Limits	2017	2016
For 401(k), 403(b) and most 457 plans, the COLA increases for dollar limits on benefits and contributions are as follows:		
Maximum elective deferral by employee	\$18,000	\$18,000
Catch-up contribution (age 50 and older during calendar year)	\$6,000	\$6,000
Defined contribution maximum contribution (employer and employee combined)	\$54,000	\$53,000
Maximum employee annual compensation that may be taken into account for calculating contributions	\$270,000	\$265,000
Annual compensation of “key employees” in a top-heavy plan (“key employee threshold”)	\$175,000	\$170,000
Annual compensation of “highly compensated employee” (“HCE threshold”)	\$120,000	\$120,000

Defined Benefit Plans

- **The maximum annual benefit** under Code Section 415(b) that may be funded through a defined benefit plan will be **\$215,000**. For a participant who separated from service before Jan. 1, 2017, the limit for defined benefit plans is computed by multiplying the participant’s compensation limit, as adjusted through 2016, by 1.0112.

Other Workplace Retirement Plan Limits

- **For SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) retirement accounts**, the maximum contribution limit will be **\$12,500**; the catch-up contribution limit will be **\$3,000**.
- **For simplified employee pensions (SEPs)**, the minimum compensation amount will be to **\$600**, while the maximum compensation limit will be to **\$270,000**.
- **In an employee stock ownership plan (ESOP)**, the maximum account balance in the plan subject to a five-year distribution period will be **\$1,080,000**, while the dollar amount used to determine the lengthening of the five-year distribution period will be **\$215,000**.

Information Returns

If you file 250 or more Forms W-2 or 1099, you must file them on magnetic media or electronically.

Backup Withholding

You generally must withhold 28% of certain taxable payments if the payee fails to furnish you with his or her correct taxpayer identification number (TIN). This withholding is referred to as “backup withholding.”

Payments subject to backup withholding include interest, dividends, patronage dividends, rents, royalties, commissions, nonemployee compensation, and certain other payments that you make in the course of your trade or business. In addition, transactions by brokers, barter exchanges and certain payments made by fishing boat operators are subject to backup withholding.

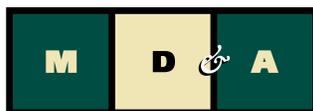
If you have any questions or need assistance concerning the above information, please contact us.

SUMMARY TABLE WITH 2017 & 2016 INFORMATION**2017 RATES**

ITEM	2017	2016
Social Security	\$127,200.00	\$118,500.00
– FICA (6.2%)	\$7,886.40	\$7,347.00
– Medicare (1.45%)	\$200,000.00	\$200,000.00
– Medicare (2.35%)	> \$200,000	> \$200,000
Domestic Worker Threshold	\$2,000.00	\$2,000.00
Elections Workers	\$1,800.00	\$1,700.00
Transit Passes / Van Pool / Bike	\$255 / \$255 / \$20	\$255 / \$255 / \$20
Parking	\$255.00	\$255.00
415(b)(1)(A) Defined Benefit Max	\$215,000.00	\$210,000.00
Max Contribution	\$54,000.00	\$53,000.00
Roth Limits (married; single)	\$186,000-\$196,000; \$118,000-\$133,000	\$184,000-\$194,000; \$117,000-\$132,000
– 401(k)	\$18,000.00	\$18,000.00
– 403(b)	\$18,000.00	\$18,000.00
– 408(p) Simple	\$12,500.00	\$12,500.00
401(k) Catch-Up	\$6,000.00	\$6,000.00
414(v) Catch-Up Simple	\$3,000.00	\$3,000.00
IRA	\$5,500-6,500<50	\$5,500-6,500<50
Foreign Income Exclusion	\$102,100.00	\$101,300.00
Minimum Annual Comp 408	\$600.00	\$600.00
Adoption Exclusion Limits	\$13,570.00	\$13,460.00
– Phase Out Adjusted Gross Income (AGI)	\$203,540.00	\$201,920.00
– Total Exclusion AGI	\$243,540.00	\$241,920.00
Definition of Control Employee / Commuting	\$215,000 / \$105,000	\$215,000 / \$105,000
– Corp Officer	\$105,000.00	\$105,000.00
– Earnings Test	\$215,000.00	\$210,000.00
Definition of Highly Comp.	\$120,000.00	\$120,000.00
– Key Employee Top Heavy Plan	\$175,000.00	\$170,000.00
– Flexible Spending Account (FSA)	\$2,600.00	\$2,550.00
Long-Term Premiums		
– <40	\$410.00	\$390.00
– 40-50	\$770.00	\$730.00
– 50-60	\$1,530.00	\$1,460.00
– 60-70	\$4,090.00	\$3,900.00
– >70	\$5,110.00	\$48,700.00

SUMMARY TABLE WITH 2017 & 2016 INFORMATION (cont.)

ITEM	2017 RATES	
	2017	2016
Limitations		
– Highly Compensated 414	\$120,000.00	\$120,000.00
– Annual Compensation Limits		
– 414, 404, 408 Self-Employee Pension (SEP)	\$270,000.00	\$265,000.00
– Annual Compensation Limits		
– 401 Government plans in effect 7/1/93	\$400,000.00	\$395,000.00
Health Savings Account (HSA)		
– Annual Deduction Limit Single / Family	\$1,300 / \$2,600	\$1,300 / \$2,600
– Maximum Out of Pocket Single / Family	\$6,550 / \$13,100	\$6,550 / \$13,100
– Maximum Annual Contribution Single / Family	\$3,400 / \$6,750	\$3,350 / \$6,750
– Maximum Annual Catch-Up (55 years old)	\$1,000.00	\$1,000.00
Mileage rates		
– Business Miles	53.5 cents	54 cents
– Medical Miles	17 cents	19 cents
– Charitable Miles	14 cents	14 cents



Markovitz Dugan & Associates

1001 East Entry Drive | Pittsburgh, PA 15216
412.571.0500 | www.markovitz-dugan.com