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## To Clients and Friends:

The following information reflects the various tax changes that affect your **2021 payroll**. All employers are required to utilize these limits and amounts as they apply to wages paid after December 31, 2020.

HELPING YOU ACHIEVE MORE

## Federal Income Tax Withholding

All employers should make sure they are using the 2021 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 Internal Revenue Service (IRS) forms web site at [www.irs.gov](http://www.irs.gov).

The IRS **Notice 1036**, *Early Release Copies of the 2021 Percentage Method Tables for Income Tax Withholding*, will post to its website. The tables in Notice 1036, along with the 2021 wage-bracket withholding tables, will appear in IRS Publication 15, (*Circular E*), *Employer’s Tax Guide*.

## Social Security Wage Base will increase to \$142,800

The Social Security Administration has announced that the 2021 social security wage base is **\$142,800** up \$5,100 from 2020. 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 **\$8,853.60** which is an increase of \$316.20 over the 2020 maximum.

The Medicare tax rate for employers and employees for 2021 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 2021 social security and Medicare tax rates and limits, see below.

Description	2021	2020	Increase
Social Security Employee Tax	6.20%	6.20%	None
Social Security Employer Tax	6.20%	6.20%	None
Social Security Wage Base	\$142,800	\$137,700	\$5,100
Maximum Social Security Employee Tax	\$8,853.60	\$8,537.40	\$316.20
Medicare Employee Tax	1.45%* An additional 0.9% on wages in excess of \$200,000	1.45%* An additional 0.9% on wages in excess of \$200,000	None None
Medicare Employer Tax	1.45%	1.45%	None
Medicare Wage base	No limit	No limit	None
* <b>Employers must withhold an additional Medicare tax of 0.9% of wages in excess of \$200,000 however there is no employer matching contribution.</b>			

## 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 0.6% (.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 state (Virgin Islands) will pay their FUTA tax for 2020 at a higher federal unemployment (FUTA) tax rate than employers in other states. Employers in VI have a 3.0% cutback or up to \$210 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.

With the recent increased rate of Unemployment in the wake of the Coronavirus Pandemic, questions remain as to whether additional states will see Credit Reductions in the coming years.

## 1099 Reporting

Starting with tax year 2020 filing, the IRS has implemented a new form called the 1099-NEC Non-employee Compensation form for reporting non-employee compensation. Payments reported on the box 7 of the 1099-Misc in years prior to 2020 will be reported now on this form 1099-NEC.

## Pennsylvania Payroll Taxes

### State Withholding

The Pennsylvania withholding rate for wages in 2021 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.

### Withholding on Pennsylvania Source Non-Employee Compensation, Business Income and Lease Payments

In alignment with the IRS, the Pennsylvania Department of Revenue has also implemented a new 1099-NEC Nonemployee Compensation form (1099-NEC) for reporting nonemployee compensation starting with tax year 2020 filing.

Anyone that pays Pennsylvania-source non-employee compensation or business income to a **NON-RESIDENT** individual or disregarded entity that has a non-resident member **AND** is required to file a Federal Form 1099-MISC or 1099-NEC **is required to withhold from such payments an amount equal to the tax rate (currently 3.07%)**. Withholding is optional for payors paying **less than \$5,000 annually**. If you are unsure of the total amount of payments that will be made, the Department encourages you to withhold and remit income tax from all payments to the payee.

In general, governmental payors are exempt from this requirement. This does not include state owned and state affiliated universities in the Commonwealth.

Generally, a payment is considered "non-employee compensation" if it is made to (i) someone who is not your employee; and (ii) for services in the course of your trade or business.

**Payees having tax withheld who receive a copy of the Federal Form 1099-MISC or 1099-NEC from the payor are required to file a copy of the form with their Pennsylvania tax return.**

**Anyone leasing Pennsylvania real estate who makes a lease payment to a non-resident lessor is required to withhold from such payments an amount equal to the tax rate (currently 3.07%).** Withholding is **optional** for payors paying **less than \$5,000 annually**. If you are unsure of the total amount of payments that will be made, the Department encourages you to withhold and remit income tax from all payments to the payee.

A lessor includes only individuals, estates and trusts. A lease payment includes, but is not limited to, rents, royalties, bonus payments, damage rents and other payments made pursuant to a lease.

**Payees and lessees having tax withheld who receive a copy of the Federal Form 1099-MISC from the payor are required to file a copy of the form with their Pennsylvania tax return.**

**Payors and lessees** that withhold from a payee are:

1. Required to apply for a 1099-MISC withholding account by completing a PA-100 Pennsylvania Enterprise Registration Form electronically at [www.pa100.state.pa.us](http://www.pa100.state.pa.us);
2. Required to electronically file quarterly withholding returns and annual reconciliations with the Department via e-Tides;
3. Required to Electronically remit the withheld monies via e-Tides;
4. Liable for withheld taxes in the same manner as employers withholding employee compensation (see requirements above);
5. Liable for taxes not withheld in the same manner as employers withholding employee compensation.

Payors and Lessees are also required to file reconciliation returns for each quarter and the annual withholding reconciliation statement (REV-1667 R) with the 1099-MISC statements for each payee.

Anyone that pays Pennsylvania-source income (of whatever class) to a resident or non-resident individual, partnership or single member limited liability company and is required to file a Federal Form 1099-MISC or 1099-NEC with respect to such payments with the Federal government is required to:

1. File a copy of the Federal Form 1099-MISC with the Department by January 31 of the next year; and
2. File a copy of the Federal Form 1099-MISC with the payee by January 31 of the next year.

For tax year 2021 and each calendar year thereafter, if the Federal Form 1099-MISC or 1099-NEC **is not completed so that state income and state tax withheld information is filled in (currently, boxes 16 through 18), the copy filed with the Department and the payee shall be updated so that this information is present.**

## Filing

If the payor or lessee is required to perform electronic filing for Pennsylvania withholding purposes, the Federal Form 1099-MISC or 1099-NEC shall be filed electronically with the Department. Electronic submission will be available through the Department's e-TIDES system.

If the payor or lessee is not required to perform electronic filing for Pennsylvania withholding purposes but is registered to do so, the Federal Form 1099-MISC or 1099-NEC may and is strongly encouraged to be filed electronically with the Department through e-TIDES.

If the payor or lessee is not required nor registered to perform electronic filing for Pennsylvania withholding purposes and does not wish to register via E-Tides, the Federal Form 1099-MISC or 1099-NEC shall be submitted in paper format to:

PA Department of Revenue  
P.O. Box 280412  
Harrisburg, PA 17128-0412

If a corrected Federal 1099-MISC or 1099-NEC is issued to a payee or lessor and the amounts related to income form sources within Pennsylvania changes for nonresident recipients or the total amount changes for resident recipients, a paper copy of the Federal 1099-MISC or 1099-NEC should be forwarded to the Department.

## State Unemployment Insurance

The 2021 PA Unemployment Contribution (UC) rate notices are mailed to the majority of employers in December of 2020. Employers should note the following important dates:

**January 30, 2021** is the last day to file a timely voluntary contribution to lower the 2021 contribution rate. (A voluntary contribution may be submitted at any time, but to affect a contribution rate, it must be received within 30 days from the mailing date of the Contribution Rate Notice or no later than one hundred twenty days after the beginning of such year, whichever is earlier.)

**March 31, 2021** is the last day to file a timely rate appeal to the contribution rate reflected on the UC Contribution Rate Notice. (A timely rate appeal must be filed within 90 days of the mailing date of the Contribution Rate Notice.) Please note that the surcharge adjustment and additional contributions are not appealable items.


**April 30, 2021** 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 2.39% to 11.03% with the standard new employer rate being 3.6890% and 10.2238% 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 2021 for Pennsylvania will remain at **\$10,000**.

The rate for employee contributions for **2021** will remain at **.06% (.0006)** 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](http://www.uctax.pa.gov) or from the [www.dli.state.pa.us](http://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).

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](http://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 at [www.dli.pa.gov](http://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 2021 standard mileage rates for the use of a car (including vans, pickups or panel trucks) are as follows:

- 56 cents per mile for business miles driven down from 57.50 cents per mile for 2020.
- 16 cents per mile driven for medical or moving purposes down from 17 cents per mile for 2020.
- 14 cents per mile driven in service of charitable organizations, no change from 2020.

### Employee Retirement Plan Contributions:

The IRS announced on November 6, 2021, cost-of-living adjustments for the 2021 tax year that apply to dollar limits for 401(k) and other defined contribution retirement plans, as well as defined benefit pension plans.

The announcement highlighted the following:

- The 401(k), 403(b), and certain 457 plan elective deferral limits in 2021 will be **\$19,500** unchanged from 2020; the catch-up contribution for employees aged 50 and over will be **\$6,500** unchanged from 2020.
- The annual defined contribution limit from all sources under Code Section 415(c) will be **\$58,000** up \$1,000 from 2020.
- The maximum amount of employee compensation that can be considered in calculating contributions to defined contribution and defined benefit plans will be **\$290,000** up \$5,000 from 2020.
- 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 **\$185,000** unchanged from 2020.
- The limit used in the definition of a highly compensated employee for the purpose of 401(k) and other nondiscrimination testing will be **\$130,000** unchanged from 2020.

Defined Contribution Plan Limits	2021	2020
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	<b>\$19,500</b>	\$19,500
Catch-up contribution (age 50 and older during calendar year)	<b>\$6,500</b>	\$6,500
Defined contribution maximum contribution (employer and employee combined)	<b>\$58,000</b>	\$57,000
Maximum employee annual compensation that may be taken into account for calculating contributions	<b>\$290,000</b>	\$285,000
Annual compensation of “key employees” in a top-heavy plan (“key employee threshold”)	<b>\$185,000</b>	\$150,000
Annual compensation of “highly compensated employee” (“HCE threshold”)	<b>\$130,000</b>	\$130,000

### Defined Benefit Plans

- **The maximum annual benefit** under Code Section 415(b) that may be funded through a defined benefit plan will be **\$230,000** unchanged from 2020. For a participant who separated from service before Jan. 1, 2021, the limit for defined benefit plans is computed by multiplying the participant’s compensation limit, as adjusted through 2020, by 1.0197.

## Other Workplace Retirement Plan Limits

- For **SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) retirement accounts**, the maximum contribution limit will be **\$13,500** unchanged from 2020; the catch-up contribution limit will remain at **\$3,000**.
- For **simplified employee pensions (SEPs)**, the minimum compensation amount will be **\$650** up \$50 from 2020, while the maximum compensation limit will be to **\$290,000** up \$5,000 from 2020.
- In an **employee stock ownership plan (ESOP)**, the maximum account balance in the plan subject to a five-year distribution period will be **\$1,165,000**, while the dollar amount used to determine the lengthening of the five-year distribution period will be **\$230,000**.

## 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 24% 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.



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