

December 2022

Dear Valued Client,

The attached information has been gathered to ensure your Payroll reporting season goes smoothly. This includes information needed for 2022 year-end reporting and 2023 withholding, depositing and reporting. You will also find information on owner coverage for the Minnesota unemployment election and a sales & use tax update.

In many cases, the information reporting process requires that computations be made near year-end to withhold and remit appropriate payroll taxes to reduce or avoid late payment penalties. In addition, the due dates of the applicable returns leave a very short period of time in which to make these calculations, prepare and file the returns.

Please note the filing due dates for 2022 forms W-2, W-3, 1099-NEC and 1099-MISC. These forms must be filed by January 31, 2023. **It is important to organize your information and provide it to us as soon as possible.** We cannot guarantee completing the forms by the deadline if information is received after January 23, 2023. If you need EINs for 1099s, start to obtain those as soon as possible so you can file on time and avoid penalties.

We are available to give you the assistance you may need with any of these items. Please give us a call if we can help in making the computations, preparing the documents or in answering questions you may have regarding these issues.

Sincerely,

*Boyum & Barescheer PLLP*

Boyum Barescheer

<p><b><i>YEAR-END PAYROLL TAX REPORTING DECEMBER 31, 2022</i></b></p>
---

**MILEAGE RATE**

The IRS allowed standard business mileage rate was 58.5 cents per business mile 1/1/2022 through 6/30/2022 and raised to 62.5 cents per business mile 7/1/2022 through 12/31/2022. The 2023 calendar year standard mileage rate is yet to be announced by IRS. Considering that fuel prices are not at a peak anymore, there is a chance the IRS mileage rate 2023 will remain at the same levels, currently being:

- 62.5 cents per mile for business purposes
- 22 cents per mile for medical and moving purposes
- 14 cents per mile for charitable purposes

**MINIMUM WAGE CHANGES**

Minnesota Minimum wage rates will be adjusted for inflation on Jan 1, 2023 to **\$10.59**/hour for large employers with annual gross revenues are \$500,000 more and **\$8.63**/hour for small employers with annual gross revenues are less than \$500,000.

Since July 1, 2022, the minimum wage in city of Minneapolis has reached \$15/hour for large employers with more than 100 employees and will rise to \$15.19 on Jan.1, 2023. Smaller employers (100 or fewer employees) continue paying at least \$13.50 until June 30, 2023 and then will rise to \$14.50 afterward.

City of St. Paul has increased minimum wage to \$15.00/hour for macro businesses who has more than 10,000 employees, \$13.50 for large businesses who has 101 -10,000 employees, \$12.00 for small businesses with 6-100 employees.

For your understanding, please see the charts below:

Provision	Amount as of Jan. 1, 2022	Amount as of Jan. 1, 2023
Large-employer wage with annual gross revenues more than \$500,000	\$10.33 an hour	<b>\$10.59</b> an hour

Small-employer wage with annual gross revenues less than \$500,000	\$8.42 an hour	<b>\$8.63</b> an hour
90-day training wage (under 20 years of age)	\$8.42 an hour	<b>\$8.63</b> an hour
Youth wage (under 18 years of age)	\$8.42 an hour	<b>\$8.63</b> an hour

City of Minneapolis			City of St. Paul		
Provision	Since 7/01/2022	As of Jan. 1.2023	Provision	Since 7/01/2022	As of Jan 1.2023
Large-employer wage with more than 100 employees	\$ 15.00/hour	\$15.19/hour	Macro business More than 10.000 employees	\$15.19/hour	\$15.19/hour
			Large business 101-10.000 employees	\$13.50/hour	\$13.50/hour
Small-employer wage with 100 or fewer employees	\$13.50/hour before 06/30/2023 \$14.50 after 07/01/2023		Small businesses 6-100 employees	\$12.00/hour	\$12.00/hour

\*\*\*\*\***COVID Information**\*\*\*\*\*

**Employer payroll tax deferral**

For qualified employers that chose to do the deferral, the remaining 50% is due 12/31/2022.

\*\*\*\*\*

**MINNESOTA WAGE THEFT LAW**

Minnesota passed a wage theft law effective July 1, 2019, which includes new reporting requirements involved with new hires and when there are changes to just about anything for an employee (address, pay rate, deductions, benefits, etc). Documents need to be retained in the employee personnel files.

The intent of the law is to make it criminal for employers to commit “wage theft” and carries with it new recordkeeping requirements.

Additional information is available online at [Wage theft law | Minnesota Department of Labor and Industry \(mn.gov\)](https://www.mn.gov/Work/Workforce/Wage-theft-law)

### **2022 FORM W-2 INCLUSION OF AUTO USAGE**

If your business (corporate, partnership, LLC, or sole proprietorship) owns autos that are used by you or your employees less than 100% for business, or if you reimburse employees as an auto allowance for use of their personal vehicles more than the standard rate per mile, the law generally requires that the value of the personal usage or excess auto reimbursement be included in the employees’ Form W-2 and that FICA taxes be paid on these amounts. Generally, for owners of sole proprietorships and partnerships (LLCs), vehicle deductions are reduced for personal usage vs. including the value in Form W-2.

### **S CORP OWNER HEALTH BENEFITS**

More than 2% S corporation shareholders need to make sure their company-paid health insurance premiums are included on their 2022 W-2s. Notice 2008-1 issued by the IRS states that if the health insurance premiums are not included on Form W-2, the shareholder will not be able to deduct the health insurance premiums on their Form 1040.

If you have such premiums, make sure to let your payroll service know the amount so they can add the premiums to the W-2s in their year-end processing. The addition is only added to Box 1 and Box 16 of the W-2 (it is not subject to FICA or Medicare taxes). Box 14 should say "S-Corp Health" and state the dollar amount of health premiums included in Boxes 1 and 16. If you are an S corporation shareholder and have been paying your own premiums, you must have the corporation reimburse you before December 31 and include that amount on your W-2.

### **FORM 1099 FILING REQUIREMENTS**

Every person engaged in a trade or business, including a partnership, LLC and non-profit organization, must file information returns for each calendar year for certain payments made during the year to unincorporated entities, including LLCs, LLPs, partnerships and payments made to attorneys even if they operate in corporate form. The business payments which occur most often that require reporting on Form 1099 are 1) \$10 or more of dividends or interest 2) \$600 or more of rents, royalties, payments to independent contractors, payments for commissions or director fees 3) distributions from retirement plans, employee benefits (not included on Form W-2) and legal fees (any amount). Payments made with a credit card or payment card, including third-party network transactions are reported under Form 1099-K by the payment settlement entity and are not subject to reporting on Form 1099-MISC or 1099-NEC. Form 1099 requires a telephone number of the issuer on the recipient’s copy allowing that person to contact them if they have questions.

Please note that if the recipient marks box 3 on Form W-9 as *individual/sole proprietor or single-member LLC*, the name on the Form 1099 should match the taxpayer name as reported on their 1040, not the name of the business.

We advise that those involved in rental real estate also report nonemployee compensation for payments of \$600 or more to any qualifying individual or business entity.

Form 1099-NEC must be filed with the Internal Revenue Service by January 31st. For Form 1099-MISC, the deadline is February 28<sup>th</sup> for paper filings or March 31<sup>st</sup> for electronic filings. Recipient copies must be mailed by January 31, 2023.

There are substantial penalties for failure to file information returns. The Internal Revenue Service has also been increasing their audits in regard to informational reporting compliance.

We have attached a worksheet you may complete if you would like us to prepare your Forms 1099. We are also available to assist you in accumulating the information which is needed for completion of the forms. Please call us if we can be of assistance to you.

### **AFFORDABLE HEALTH CARE ACT**

Employers with 50 or more full-time equivalent employees (large employers) are required to provide Form 1095-C, Employer-Provided Health Insurance Offer and Coverage Insurance, to all full-time employees by January 31, 2023. Full-time employees, for purposes of this reporting, include any employee that meets the full-time standard for 1 or more months of the year. Form 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information is due February 28, 2023 (March 31, 2023 if filing electronically).

Under the Affordable Care Act, large employers can no longer reimburse employees for individual health insurance premiums. Reimbursements for individual policies are taxable compensation to the employees – subject to Social Security, Medicare, federal & state income taxes. Companies can be subject to \$100/day penalty per employee, or up to \$36,500/year per employee.

Employers are permitted to offer Individual Coverage HRAs as an alternative to traditional group plan coverage, subject to certain conditions. Increased flexibility in employer-sponsored insurance for limited HRA benefits (Excepted Benefit HRAs) that can be offered in addition to traditional group plans. Excepted benefits can include the cost of copays, deductibles, or other expenses not covered by the primary plan, even if the employee declines enrollment in the traditional group health plan. There are employee notice requirements and employers must have reasonable procedures to substantiate those participating employees and their families are enrolled in individual health insurance or Medicare while covered by the HRA. Please contact your benefits administrator for additional details.

### **MINNESOTA UNEMPLOYMENT OWNER COVERAGE ELECTION**

Minnesota Unemployment requires individuals who own 25% or more of a corporation or LLC to make an election to be covered if they so desire. This election applies to ALL owners/officers as a class and is effective for a minimum of two years. To terminate an election, an employer must notify the MN UI program by December 1<sup>st</sup> for coverage to be terminated the following January 1<sup>st</sup>. For new employee-owners, this must be done before the initial wage report is filed or you will default to electing out of MN coverage for owners. Proprietors and partners have no such requirement.

You should discuss with your accountant the option to be covered or not covered by Minnesota Unemployment Insurance. Since each situation is unique, the right decision requires consideration of a number of factors.

## **2022(2023) WAGES AND WITHHOLDING TAXES**

Below is a table reflecting the W-2 wage levels and the applicable Social Security and Medicare tax rates for 2022 and 2023:

	<u>2022</u>	<u>2023</u>
Social Security wage limit	\$147,000	\$ 160,200
Social Security rate	6.2%	6.2%
Medicare rate for all wages	1.45%	1.45%
Medicare surcharge for wages >\$200,000	.9%	.9%
Employer matches 6.2% and 1.45% but NOT .9% surcharge		

## **401(k)s, SEPs AND SIMPLE IRAs**

Amounts withheld from employees' wages for 401(k), SARSEP or Simple IRA contributions must be deposited as soon as reasonably possible after withholding. We recommend making these deposits within a few days from date withheld.

Maximum elective deferrals for 401(k)s and SARSEPs is \$20,500 in 2022 (\$22,500 in 2023) plus \$6,500 catch-up contribution if age 50 or over (\$7500 in 2023). Simple IRAs are limited to \$14,000 in 2022 (\$15,500 in 2023) plus \$3,000 catch-up (\$3,500 in 2023). IRAs are limited to \$6,500 in 2023 (\$6,000 in 2022) plus \$1,000 catch-up.

## **W-2 FILING REQUIREMENTS**

The IRS and Social Security Administration require electronic filing of W-2s if you have more than 250 forms. For Minnesota, the threshold is 10 forms. Both agencies allow manual input for 20 or fewer forms or a formatted file for a larger number of forms.

Information on employer paid health insurance premiums is optional to be reported on W-2s for employers that file fewer than 250 W-2s and will remain optional in the future unless the IRS publishes guidance giving at least 6 months advance notice of any change. Reporting the health care premiums is required for those that file 250 or more W-2s.

## **2023 PAYROLL WITHHOLDING DEPOSITS**

In most cases, the due dates of tax deposits remain the same for 2023. Employers will be required to deposit all of their federal tax liabilities by electronic means. If you have not registered for electronic filing (EFTPS) it is critical that you do so as soon as possible. If you have less than \$2,500 tax liability for a quarter, you may pay that amount with your Form 941, but only if you are classified as a monthly depositor. Liabilities between \$2,500 and \$100,000 must be deposited on either a monthly or semi-weekly schedule. Accumulated federal tax liabilities over \$100,000 must be deposited by the next business day. Electronic filing is required for all Minnesota withholding. Due dates for depositing Minnesota withholding taxes follow federal rules. If your total withholding tax is less than \$1,500 for the previous quarter, you can pay the total amount when you file the quarterly Form MW-1. Electronic payment is required for all Minnesota taxes if any of your business taxes exceeded \$10,000 in the previous fiscal year (July 1 – June 30).

## **2023 MINNESOTA UNEMPLOYMENT**

The wage base for 2023 for each Minnesota employee subject to Minnesota Unemployment Tax is \$40,000. The rate varies from a base of .1% to as high as 9% for high experience rating industries. Also, newly hired or rehired employee information must be reported by the employer to the Minnesota Unemployment Tax division. Form W-4 or other information forms must be faxed or mailed to “Minnesota New Hire Reporting Center” within 15 days of a new employee starting work. The information must include full name, address and Social Security number. The address is Minnesota New Hire Reporting Center, P.O. Box 64212, St. Paul, Minnesota, 55164-0212. For detailed information call (800) 672-4473. Fax reports to (800) 692-4473.

## **TAX LAWS RELATING TO WITHHOLDING ON BONUSES**

A flat federal rate of 22% can be used for supplemental wages paid separately from regular wages in most situations. If your bonus exceeds \$1 million, the flat rate is 37%. Additional information is available in IRS Notice 1036. Access the full notice at: <https://www.irs.gov/pub/irs-pdf/n1036.pdf>

Minnesota withholding on supplemental wages is 6.25% (no change from prior year).

## **Sales & Use Tax Updates**

### **MARKETPLACE FAIRNESS ACT**

Almost all states now have marketplace fairness standards. Marketplace facilitators (such as Amazon & Etsy) are required to collect and remit sales tax on behalf of their third-party sellers. Marketplace facilitators only collect sales tax on the sales through their website. The total volume of sales is usually used for thresholds, meaning businesses may still need to register and collect on other sales to the state. Sellers may be responsible to remit sales tax for the state(s) where they are located. Most states still require businesses to register even if they have no other sales **to each state** and need to file zero returns or register for non-reporting status.

### **Wayfair Supreme Court Case**

In June 2018, the U.S. Supreme Court ruled on the South Dakota v. Wayfair case. The ruling removed the long-standing ruling that companies must have some level of physical presence before states could compel them to collect sales tax for sales in their respective states. It allowed for states to set economic nexus thresholds that could be used in determining when companies are required to register and collect sales tax.

Since then, all states that have sales tax have adopted similar standards. The threshold in South Dakota was \$100,000 in sales or 200 individual sales transactions in a year. Some of the states have used this standard, but many have set other levels. There is no uniformity on what is included in revenue (for example, some states exempt sales for resale and/or exempt sales). It is important that companies review their level of sales activities in all states and determine if they are now liable to collect sales tax in additional states.

If your out-of-state sales qualify for an exemption, it is important that you have completed exemption certificates on file.

Companies with a physical presence (employees, inventory, property, or rent) continue to have nexus and are required to collect sales tax on taxable sales.

### **Cannabinoid Products and Sales Tax**

All cannabinoid products that contain CBD or THC are subject to Minnesota sales tax.

### **COVID-19 and Telecommuters**

From March 12, 2020 to June 30, 2022, Minnesota did not seek to establish nexus for business income tax or sales and use tax solely because an employee was temporarily telecommuting due to the COVID-19 pandemic. After July 1, 2022, any telecommuters would establish nexus in MN. Any products sold or services rendered in MN will have sales taxes to MN based on products' delivery addresses and where the services are being performed.

### **Local Tax Changes**

Minnesota requires registration and collection of all local sales tax if you are registered to collect state sales tax.

April 1, 2022: • Koochiching County has a 0.5% Transit Sales and Use Tax

June 30, 2022: • Lake of the Woods County 3% Lodging Tax will no longer include lodging establishments located within the Baudette city limits

July 1, 2022: • Norman County has a 0.5% Transit Sales and Use

St. Peter has a 0.5% Sales and Use Tax

September 30, 2022 • Fergus Falls ended it's 0.5% Sales and Use Tax

January 1, 2023: • Renville County will have a 0.5% Transit Sales and Use Tax

Minnesota Sales Tax Fact Sheet 164 provides additional information. Access this Fact Sheet at:  
<https://www.revenue.state.mn.us/sites/default/files/2020-08/FS164.pdf>



**1099 Information Tax  
Year 2022**

**Payer Information:**

Company Name:

Company Address:

Company Phone:

ID Number:

**Vendor Information**

<u>1099 vendors that meet threshold</u>	<u>Rent</u>	<u>NEC</u>	<u>Interest</u>	<u>Dividend/Qualified Dividend</u>
---	-------------	------------	-----------------	------------------------------------

Name: Boyum Barenscheer

Address: 3050 Metro Dr., #200  
Minneapolis, MN 55425

ID Number 41-6192096

Name:

Address:

ID Number:

Name:

Address:

ID Number:

Name:

Address:

ID Number:

Name:

Address:

ID Number:

Name:

Address:

ID Number: