NEWSLETTER

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2023 FUTA Credit Reduction

In recent developments, we want to bring your attention to a significant change that may impact your small business's payroll—the 2023 Federal Unemployment Tax Act (FUTA) credit reduction. Understanding the implications of this adjustment is crucial for maintaining financial stability and staying compliant.

What is the FUTA Credit Reduction?

The FUTA credit reduction is a recalibration of the Federal Unemployment Tax rate that employers pay. The Federal Unemployment Tax Act funds state unemployment programs, and employers typically receive a credit against their federal tax liability if they pay state unemployment taxes on time. However, a FUTA credit reduction is triggered when a state's trust fund fails to cover its obligations and borrows from the federal government for two consecutive years without repayment. In 2023, only three states are experiencing a credit reduction that is retroactive to all of 2023 wages. These three states include California, New York, and the US Virgin Islands. California and New York will see a 0.6% reduction, while the US Virgin Islands will be reduced by 3.9%.

How Does This Affect Small Businesses?

1. **Increased FUTA Tax Liability:** Small businesses in states with a FUTA credit reduction will experience an increase in their federal unemployment tax liability,

so you may need to allocate additional funds to cover these taxes.

2. **Cash Flow Impact:** The additional tax liability may impact your cash flow. It's crucial to reassess your budget to ensure you have the necessary funds set aside for these increased payroll expenses.

3. **Planning for Future Taxes:** The FUTA credit reduction serves as a reminder for businesses to stay informed about their state's unemployment trust fund health. Proactive planning can help mitigate the impact of potential future credit reductions.

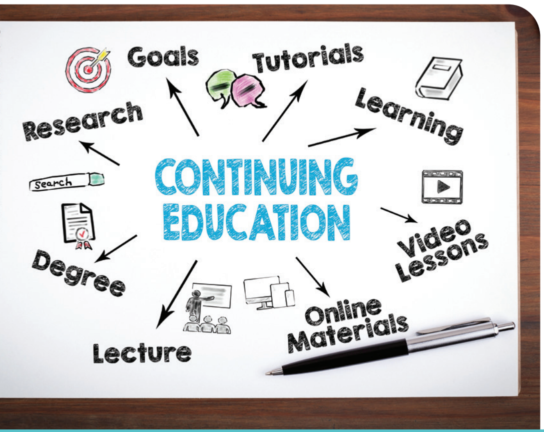
4. **Compliance Considerations:** Staying compliant with tax regulations is essential. Ensure your payroll systems are updated to reflect the adjusted FUTA tax rates, avoiding potential penalties or fines.

In conclusion, the 2023 FUTA credit reduction may present challenges for small businesses. However, it is important that you stay informed, collaborate with your financial advisors, and ensure your payroll processes are in line with the adjusted tax rates. By taking these steps, you can minimize the impact on your business and maintain financial stability.

Continuing Education: Everyone Wins

The cost of education involves time and money. Investing in training for your employees upgrades their skills, making them more innovative and productive, as well as more loyal to your business. You'll be helping your workers reach their full potential.

To keep costs under control, get creative by bringing mentors in-house, offering time off to take classes or supplementing tuition at a local college. Be prepared to pay your employees for their higher level of skills; don't squander your education investment by not providing an appropriate salary increase. Call a nearby large company that you know hosts corporate universities and ask whether you can arrange for your employees to attend any of its training sessions.



How to proceed

To help your employees advance their careers by acquiring new skills and retraining:

- Arrange a face-to-face coaching or mentoring program at an external venue or your own offices, depending on group size. Consider an auditorium with hosted presentation-style teaching or more personalized one-on-one instruction.

- Provide mentoring, where more experienced team members share knowledge with newer, less experienced employees to develop valuable skills.

- Pay for online courses that provide a flexible and inexpensive learning experience. You may take the course yourself to see whether it's worth paying for and presenting to your workers.

- Offer digital lessons and give workers an hour or two every other day to do their coursework during normal work hours.

- Share resources you've found helpful and encourage employees to share what they've learned or are interested in learning more about, setting a tone and encouraging workers.

- Offer a development stipend to help employees continue their education through online courses, in-person training, etc. Be willing to invest in your team's growth. Nothing motivates your employees like assisting in paying for classes and exams, partly or in full. Show how their upward mobility translates into the potential for fiscal bonuses and raises because of their hard work.

- Encourage your employees to attend conferences. Accompany them to be a continuing education cheerleader. By participating in workshops and speaking to top professionals in the industry, your team will be learning fun new things and bonding as well.

- Encourage your employees to attend local networking events during working hours so that your workforce members can gain industry knowledge as a group.

• Ensure that training and education are centered on action. Employees will be more likely to participate and succeed.

• Start a book club encouraging your team to grow professionally and personally. Books can offer productivity hacks and collaboration techniques, and keep employees abreast of the latest trends. Gather the team at regular meetings so everyone can share what they've read.

• Put together a professional development library in a corner of the office or a bank of electronic resources with audiobooks, podcasts and videos, perhaps even with guides written by your business's senior managers. And don't overlook industry publications or online learning platforms.

• Schedule lunchtime speakers — while the team eats, they can strengthen or develop their skills. The speaker can be from inside or outside the company. (You can boost attendance by providing lunch!)

Spend generously on continuing education with educational assistance for all employees or just professional and technical workers to take advantage of. Relationships are the foundation of social learning. Studies show that when individuals learn together, they learn more effectively. Tap into this power with group learning opportunities.

Form I-9 Basics

Form I-9 has been modernized, allowing E-Verify employers to remotely examine I-9 documents. All U.S. employers must complete Form I-9 for everyone hired — citizens and noncitizens alike.

On the form, employees attest to their employment authorization, presenting acceptable documents as evidence of identity and said authorization. Employers examine the documents to see that they are genuine and relate to the employee and then record the document information on Form I-9.

When employers remotely examine documentation, they've been authorized by a Department of Homeland Security alternative procedure, which you can indicate by checking the box provided.

Make sure employees have access to hard-copy or web versions of the form's instructions. Retain all completed forms to make them available for inspection by authorized government officers.

Answers can be typed directly onto the form, which may be generated, signed and retained electronically or printed and filled out manually.

Want to enroll in E-Verify? A few steps are needed to confirm the employment eligibility of new hires. Make sure you have everything you need before you begin by using the Quick Reference Guide. You can visit the E-Verify Contact Center webpage at https://www.e-verify.gov/contact-us.

Normal response time is two federal government workdays. E-Verify technical support is available Monday through Friday, 9 a.m. to 8 p.m. ET.

There's an employee self-service call center as well, which assists with E-Verify case status, using E-Verify, uploading documents, resetting passwords and getting technical support.

Recordkeeping for Tax Purposes

Any recordkeeping system that suits you and your company and clearly shows your income and expenses is OK with the IRS. It's the business you're in that affects the type of records you need to keep for federal tax purposes.

And for how long should you keep records? For as long as needed to prove income or deductions on a tax return, according to the IRS. How should you record business transactions? All supporting documents from purchases, sales and payroll contain information you need to record in your books. Keep all records of employment taxes for at least four years after the tax was due or you paid it, whichever date is later. IRS Publication 15 addresses the types of employment tax records to retain.

The U.S. Chamber of Commerce reasons that if the IRS audits your business or you need to adjust a return, it will be vital to have complete, accurate documents. Failure to keep records could increase your taxes owed substantially and, in some cases, result in penalties.

- Retain records for three years after filing your return.
- If you file for a bad debt deduction or loss from worthless securities, keep documents for seven years.
- If you underreport income, and it's more than 25% of your gross income, retain records for six years.
- If you filed a fraudulent return or no return at all, keep tax and supporting documents indefinitely.

Add a year to the statute of limitations period. At a minimum, this means keeping tax returns for four years. But it may be more prudent to retain them for seven years. Most tax advisers tell business owners to keep most tax records for seven to 10 years, if not permanently. Why? The responsibility to substantiate entries, deductions and statements made on your tax returns, known as the burden of proof, is on you, especially for certain elements of expenses you deduct.

Advice from the government

The IRS lists several documents that small businesses and self-employed individuals should keep:

- 1099s.
- Cash register tapes.
- Audit reports.
- Charts of accounts.
- Depreciation schedules.
- Annual financial statements.
- Fixed asset purchases.
- A general ledger.
- Inventory records when using the last in, first out method.
- Tax records.
- Canceled or substitute checks for real estate purchases.
- Information about leases or mortgages.
- Patent and trademark details.
- Corporate shareholder reports.
- Employee pension and profit-sharing plans.
- Construction records.
- Leasehold improvements.

Always keep business records available for inspection by the IRS, according to IRS Publication 583. An electronic storage system "must provide a complete and accurate record of your data" and be accessible by the IRS.

Your system "must index, store, preserve, retrieve and reproduce the stored documents and books in a legible format." The IRS can penalize your firm if your electronic records don't meet its requirements and you have already disposed of the paper documents.

What else you should save

- Supporting documents to back up your tax returns and bookkeeping records:
- Gross receipts — Documents showing the sources and amounts of your gross receipts, including bank deposit slips.
- Inventory — Keep canceled checks, credit card sales slips and invoices to show what you paid for stock and proof of payment.

- Expenses — Save receipts, proofs of purchase, canceled checks or account statements for each business expense.

- Travel, transportation and gift expenses — Follow IRS guidelines in IRS Publication 463 to meet additional recordkeeping rules for these expenses.

- Assets — Save supporting documents like canceled checks, purchase and sales invoices, and real estate closing statements.

Talk to your creditors or insurance company before discarding tax records, as they may require you to keep them longer than the IRS does. Keeping records for your business can seem overwhelming — everything from paying your taxes to planning for the future rides on your having accurate numbers. Make sure your storage system is secure and safe from the elements.

IRS Publishes Numbers for 2024

It's never too early to think about taxes! The IRS has already issued numbers to help you understand what the 2024 tax situation will be like. Below is a summary.

- The standard deduction for married couples filing jointly for tax year 2024 rises to $29,200, an increase of $1,500 from tax year 2023. For single taxpayers and married individuals filing separately, the standard deduction rises to $14,600 for 2024, an increase of $750 from 2023; and for heads of households, the standard deduction will be $21,900 for tax year 2024, an increase of $1,100 from the amount for tax year 2023.

- Marginal rates: For tax year 2024, the top tax rate remains 37% for individual single taxpayers with incomes greater than $609,350 ($731,200 for married couples filing jointly). **The other rates are:**
    - 35% for incomes over $243,725 ($487,450 for married couples filing jointly)
    - 32% for incomes over $191,950 ($383,900 for married couples filing jointly)
    - 24% for incomes over $100,525 ($201,050 for married couples filing jointly)
    - 22% for incomes over $47,150 ($94,300 for married couples filing jointly)
    - 12% for incomes over $11,600 ($23,200 for married couples filing jointly)
    - The lowest rate is 10% for incomes of single individuals with incomes of $11,600 or less ($23,200 for married couples filing jointly).

- The Alternative Minimum Tax exemption amount for tax year 2024 is $85,700 and begins to phase out at $609,350 ($133,300

for married couples filing jointly for whom the exemption begins to phase out at $1,218,700). For comparison, the 2023 exemption amount was $81,300 and began to phase out at $578,150 ($126,500 for married couples filing jointly for whom the exemption began to phase out at $1,156,300).

- The tax year 2024 maximum Earned Income Tax Credit amount is $7,830 for qualifying taxpayers who have three or more qualifying children, an increase of from $7,430 for tax year 2023. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds and phase-outs.

- For tax year 2024, the monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking increases to $315, an increase of $15 from the limit for 2023.

- For the taxable years beginning in 2024, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements increases to $3,200. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is $640, an increase of $30 from taxable years beginning in 2023.

- For tax year 2024, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than $2,800, an increase of $150 from tax year 2023, but not more than $4,150, an increase of $200 from tax year 2023. For self-only coverage, the maximum out-of-pocket expense amount is $5,550, an increase of $250 from 2023. For tax year 2024, for family coverage, the annual deductible is not less than $5,550, an increase of $200 from tax year 2023; however, the deductible cannot be more than $8,350, an increase of $450 versus the limit for tax year 2023. For family coverage, the out-of-pocket expense limit is $10,200 for tax year 2024, an increase of $550 from tax year 2023.

- For tax year 2024, the foreign earned income exclusion is $126,500, increased from $120,000 for tax year 2023.

- Estates of decedents who die during 2024 have a basic exclusion amount of $13,610,000, increased from $12,920,000 for estates of decedents who died in 2023.

- The annual exclusion for gifts increases to $18,000 for calendar year 2024, increased from $17,000 for calendar year 2023.

- The maximum credit allowed for adoptions for tax year 2024 is the amount of qualified adoption expenses up to $16,810, increased from $15,950 for 2023.

As always, consult with a qualified tax professional for further detail and to see how these changes apply to you.

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