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Update on Payroll and Retirement Plan Changes Impacting 2016 and 2017

Mary Romm, Senior Manager | DHG Tax

Beth Chandler, Client Accountant | DHG

Raven Wertz, Client Accountant | DHG

Federal and state regulations are constantly changing, and subsequently, such changes impact the payroll process, filing dates, and retirement plan contributions each year. To assist in compliance with these new regulations, the following important changes are described below for filing 2016 forms and limitations impacting 2017.

Payroll Filing Dates, Rates and Limitation Changes

New W-2 and 1099 Filing Deadline

Beginning with 2016 forms filed in 2017, employers are required to submit forms W-2 and W-3 to the Social Security Administration (SSA) on or before January 31 of the year following the calendar year to which the return relates. This change applies regardless of whether the W-2 returns are filed on paper or electronically. Many states (such as Virginia) require W-2s to be filed electronically unless you receive an approved waiver. This information can be found on the individual state's Department of Taxation website.

The deadline for filing forms 1099-MISC reporting non-employee compensation in box 7 and corresponding 1096s with Internal Revenue Service (IRS) has also been moved to January 31 each year.

Additionally, the IRS no longer allows an automatic 30-day extension in which to file forms W-2 and W-3 with the SSA, and the IRS has indicated it will grant a 30-day extension of time to file only in limited cases for extraordinary circumstances or catastrophe. Under the new due date regime, a taxpayer seeking an extension of time to file must submit a form 8809 by the January 31 deadline. The 8809 must include a detailed explanation of why the taxpayer needs additional time and must be signed by the taxpayer under penalties of perjury.

New I-9 Form

In November 2016, the United States Citizenship and Immigration Services released a new and improved “smart” I-9 identity and employment authorization form. Use of this new form will be mandatory after January 21, 2017.

FICA Rates

The SSA increased the maximum amount of wages that are subject to the 6.2% social security employee/employer tax to \$127,200 in 2017, which increased from \$118,500 for 2016; however, the self-employment rate of 12.4% has remained the same.

Per Diem Rates

Effective October 1, 2016, per diem rates changed for employees who travel away from home for business. For IRS purposes of the high-low substantiation method, the per diem rates are \$282 for travel to any high-cost locality and \$189 for travel to any other locality within the continental United States. The meals only per diem for travel to those destinations is \$68 for daily meals in a high-cost locality and \$57 for meals in any other locality within the continental United States; these particular rates are unchanged from last year. The rate for transportation workers has also not changed.

Health Savings Accounts and Health Flexible Spending Limits

For 2017, the IRS adjusted the annual Health Savings Accounts contributions to reflect the cost-of-living adjustment. Individuals with self-only coverage increased from \$3,350 to \$3,400. The limit will remain \$6,750 for individuals with family coverage. The minimum annual deductible and maximum annual out-of-pocket expense limits for HDHPs will stay the same for both self-only and family coverage.

The 2017 HSA catch-up contribution limit for participants who are 55 or older on December 31, 2017, remains \$1,000. This amount is fixed by statute.

The salary reduction limit for health flexible spending accounts is now \$2,600 for 2017, compared to \$2,550 in 2016.

| Self-only coverage | 2016 | 2017 | Change |
|---|----------|----------|--------|
| Maximum annual HSA contribution | \$3,350 | \$3,400 | +\$50 |
| Minimum annual deductible for HDHP | \$1,300 | \$1,300 | none |
| Maximum annual out-of-pocket expense limit for HDHP | \$6,550 | \$6,550 | none |
| Family coverage | 2016 | 2017 | Change |
| Maximum annual HSA contribution | \$6,750 | \$6,750 | none |
| Minimum annual deductible for HDHP | \$2,600 | \$2,600 | none |
| Maximum annual out-of-pocket expense limit for HDHP | \$13,100 | \$13,100 | none |

For calendar year 2017, the monthly limitation for the qualified transportation fringe benefit and also for qualified parking is \$255.

2017 Retirement Plan Contribution & Compliance Limits

In November 2016, the IRS released the 2017 updated limits for retirement plan contributions and related compliance testing. Please find below the highlights of these limitations for 2017 (including those limits that remain unchanged from 2016):

Elective Deferral contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government’s Thrift Savings Plan remains unchanged at \$18,000.

The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government’s Thrift Savings Plan remains unchanged at \$6,000.

Annual compensation limit used for testing and calculation purposes (under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii)) is increased from \$265,000 to \$270,000.

For a comparison chart of these and other related limits over the past three years, please access our [Retirement Plan Limits chart](#).

Other Important Updates

Department of Labor (DOL) Fiduciary Ruling

Earlier this spring, the DOL issued a much anticipated ruling that defines who is considered a “fiduciary” of a retirement plan under the Employee Retirement Income Security Act of 1974 (ERISA) and also updated conflict of interest rules applicable to such a “fiduciary.” The new “Fiduciary Rule” is applicable to all retirement plans (including IRAs), and is required to be fully implemented no later than April 10, 2017.

Overtime Regulations

On Tuesday, November 22, 2016, a federal court issued a preliminary injunction to temporarily block the DOL from implementing and enforcing its Final Overtime Rule, pending further order by the court. While we have no way of knowing if or when the status of regulations will change, DHG is monitoring the situation and will provide updates as they become available. Please visit the Department of Labor website for more information. The salary threshold was to increase from \$455 to \$913 a week or \$47,476 annually for salaried employees only.

Penalties – Increase in Information Return Penalties

Penalties for failure to file correct information returns and/or to furnish correct payee (i.e. copy B of Form W2 or 1099 MISC) statements have increased and are now subject to inflationary adjustments. Information returns and payee statements include, for example, Forms 1098, 1099, W-2G and W-2.

The penalty is \$260 under the general rule, \$50 if corrected on/before the 30 days after the required filing date, and \$100 if corrected after the 30th day and before August 1. Maximum penalties for returns filed after August 1 will range depending upon the size of the business.

For small businesses with less than \$5 million in gross receipts, the maximum penalty for 2017 is \$1,064,000 under the general rule; for large businesses and governmental entities, the maximum penalty is \$3,193,000. Intentional disregard of these obligations is \$530 per return. These penalties may also apply if you file on paper when required to file electronically, fail to report a taxpayer identification number (TIN), report an incorrect TIN, or file on forms that are not machine readable. Penalties also apply for not providing the 1099 to the payee or filing with incorrect information, which are in addition to the penalty for not filing with IRS.

Mary Romm

Senior Manager, DHG Tax

Beth Chandler

Client Accountant, DHG

Raven Wertz

Client Accountant, DHG

Useful Contacts

Dixon Hughes Goodman

- Norfolk Location
757.624.5100
- dhg.com

Internal Revenue Service

- Individual General Information
1.800.829.1040
- Business General Information
1.800.829.4933
- irs.gov

Social Security Administration

- General Information
1.800.772.1213
- ssa.gov/employer/

Department of Labor

- Wage and Hour Division’s Helpline
1.866.487.9243
- dol.gov

Virginia Department of Taxation for business

- 1.804.357.8037
- <http://www.tax.virginia.gov/content/business-home>