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Changes to Payroll Taxes

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This results in an effective 15.3% FICA contribution rate when the two contributions are added together. Self employed individuals are responsible for the entire amount. FICA contributions will remain unchanged for most workers – but not for designated high income employees, who will see their rates go up. The most noteworthy changes are:

- The income ceiling for earnings subject to Social Security payroll tax is being raised from last year's \$113,700 to the 2014 figure of \$117,000. This will add roughly 10 million contributors to the estimated 165 million workers currently paying into Social Security.
- In 2014, the maximum total contribution to Social Security any employee is subject to will go up to \$7,254 from the current \$7,049.40 – which reflects the adjustment to income levels now included in the pool of contributors. The contribution rate is set - by statute - at 6.2% and not adjusted for inflation.
- The individual Medicare tax rate of 1.45% is going up for single filers earning more than \$200,000 – joint filers earning above \$250,000 – and those married, but filing separately, and earning above \$125,000. The new rate is being increased for these high income workers by .9%, for a new rate of 2.35%. Those earning below these income levels will continue contributing at a rate of 1.45%.



- There is no employer match required on the new higher Medicare rates. Employer rates will remain at 1.45%.
- These same categories of high income workers are also subject to a new 3.8% tax on investment income earned from interest, dividends, capital gains, rents, royalties, and taxable annuity payouts.
- Both the Medicare contribution increases required from high income wage earners, and the tax on investment income, are part of the funding for the new Affordable Care Act.
- As of January 1, 2014, employers were required to make adjustments to their payroll systems to reflect the changes detailed above – and – notify affected employees of the changes to their withholding amounts.

Social Security Benefits Adjustment

The Social Security Administration also announced a reduction in the annual Cost-of-Living (COLA) adjustments for the over 63 million Americans receiving monthly benefits. This includes benefits from Supplemental Security Income.

- The 2014 COLA will be calculated at 1.5% - down from the 2013 rate of 1.7%.

Changes to the Federal Unemployment Tax Act (FUTA)

Some states have been forced to take out loans from FUTA in-order to cover funds they lacked to pay unemployment benefits to their respective state residents. When such states maintain an outstanding loan balance for two consecutive years, this results in a mandatory reduction to the FUTA tax credit allowance available to employers in that state. This reduction lasts until the loan amount has been retired in full. Implementation of this regulation eventually required employers to pay an additional unemployment tax for 2013 – which was due on January 31, 2014.

- The standard FUTA tax rate is 6% on the initial \$7000 in wages subject to the tax.
- Employers commonly receive a 5.4% credit for state unemployment taxes they pay.

- Employers in states with outstanding FUTA loan balances will see that 5.4% reduced by .3% to an effective rate of 5.1% until the outstanding FUTA loan amount has been repaid.

Employer Reporting Requirements for Cost of Coverage

A significant number of employers will be required to report – for informational purposes only – the cost incurred for their employer provided group health insurance plans. This must be done on the employees' 2013 W-2. This reporting requirement is designed to reveal the value of the employees' healthcare benefits – and will have no affect on their tax liability.

Adjustments to Federal Withholding Amounts

In late November 2013, the IRS released information pertaining to the tax withholding tables for 2014. The noteworthy changes are:

- An increase in the personal exemption amount to **\$3,950**
- The tax withholding rates for both married couples and individuals are unchanged. However, the applicable wage brackets have been adjusted.
- These changes take effect for the entire 2014 calendar year.

These are the most significant changes to the income tax landscape for 2014. As can be seen from the above details, the most far-reaching adjustments will primarily impact high-income earners as the various provisions of the *Patient Protection and Affordable Care Act* reach full implementation in 2014.

The other significant changes reflect a small reduction in Social Security benefits on the one hand, and an increase in tax relief to individual taxpayers – via a raise in the personal exemption – on the other.

Let us Help with 2014 Taxes

