

# HR Insights

## Tax Reform Changes Impacting Payroll and Benefits

The Tax Cuts and Jobs Act (P.L. 115-97), also known as Tax Reform, was signed into law on December 22, 2017. The new law has been a major topic in the news for several weeks. This issue of *HR Insights* focuses on some of the changes relating to payroll and benefits, including:

- Tax withholding tables and Form W-4
- ACA individual mandate
- Family and Medical Leave Act tax credit
- Rollover of defined contribution plan loan offsets
- Recharacterization of IRA contributions
- Qualified transportation and bicycle commuting benefits
- Qualified moving expenses
- Employee achievement awards

### Tax Withholding Tables and Form W4

The IRS released Notice 1036, which provides updated income tax withholding tables for 2018 reflecting the recent changes made by Tax Reform. (For a copy of the Notice, visit our website's Resource page.) IRS issued the Notice so that employers can make the necessary changes to their payroll systems. Employers should implement the new tables as soon as possible but no later than February 2018.

It is not necessary for employees to take any action with respect to the new withholding tables. For 2018, the new tables are designed to work with existing W-4s on file. However, you may want to encourage employees to check their withholdings once the new tables are in place.

IRS is working on revising Form W-4, updating Publication 15 and related publications, and revising the withholding tax calculator available online at IRS.gov. For 2019, the IRS anticipates making further changes to Form W-4.

### ACA Individual Mandate

Although the ACA (Affordable Care Act) was not repealed, Tax Reform eliminated the individual mandate penalty for individuals who do not maintain health coverage as of January 1, 2019.

What did not change is the employer mandate. Employers subject to ACA must still offer affordable medical coverage to full-time employees as well as comply with the Form 1095 reporting requirements. In addition, the Cadillac tax remains in effect and, therefore, is still scheduled to take effect in 2020.

### Family and Medical Leave Act (FMLA) Tax Credit

**UPDATE: The Cadillac tax was delayed for two years until 2022 as part of the continuing resolution signed by President Trump on January 22, 2018 to end the partial government shutdown.**

Effective January 1, 2018, through December 31, 2019, a tax credit is available for eligible employers that provide **paid** FMLA leave (not medical or sick leave, personal leave, or vacation leave). The paid leave must equal at least 50 percent of an employee's normal wages for at least two weeks. The tax credit is 12.5 percent of wages paid to eligible employees up to a certain income level for up to 12 weeks. If an employer pays more than 50 percent of an employee's wages, the tax credit incrementally increases another .25 for every percentage point above 50 percent of normal wages paid.

### Rollover of Defined Contribution Plan Loan Offsets

Effective for tax years beginning after 2017, Tax Reform extended the period during which a qualified plan (e.g., a 401(k) plan) loan offset can be rolled over to an eligible retirement plan (e.g., an IRA). A plan loan offset is the amount treated as distributed from a

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qualified plan because of the termination of the plan or the failure to meet the repayment terms of the loan because of an employee's separation from service. The period was extended from 60 days to individuals' due date for filing their tax returns.

## Recharacterization of IRA Contributions

Tax Reform repealed a rule that allowed IRA contributions to a Roth or traditional IRA to be recharacterized as a contribution to the other type of IRA.

## Qualified Transportation and Bicycle Commuting Benefits

Effective January 1, 2018, employers can no longer take a business deduction for qualified transportation fringe benefits provided to employees, including parking, transit passes, and van pool expenses. However, these benefits will remain tax free to employees who may continue to pay for them on a pre-tax basis.

Tax Reform also suspended the tax exclusion for employees on costs up to \$20 per month related to biking to work. Effective January 1, 2018, through December 31, 2025, qualified bicycle commuting reimbursements are taxable to employees.

## Qualified Moving Expenses

Tax Reform suspended the tax exclusion for employees for qualified moving expenses or expenses reimbursed by an employer effective January 1, 2018, through December 31, 2025. However, the exclusion remains in effect for members of the Armed Forces.

## Employee Achievement Awards

Tax Reform repealed the exclusion from gross income of the value of certain employee achievement awards and the limitation on the deduction for the cost of employee achievement awards.

Before Tax Reform, an employer was not required to withhold payroll taxes on the fair market value of an employee achievement award if it met certain criteria, and if the value of the award did not exceed certain limits.

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