

# Client letter highlights important federal payroll tax figures for 2008

**December 31, 2007**

**Dear Client/Payroll Preparer:**

Here is a summary of important changes to payroll tax figures, effective Jan. 1, 2008.

The maximum amount of earnings subject to Social Security (OASDI) tax increases to \$102,000 in 2008. The old-age, survivor, and disability benefits (OASDI) tax rate of 6.2% does not change. The maximum amount of Social Security tax that can be paid by employees and employers in 2008 is \$6,324.00. The Medicare (HI) tax rate remains at 1.45% on all wages paid.

**Tables.** New federal withholding tables have been issued. The amount of one annual federal withholding allowance increases from \$3,400 to \$3,500. You must withhold from the pay of any employee who had claimed exemption from withholding in 2007, but who does not give you a new Form W-4 to continue the exemption by Feb. 15, 2008.

There are new advance earned income credit (AEIC) payment tables. In 2008, the maximum amount that an employee can receive in AEIC payments is \$1,750. To qualify for the AEIC, the employee's expected earned income and adjusted gross income must both be less than \$33,995 (\$36,995 if taxpayer is filing a joint return). Employees must file a new Form W-5 to receive the AEIC.

**Fringe Benefits.** Effective Jan. 1, 2008, the standard mileage rate for computing the deductible costs of operating a car (including vans, pickups, or panel trucks) for business use is 50.5 cents per mile.

If an employer provides a car to an employee which is available for personal use, the value of the personal use must generally be included in the employee's income and wages. There are several methods that can be used to value the personal use. Under the cents-per-mile method, the value of the personal use is determined by multiplying the standard mileage rate by the

total miles driven in the vehicle for personal purposes. However, the cents-per-mile method may not be used if the automobile's fair market value exceeds a certain amount, as adjusted for inflation. For employer-provided vehicles first made available to employees for personal use in 2008, the cents-per-mile method cannot be used if the value of a passenger automobile exceeds \$15,000 (\$15,900 for a truck or van).

An employer may reimburse employee automobile expenses with a mileage allowance, using a flat rate or stated schedule that combines periodic fixed and variable rate payments — a FAVR allowance. The cost of the "standard automobile" may not exceed 95% of the automobile's retail price, plus state and local taxes, nor may the cost exceed \$27,500 in 2008.

An employee may exclude up to \$220 a month for qualified parking expenses in 2008, and up to \$115 a month of the combined value of transit passes and transportation in a commuter highway vehicle. The maximum amount that can be excluded from an employee's gross income in connection with the adoption by the employee of a child (whether or not he or she has special needs) is limited to \$11,650 in 2008. The maximum amount of educational assistance that an employee can receive tax-free under an educational assistance plan during 2008 remains \$5,250.

The maximum aggregate annual contribution that can be made to a health savings account in 2008 is \$2,900 for self-only coverage and \$5,800 for family coverage.

***Pension Plan Limitations.*** The maximum amount that an employee may elect to defer to an IRC §401(k) cash or deferred compensation plan in 2008 is \$15,500. The maximum amount that an employee/participant may elect to defer to a savings incentive match plan for employees (SIMPLE plan) is \$10,500. The limitation on total annual contributions to defined contribution plans is \$46,000. The annual benefit limit for defined benefit plans increases to \$185,000. The limitation on deferrals for IRC §457 deferred compensation plans of state and local governments and tax-exempt organizations is \$15,500. The limitation used in the definition of highly compensated employee increases to \$105,000 for 2008.

The employee compensation amount used in the definition of "control employee" for purposes of the auto commuting valuation rule is \$185,000 in 2008. The compensation amount used in the definition of company officers

who are ineligible for the commuting valuation rule remains unchanged at \$90,000.

***Employees Working in Foreign Countries.*** An individual who has a tax home in a foreign country and satisfies either the bona fide foreign residence test or the foreign physical presence test may elect to exclude \$87,600 of his foreign earned income from gross income in 2008. Qualified individuals may also elect to exclude certain foreign housing costs paid or incurred on their behalf (or claim a deduction where the costs are not paid by the employer). The maximum housing cost exclusion is generally limited to \$12,264 in 2008. However, individuals who work outside the U.S. and live in foreign countries with high housing costs may be able to deduct or exclude a greater portion of their housing costs.

***Other.*** The minimum wage is \$5.85 per hour and will increase to \$6.55 per hour, effective July 24, 2008.

Employers and payors must report amounts includible in income with respect to IRC §409A (nonqualified deferred compensation) for 2007 on Form W-2 or Form 1099-MISC, as appropriate.

Do not hesitate to contact me if you have any questions on the above information.

**Best regards,**

**James DiFrancesco & Associates, P.C.**