



The Scoop

Tax Update

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*Social Security
wage base
increases*

Social Security Wage Base Rises to \$94,000 in 2006

The Social Security Administration (SSA) announced on Friday, October 14, 2005 that the 2006 social security wage base will be \$94,000, an increase of \$4,200 from the 2005 wage base of \$90,000. As in prior years, there is no limit to the wages subject to the Medicare tax; therefore, all covered wages are still subject to the 1.45% tax.

The FICA tax rate, which is the combined social security tax rate of 6.2% and the Medicare tax rate of 1.45%, remains at 7.65% for 2006. The maximum social security tax employees and employers will each pay in 2006 is \$5,840.40. This is an increase of \$260.40 from the 2005 maximum of \$5,580.00.

The social security wage base for self-employed individuals in 2006 will also be \$94,200. There is no limit on covered self-employment income that will be subject to the Medicare tax. The self-employment tax rate remains 15.3% (combined social security tax rate of 12.4% and Medicare tax rate of 2.9%). In 2006, the maximum social security tax for a self-employed individual will be \$11,680.80. This is an increase of \$520.80 from the 2005 maximum of \$11,160.00.

The threshold for coverage under social security and Medicare for domestic employees will be \$1,500 in 2006, up from \$1,400 in 2005; the coverage threshold for election workers will be \$1,300 in 2006, up from \$1,200 in 2005.

IRS Announces Pension Plan Limits for Tax Year 2006

The IRS has announced the dollar limits applicable to pension plans that become effective January 1, 2006 under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and has released the cost-of-living adjustments applicable to dollar limits on benefits and contributions under

qualified retirement plans unaffected by that law, as well as other items, for tax year 2006.

Limits reset or established by EGTRRA

- **Annual benefit under a defined benefit plan – 415(b)(1)(A) \$175,000**
- **Annual Additions to 415(b)(1)(A) - \$44,000**
- **Exclusion for elective deferrals under 401(k) and 403(b) - \$15,000**
- **Annual compensation limit under 401(a)(17) and 404(1) - \$220,000**
- **Elective deferrals to SIMPLE retirements remains at \$10,000**
- **Exclusion for elective deferrals under 457(e)(15) - \$15,000**
- **Catch up contributions for 401(k), 403(b) and 457 plans - \$5,000**

Federal 'High-Low' Per Diem Rates Issued

As part of the Revenue Procedure explaining the rules for determining whether an employee's travel expenses have been adequately substantiated, the IRS has released the optional "high-low" per diem rates that may be used instead of the General Services Administration's "actual" per diem rates for travel to locations within the continental US.

The "high" rate increases to \$226 for travel to any high-cost locality and the "low" rate increases to \$141 for travel to any other locality within CONUS. The amount of the high and low rates that is treated as paid for meals increases to \$58 for a high-cost locality and \$45 for any other locality within CONUS.

State Unemployment Insurance Taxable Wage Bases for 2006

Many states have released their state unemployment insurance (SUI) wage bases for 2006. SUI taxes are based on a percentage of the taxable wages an employer pays. The Federal Unemployment Tax Act (FUTA) requires that each state's taxable wage base at least equal the FUTA wage base of \$7,000, although most states exceed that amount. For a list of the state wage bases, check the APA's Web site at: www.americanpayroll.org/stateui.html.

News from other states



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California

Effective 1-1-06, an employee who receives his or her pay via direct deposit and is discharged or quits, may receive final wages via direct deposit. Currently, if an employee is discharged or quits, the authorization for direct deposit is deemed terminated. Existing law relating to the payment of wages upon termination will continue to apply. Generally, an employer must pay all wages due immediately to an employee who is involuntarily terminated, and within 72 hours to an employee who voluntarily resigns.

Illinois

Effective for garnishment orders served on or after 1-1-06, the maximum amount of wages that may be applied toward the garnishment is limited to the lesser of 15% of gross weekly wages, or the amount by which disposable earnings for a week exceed the total of 45 times the federal minimum wage or the state wage, whichever is greater.

Minnesota

The threshold for paying withholding taxes by electronic funds transfer (EFT) has been lowered. Effective for payments due in 2006, EFT is required if the withholding liability for the previous fiscal year ending 6-30-05 is \$20,000 or more. Effective for payments due in 2007 and thereafter, the threshold will decrease to \$10,000 or more. Note that if an employer is required to pay one business tax type by EFT, it must pay all tax types by EFT.

Washington

Effective 1-1-06, the minimum wage will increase to \$7.63 an hour from \$7.35 an hour. The Department of Labor and Industries adjusts the minimum wage for inflation each year in September as a result of an initiative approved by voters in 1998.