

## **IMPORTANT FEDERAL PAYROLL TAX FIGURES FOR 2006**

Here is a summary of some of the more important changes to payroll tax figures, effective January 1, 2006.

The maximum amount of earnings subject to Social Security (OASDI) tax increases to \$94,200 in 2006. The old-age, survivor, and disability benefits (OASDI) tax rate of 6.2% does not change. As a result of the wage-base increase, the maximum yearly Social Security tax paid by employees and employers in 2006 is \$5,840.40. 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 \$3,200 to \$3,300. You must withhold from the pay of any employee who had claimed exemption from withholding in 2005, but who does not give you a new Form W-4 to continue the exemption by February 15, 2006.

There are new advance earned income credit payment tables. In 2006, the maximum amount an employee can receive in advance payments of the earned income credit is \$1,648. To qualify for the advance EIC in 2006, the employee's expected earned income and adjusted gross income must both be less than \$32,001 (\$34,001 if taxpayer is filing a joint return). Employees must file a new Form W-5 to receive the AEIC.

New federal tax levy exemption tables have been issued for 2006.

### ■ **Fringe Benefits**

Effective January 1, 2006, the standard mileage rate for computing the deductible costs of operating a car (including vans, pickup, or panel trucks) for business use is 44.5 cents per mile. The standard rate for computing deductible moving or medical expenses is 18 cents per mile. The rate for determining deductible mileage when performing services for a charitable organization, other than activities related to Hurricane Katrina relief, is 14 cents per mile. Katrina-related charitable rates are 32 cents per mile for deduction purposes and 44.5 cents per mile for reimbursement purposes.

An employer may reimburse employee automobile expenses with a mileage allowance using a flat rate or stated schedule which 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 \$27,400 in 2006.

An employee may exclude up to \$205 a month for qualified parking expenses in

2006, and up to \$105 a month (same as in 2005) of the combined value of transit passes and transportation in a commuter highway vehicle. The maximum amount which can be excluded from an employee's gross income in connection with the adoption by the employee of a child (whether or not he has special needs) is limited to \$10,960 in 2006. The maximum amount of educational assistance which an employee can receive tax-free under an educational assistance plan during 2006 remains \$5,250.

#### ■ **Pension Plan Limitations**

The maximum amount an employee may elect to defer to an 401(k) cash or deferred compensation plan increases to \$15,000. The maximum amount an employee/participant may elect to defer to a savings incentive match plan for employees (SIMPLE plan) remains at \$10,000. The limitation on total annual contributions to defined contribution plans increases to \$44,000. The annual benefit limit for defined benefit plans increases to \$175,000. The limitation on deferrals under 457 deferred compensation plans of state and local governments and tax-exempt organizations increases to \$15,000. The limitation used in the definition of highly compensated employee increases to \$100,000.

The employee compensation amount used in the definition of "control employee" for purposes of the auto commuting valuation rule increases to \$175,000. However, the compensation amount used in the definition of company officers who are ineligible for the commuting valuation rule remains at \$85,000.

#### ■ **Nonresident Aliens**

The IRS has issued new rules for determining the amount employers must withhold from wages paid for services performed by nonresident alien employees within the United States. A nonresident alien is no longer required to request an additional income tax withholding amount on their withholding exemption certificates. Instead, effective for wages paid after December 31, 2005, employers must add an amount to the wages of nonresident alien employees (except for students and business apprentices from India) solely for purposes of calculating their income tax withholding for each payroll period. The specific addback depends on the payroll period. The Form W-4 requirements for these employees has also been revised.

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 \$80,000 of his foreign earned income from gross income in 2006 (unchanged from 2005).

#### ■ **Other**

Most employers are liable for Federal unemployment tax at a net rate of 0.8% on the first \$7,000 of covered wages paid to each employee during a calendar year. However, employers in New York State will pay this tax at a 1.4% rate due to the state's failure to repay a Federal loan.

This Hot Topic is an informative publication for our clients and friends of the Firm. It is designed to provide accurate information on the subject matter covered. We recommend you consult with your legal and other advisors to determine if the information is applicable in your specific circumstances. If these advisors are not available to you, please feel free to contact Barry N. Finkelstein, CPA at 972/934-1577 or e-mail at [info@facpa.com](mailto:info@facpa.com).