

W-2 & 1099 time

It's time to prepare W-2's for employees and 1099's for outside service providers.

Remember that there are penalties for inaccurate information, so check your records for accurate (including spelling):

- Payee first and last names
- Addresses
- Social Security Numbers

If you are missing any information, give a W-9 form to the payee to complete. If in doubt, send a W-9. You can download a printable W-9 form at www.irs.gov/pub/irs-pdf/fw9.pdf, or call our office and we will send one to you.

W-2's and 1099's need to be out to workers by Jan. 31, and also be filed with the government by Jan. 31. During the past year, we have seen penalties imposed for missing or inaccurate forms.

The 1099 forms are required for payments of \$600 or more to non-incorporated entities (including LLC's) for rent, interest paid or services rendered.

Income for independent contractors ("non-employee compensation") is reported on Form 1099-NEC, while rent, attorney payments and other types of income will be reported on Form 1099-MISC.

Annual sales tax licenses

Most businesses received the bill for the \$20 Municipal Tax License fee with the ADOR annual license renewal in mid-December. That fee and the state license renewal are handled by ADOR. If you need help with the forms, please turn it in with your December work so we can fill it out and send it back.

The City of Tucson's \$50 annual business license fee is billed separately and

must be paid to the city, not to the state along with state fee. It can be paid by mail, at a city cashier, or online at <https://tucsonaz.igovservices.com/>.

W-4 and A-4 forms

Every Arizona employer is required to make Arizona's A-4 withholding form as well as the federal W-4 form available to its Arizona employees by Jan. 31.

The form is available for download at <https://azdor.gov/forms/withholding-forms/arizona-withholding-percent-age-election>, or call our

office for a copy. Also, there is a Form A-4C for employees who make donations to tax credit organizations to request reduced withholding.

The 2024 A-4 still has seven withholding rate options, the same as on the 2023 form,

topping out at 3.5%.

The box for zero withholding option and the line for additional Arizona withholding still appear.

If an employee doesn't fill out a new A-4 form, the employer will use a default rate of 2.0%. Withholding forms are not sent to the government but kept by the employer in their payroll records.

For 2024, Arizona has only one income tax rate -- 2.5%, regardless of income.

Mileage for tax time

IRS' standard rate for business mileage was 65¢ for all of 2023. As you tally up your business mileage for the year, remember to keep your mileage records with your tax papers. IRS requires written records for mileage to be deducted.

The standard business mileage rate for 2024 is 67¢, up 1½¢ from 2023.



Mileage for 2024

The IRS raised the business mileage rate for 2024 to 67¢, a half cent more than for 2023.

Meanwhile, the rate for medical and military moves dropped a penny to 21¢. The mileage rate for charity work remains at 14¢.

Good records are vital for deducting mileage expenses. For business driving, IRS wants a record of date, distance (either miles or preferably odometer readings), destination and business purpose.

A written mileage log is great, but IRS will also accept logs created by GPS apps (such as MileIQ or Everlance), notations on a calendar or other documentation. Records should be "contemporaneous" (made at the time of driving) rather than reconstructed at tax time.

Remember that commuting (from home to work) is not deductible. A 2023 court case reaffirmed this rule.

A steel worker had to drive 92 miles each way to a construction site. He deducted mileage on the basis that the distance and the indefinite timeframe for the job made it business travel.

The IRS and the court disagreed and threw out his deduction as commuting.

Not keeping up

Six out of ten workers say their incomes haven't kept pace with inflation during the past year, according to a BankRate study.

A Senate Joint Economic Committee report found that the typical household must spend an additional \$11,434 annually to maintain the same standard of liv-



ing. Families in the Mountain West states including Arizona faced the highest inflation rates, with prices 15.6 percent higher in 2022 than in 2021.

Data compiled by consultant Korn Ferry projects salaries will increase by four percent in 2024. Inflation in 2023 was 3.35 percent, down from a peak of 9.06 percent in June 2022.

U.S. Bureau of Labor Statistics reports

that those who switch jobs have consistently out-earned those who've stayed at one employer since 2011. Workers typically expect 10-15% more pay when job hopping.

"Americans with valuable skills are voting with their feet. If they're not happy, they'll go

elsewhere and get a better deal — whether that's a salary bump, better benefits or remote working options," said analyst Kirstie McDermott.

Working at Wayfair

"Working long hours, being responsive, blending work and life, is not anything to shy away from. There is not a lot of history of laziness being rewarded with success," said Wayfair CEO Niraj Shah in a recent memo to employees.

The online furniture retailer soared during the pandemic but staggered in 2022 as people returned to shopping in person.

Bosses have struggled with a post-pandemic work ethic where the job is not foremost in workers' lives.

Germany's Finance Minister Christian Lindner commented "Never in history has a society increased its prosperity by working less." He opposes adoption of a four-day workweek, favored by 81 percent of German workers.

Landlines gone?

At&T has applied to California to stop providing landline phone service in the state.

Replacing copper wire "Plain Old Telephone Service" (POTS), with faster and more advanced technology has been a goal for most major phone companies in recent years.

They are moving to fiber optics and retiring older equipment that uses copper wire. The newer, digital technologies can squeeze more calls into a line and with higher clarity.

Many companies have already made the switch to Voice Over Internet Protocol (VOIP) phone service. If a business has Internet service for its computers and Point of Sale (POS) systems, VOIP service can offer significant savings.

Small businesses who use fax are likely to feel the pinch. Other than some newer systems, most fax machines operate on analog rather than digital lines.

Landlines are likely to be around for a while, particularly in rural areas where wired connections may be more reliable than cellular and microwave communications.

New-old pension

Since 1978, the 401(k) has been the premier retirement plan in American businesses. Companies jettisoned traditional "defined benefit" pensions, which saddled them with heavy costs for decades in the future.

The 401(k) shifted the burden to employees, although employers often help with a match of workers' contributions. The 401(k) also moved retirement assets from annuities for life to unpredictable stock market investments.

While in the long run, the stock market has done well, it isn't always good when



someone wants to retire. The stock market has been setting records in the last year ... but people who put money in during 2021 may see a number of their investments worth less than what they paid.

IBM has rolled out a new kind of retirement plan that looks more like a traditional pension to go along with its 401(k).

Employees will have five percent of their salary placed into a cash account, and the company will match with another five percent. The yield will be tied to the 10-year Treasury

bonds, and will be "portable." Employees can take the money with them when they leave IBM.

The fixed-return accounts won't go down in value, so they offset some of the uncertainty of 401(k)'s.

Eating inflation

Restaurant prices have outpaced grocery prices over the last year, according to the latest inflation data from the Bureau of Labor Statistics.

The cost of dining out is up 5.1% over a year ago, while groceries have risen just 1.2%.

Labor is a key pressure for restaurants, with 22 states, including Arizona, raising their minimum wages on Jan. 1.

Meanwhile, food costs have been shifting, the CEO of food processor Mondelez said. This year, the cost of ingredients has climbed sharply, while the price pressures of the last two years -- transportation and packaging -- have eased up.

While higher restaurant prices prompt some consumers to eat at home, major chains have observed that cutbacks have most affected fast food chains, which tend to cater to lower income customers. They are responding to "value" meals, said Brinker International CEO.

See-saw for IC rule

The U.S. Department of Labor's "New" independent contractor rule took effect Mar. 11, but is challenged in court and in Congress.

Historically, a six-factor "totality-of-the-circumstances" test determined whether a worker should be classified as an employee or an independent contractor.

However, in late 2021, the Labor Department streamlined the criteria to two "core factors": (1) the nature and degree of the individual's control over the work; and (2) the individual's opportunity for profit or loss.

Then, the department decided to return to the original approach, with a final rule announced on Jan. 9, 2024. Quickly, four groups filed lawsuits to stop the return to the original rule.

In addition, the congressional House Committee on Education & the Workforce on Mar. 21 adopted a resolution to nullify the DOL regulation. The bill now goes to the full House.

At this time, the new/old rule is in effect.

The 2021 revision generally is seen as making it easier for companies to classify workers as independent contractors rather than as employees.

Independent contractors save businesses from paying for payroll taxes, unemployment compensation, and benefits such as sick leave. Additionally, independent contractors are not subject to minimum wage and overtime rules.

Trade groups have challenged the 2024 rule on the premise that it would cause some kinds of traditionally independent contractors such as truckers and financial advisors to be treated as employees.

For detail of the 2024 rule, read the DOL's webpage at <https://www.dol.gov/>



agencies/whd/flsa/misclassification/rulemaking

Baffled economists

Many experts are baffled by an American economy that isn't operating by the textbooks.

Interest rates remain high and the housing market is still tight. Gas prices are up as are food prices.

Meanwhile, inflation is slowing, unemployment is low, wages are rising, the stock market keeps setting new records. Retail sales were up in February after dropping in January.

The number of Americans holding at least \$1 million in their 401(k)s

grew by 20% during the last quarter of 2023, according to Fidelity Investments.

Doomsayers and optimists both have plenty of statistics to advocate for their view of the future. The contradictory trends don't fit the traditional economic rules.

The University of Arizona's Economic and Business Research Center (EBRC) projects that Arizona's economy will grow this year and notes that Arizona's rate of employment in 2023 was the highest in history.

However, the Milken Institute's Best-Performing Cities 2024 list reports that most Arizona cities dropped in the rankings this year. Tucson slid from 112th to 132nd among 200 largest U.S. cities.

Testy bill

Elon Musk's \$56 billion compensation package as Tesla CEO was overturned in a stockholder lawsuit.

Now, the winning lawyers are asking the court for a record \$6 billion fee, which works out to an hourly fee of \$288,888.

Drone drop

Amazon announced it is discontinuing deliveries by drone in California ... and launching them in Arizona.

Deliveries to the West Valley area by Phoenix are expected to start later this year after government approvals are finalized, and to more cities by 2025.

"Prime Air" lets people order small packages and have drones deliver them in half an hour or less.

The Arizona deliveries will be done by Amazon's newest drone which is said to be smaller and quieter than previous models and can fly through light rain. It also uses "sense and avoid" technology to detect and avoid obstacles including people, pets, and property.

Have you looked at HSA's?

Health care is expensive and the reason many small businesses don't offer health insurance to their workers.

A Health Savings Account (HSA) can be a cost-effective alternative to traditional medical insurance for both small business owners and employees.

A HSA has two parts: a health plan with a high deductible, and a tax-sheltered savings account. The high deductible -- minimum \$1,600 for individual, \$3,200 for family coverage -- is the reason premiums are lower than other insurance.

For many people, high out-of-pocket expenses could make good health care impractical. The savings account protects against heavy hits.

Contributions to HSA's are tax deductible (like putting money into an IRA). Money withdrawn to pay medical bills is not taxable.

For 2024, the limits for HSA contributions are \$4,150 for self-only coverage and \$8,300 for family coverage, with an additional \$1,000 "catch-up" allowed for people age 55 or older.

Like other savings accounts, HSA deposits earn interest. Someone who is fairly healthy and doesn't pay a lot of medical costs currently can accumulate a sizable balance over several years. As a result, an HSA can be a part of retirement planning, so there's a nest egg to handle medical expenses later in life.

An HSA can be set up either by an individual or by a company. Employers have the option to contribute to their employees' HSA's. A company contribution or match is a deductible business expense.

HSA's are "portable," so employees keep the account even if they change jobs. For small businesses, HSA's can be a way for employers to make affordable health coverage available to employees (and own-

ers) without breaking the bank.

Tesla: the sequel

Last month we reported the law firm winning the stockholder lawsuit against Tesla CEO Elon Musk's \$56 billion pay package for 2018 wants the court to grant them \$6 billion for legal fees.

Now the sequel: The Tesla board is asking stockholders to reinstate the 2018 pay package as well as move the headquarters to Texas.

Tesla, like most major companies, is registered in Delaware.

By moving to Texas, the Delaware court's ruling would be moot. Musk personally moved from California to Texas for tax reasons in 2020, and the company has major facilities there.

