



**Payroll and 1099
Year-End 2025 Reporting
and 2026 Updates**

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Important Changes and Reminders:

1. Social Security taxable maximum for 2026 will be \$184,500 up from \$176,100 in 2025.
<https://www.ssa.gov/oact/cola/cbb.html>
2. Electronic filing of returns:
 - a. If the total filed forms to IRS is at least 10 returns, you must file them all electronically. The new threshold became effective for information returns required to be filed in calendar years beginning with 2024 (tax year 2023 Forms W-2). Taxpayer must add together all IRS filed returns for this purpose including Forms 1099's, 1042's, 1095-B, 1094 and others listed in <https://www.irs.gov/pub/irs-pdf/iw2w3.pdf>
3. 2026 New W-4 Employee Withholding Form
<https://www.irs.gov/pub/irs-pdf/fw4.pdf>
4. New for 2025 the One Big Beautiful Bill Act (OBBBA) allows employees to deduct overtime and tips. See the overtime reporting and tip reporting sections for employer requirements for 2025 and 2026.
5. 2026 Bank Holidays:
 - a. New Year's Day 2026 Thursday, January 1st
 - b. MLK Day Monday, January 19th
 - c. President's Day Monday, February 16th
 - d. Memorial Day Monday, May 25th
 - e. Juneteenth Friday, June 19th
 - f. Fourth of July Saturday, July 4th – will be open Friday July 3rd
 - g. Labor Day Monday, September 7th
 - h. Columbus Day Monday, October 12th
 - i. Veteran's Day Wednesday, November 11th
 - j. Thanksgiving Day Thursday, November 26th
 - k. Christmas Day Friday, December 25th
6. 2025 Reminders
 - a. Plan for extra payroll runs for bonuses.
 - b. Verify employee address information for payroll processing
 - c. 2025- Form W-2 information on last payroll for auto, health, group term, etc.
 - d. Cents-per-mile for business mileage rate for 2025 is 70 cents per mile.
8. 2026 Reminders
 - a. Consider changes in retirement and other benefit contributions for 2026
 - b. Update Indiana county withholding for 1st payroll in 2026 if employee moved
 - c. Update Indiana unemployment or other state rates for 2026.
<https://uplink.in.gov/ESS/ESSLogon.htm>
 - d. Update 2026 social security limit max as noted above in #1.
 - e. Update payroll rates if necessary

2025 Form W-2 Preparation Informational Highlights

The due date for filing form 2025 W-2 is February 2, 2026, whether on paper or electronically filed forms. The threshold for mandatory electronic filing to entities filing 10 or more W-2s.

Please see the Publication 15 for more information on Employer's Tax Guide.

<https://www.irs.gov/pub/irs-pdf/p15.pdf> Publication 15 (Circular E)

NEW Overtime Reporting

Employees may be eligible for a deduction on their personal tax return for the qualified overtime they earn. Employees should consult their tax professional for additional guidance.

Qualified overtime is defined as the premium portion of overtime; the half of time-and-a-half that is required by the Fair Labor Standards Act. Example: Someone is paid \$10/hour their overtime rate is \$15/hour, only the \$5/hour over their normal rate is qualified overtime. If someone is paid double time, they still only get the half portion required by law. Example: Someone is paid \$10/hour their double time rate is \$20/hour their qualified overtime is still only \$5/hour since that is all that is required by law.

For 2025 employers do not have a filing requirement with the IRS. The IRS has provided guidance that a supplemental statement can be provided by the employer but is not required. An example is provided at the end of this document.

Starting in 2026 through 2028, the employer will have to include the qualified overtime on the employees W2 and put in box 12 code TT.

NEW Tip Reporting

Employees may be eligible for a deduction on their personal tax return for the qualified tips they earn. Employees should consult their tax professional for additional guidance.

For 2025 employers do not have a filing requirement with the IRS. The IRS has provided guidance that a supplemental statement can be provided by the employer but is not required.

Starting in 2026 through 2028, the employer will be required to include the tips on the employees W2 and put in box 12 code TP, and an occupation code in box 14. Only certain tipped occupations are allowed the deduction; the listing is provided at this link:

<https://home.treasury.gov/system/files/136/Tipped-Occupations-Detailed-8-27-2025.pdf>

Employee Cash Bonuses and Gifts

Do you give your employees gift cards, gas cards, other gifts or cash bonuses? Cash gifts and gift cards that are redeemable for general merchandise are taxable and **must** be included as wages on their W-2. Gifts other than cash or gift cards are taxable if they exceed a de minimis amount. See <https://www.irs.gov/pub/irs-pdf/p15b.pdf> for additional guidance.

Health Insurance for Shareholders of S Corporations

Accident and health insurance premiums paid by an S Corporation for a more than 2% shareholder-employee are deductible for the S Corporation and includable in that individual's gross wages for income tax purposes. However, these additional wages are generally not includable for Social Security, Medicare, or Federal Unemployment tax purposes.

For the shareholder to include the premium on his or her return as an above-the-line deduction, the policy must be paid for by the company and included in the shareholder's W-2 wages; or, if the shareholder pays the premium, the company should reimburse the shareholder for the premium payment and include the reimbursement on a W-2. The reimbursement must occur during 2025.

Likewise, shareholders that have Medicare premiums or pay insurance through the healthcare exchange, the premiums are considered shareholder health insurance premiums provided the company reimburses the shareholder the amount of those premiums.

Health Savings Accounts (HSA) Contributions

Employer contributions to eligible employees' HSA are treated as employer-provided coverage for medical expenses under an accident or health plan. The contributions are therefore excludable from the employee's income and are exempt from FICA and FUTA taxes. Although excludable from wages, the contributions for the employee and employer share should be reported on the W-2 box 12 code W.

An HSA contribution paid by an S Corporation for a more than 2% shareholder-employee can be deducted by the Corporation but also are includable in that individual's gross wages for income tax purposes. However, these additional wages are generally not includable for Social Security, Medicare, or Federal Unemployment tax purposes.

An HSA contribution paid by a partnership to a bona fide partner's HSA are not contributions by an employer. The contributions are treated as a distribution of money and are not included in the partner's gross income.

An individual's HSA contributions can be made any time prior to the tax return filing deadline for a year excluding extensions. For those individuals on a calendar-year, the deadline for making HSA contributions is April 15, 2026. An employer contribution must be made by December 31, 2025. HSA "eligible individuals" maximum annual contribution limitation for 2026 is \$4,400 for self only coverage and \$8,750 for family coverage. (\$4,300 for self only coverage and \$8,550 for family coverage in 2025)

Reimbursement of Employee Expenses

If an employee is reimbursed for his or her business expenses, the tax treatment depends on whether the reimbursements are made under an "accountable plan" or a "nonaccountable plan."

Accountable Plan

Reimbursements made under an accountable plan are not included on the employee W-2. To be considered an accountable plan, the following three requirements must be met:

- (1) The reimbursements must be for deductible business expenses of the employer that are paid by the employee in fulfilling his duties as an employee.
- (2) The employee must be required to substantiate the expenses to the employer. Amount, time, and business purpose must be shown by the employee. He may do this with logs, account books, diaries, or similar records. The employee should also supply supporting documentation to the employer.
- (3) The employee must be required to return to the employer any excess of reimbursements over substantiated expenses within a reasonable period.

Nonaccountable Plan

If the reimbursements are made under a nonaccountable plan, they are includable as wages on the employee's W-2 for income tax, FICA tax and Medicare tax purposes. A nonaccountable plan is one that does not meet one or more of the three requirements listed above. After December 31, 2017, an employee no longer has the ability to deduct the reimbursed expenses on Schedule A of his Form 1040.

Sick Pay

If you had employees who received sick pay from a third-party payer (such as an insurance company) you should confirm with the third-party payer, the responsibilities each of you will assume. Sick pay is taxable for income tax, FICA tax, and Medicare tax purposes and is reportable on Form W-2. Many times, the third-party payer will withhold income taxes, FICA taxes, and Medicare taxes and inform you of the matching FICA and Medicare that you are responsible for depositing. Also, the third-party payer may issue a W-2 to the employee reporting only the sick pay it has paid to the employee. Other times, the third-party payer of the sick pay will send you a report of the sick pay which it paid during the year, and you will be responsible for reporting it on the employee's W-2. If the liability for the employer's share of Social Security tax and Medicare tax is reported on the employer's employment tax return, Form 9922 must be filed. If sick pay is reported on Forms W-2 under the name and employer identification number (EIN) of the agent/insurer the employer must file Form 9922. If sick pay is reported on Forms W-2 under the name and EIN of the employer, the insurer or agent/insurance company must file Form 9922.

Automobiles

As a rule, if an employer provides an auto to an employee and there is some personal use of that auto, the employer must include the value of that personal use in the employee's wages for income tax and employment tax purposes. Now is the time that you should begin assembling the data necessary to make these computations so that when you are ready to prepare the 2025 W-2's, the computations can be completed. The rules for automobiles are complicated and therefore, we have included a separate section which deals with automobiles. See the [Additional Information on Automobiles](#) section for more information.

Cell Phones

The cost of a cell phone substantially used for business is 100% deductible to the business. If the cell phone is provided to an employee for compensatory reasons such as increase in morale or goodwill to the employee, a portion is a taxable fringe benefit. The business use must be substantiated. The personal use portion is taxable to the employee unless it meets the de minimis fringe benefit requirements.

Social Security

The Department of Health and Human Services has set the maximum taxable wages for the OASDI portion of the Social security tax at \$184,500 for 2026, which is an increase from the 2025 limit of \$176,100. <https://www.ssa.gov/oact/cola/cbb.html>

Moving Expenses

Through 2026, employers must include Qualified moving expense reimbursements in employees' wages. The only exception is for members of the Armed Forces of the United States on active duty that move under military order to a permanent change of station.

Health Insurance

The cost of employer sponsored health coverage should be disclosed on Form W-2. The information is to be provided in box 12 with code DD. The cost disclosure is purely informational and is not taxable to the employee. This disclosure is a requirement unless the employer filed fewer than 250 forms W-2 in the preceding calendar year. Then the employer is not required to report the cost of employer sponsored health coverage on Form W-2 for the current year.

Medicare Tax High Earners

The employer is required to withhold an additional 0.9% in Medicare tax on Medicare wages greater than \$200,000. There is no employer match on this additional tax.

Cafeteria Plan

A cafeteria plan may allow an employee to request salary reduction contributions for a health flexible spending arrangement (FSA) in excess of \$3,300 for 2025, \$3,400 in 2026. The maximum 2026 carryover amount for a cafeteria plan that permits carryover is **\$680** if allowed by the Employer Plan.

<https://www.irs.gov/pub/irs-dft/p969—dft.pdf> - Publication 969

Indiana Filing

Any Indiana employer that files more than 25 withholding statements in a calendar year is required to file the annual WH-3 and their employees' W-2's electronically. The employer can comply with these requirements by submitting the forms manually or thru a file upload on Indiana's website called INTime, <https://intime.dor.in.gov>. The Indiana Form WH-3 must be filed within 31 days from the end of the calendar year. The due date for the 2025 WH-3 is February 2, 2026.

The state of Indiana has a mandate that numerous returns be submitted and paid electronically rather than by paper. Form WH-1, ST-103 and FAB-103 are just three of many. If you have not already registered with Indiana INTIME you need to do so. The website is <https://intime.dor.in.gov>. Follow the instructions on the site to register.

Pension and Other Retirement Plans

The IRS has announced the dollar limitations for pension plans and other retirement-related items for the 2026 tax year. Several limitations are higher than in 2026 due to cost-of-living adjustments

<https://www.irs.gov/pub/irs-drop/n-24-80.pdf>

Elective deferrals. The limitation on the exclusion for elective deferrals under Code Sec. 402(g)(3) will increase to \$24,000 in 2026 (\$23,500 in 2025). This limitation affects elective deferrals to various plans, including Code Sec. 401(k) plans, Code Sec. 403(b) annuities, SEPs, and the federal government's thrift savings plan.

Defined benefit plans. The limitation on the annual benefit under a defined benefit plan will increase from \$280,000 in 2025 to \$290,000 in 2026 .

Defined contribution plans. The limitation on total annual contributions to defined contribution plans will increase from \$70,000 in 2025 to \$72,000 in 2026.

Annual compensation limit. The maximum amount of annual compensation that may be taken into account for various qualified plan purposes, including plans under Code Sec. 401(a)(17), Code Sec. 404(l), Code Sec. 408(k)(3)(C), and Code Sec. 408(k)(6)(D)(ii), will increase from \$350,000 in 2025 to \$360,000 in 2026.

Catch-up contributions. The dollar limitation for catch-up contributions to an applicable deferred plan (other than SIMPLE plans) for individuals age 50 or over will increase from \$7,500 in 2025 to \$8,000 in 2026. For employees ages 60, 61, 62, and 63 who participate in these plans, a higher catch-up contribution limit will increase

from \$11,250 in 2025 to \$11,500 in 2026. Starting in 2026 high income earners over \$150,000 will have to put these contributions into a Roth account, under Secure Act 2.0. The dollar limitation for catch-up contributions under SIMPLE plans will increase from \$3,500 in 2025 to \$4,000 in 2026. For employees ages 60, 61, 62, and 63 who participate in SIMPLE plans, a higher catch-up contribution limit of \$5,250 applies in 2025 and 2026.

SIMPLE salary deferrals. The maximum amount of compensation that an employee/participant may elect to defer to a SIMPLE plan will be \$17,000 in 2026 (\$16,500 in 2025).

Preparation Guide for 2025 W-2 Forms

One of the most burdensome responsibilities faced by all employers is the annual preparation of employees' wage and tax statements. There are many special considerations, and most employers have several questions as they work through the forms and instructions or attempt to complete the appropriate reconciliations to their quarterly employment tax returns. The following summary may prove helpful in the process.

Wages, tips & other compensation (box 1).

Show the total taxable wages, tips, and other compensation that you paid to your employee during the year. However, do not include elective deferrals (such as employee contributions to a section 401(k) or 403(b) plan) except section 501(c)(18) contributions. Include the following. The following common items must be included:

- Total wages, prizes, and awards paid.
- Total noncash payments (taxable fringe benefits, for example).
- Total tips your employee reports (not allocated tips).
- Certain employee business expense reimbursements.
- Accident and health insurance premiums paid by an S corporation on behalf of its 2%-or-more shareholder-employees.
- Taxable cafeteria plan benefits (i.e., cash paid to the employee under the plan).
- Medical saving account contributions
- Employer contributions for qualified long-term care services to the extent coverage is provided through a flexible spending or similar arrangement.
- Non-accountable plans and non-job-related educational assistance.
- Amount includible as wages because you paid your employee's share of taxes.
- Designated Roth contributions made to a section 401(k) plan or under a section 403(b) salary reduction plan.
- Distributions from a nonqualified deferred compensation or 457 plan.
- Payments to statutory employees that are subject to social security and Medicare taxes but is not subject to Federal income tax withholding.
- Cost of current insurance protection under a compensatory split-dollar life insurance arrangement.
- Employee contributions to a Health Savings Account.
- Employer contributions to a Health Savings Account if includible in the income of the employee.
- Group-term life insurance benefits in excess of \$50,000 (also report in boxes 3 and 5). The cost to be included is determined according to this table.

Cost per \$1,000 of protection for one month:

| | |
|--------------------|--------|
| Underage 25..... | \$0.05 |
| 25 through 29..... | 0.06 |

| | |
|--------------------|------|
| 30 through 34..... | 0.08 |
| 35 through 39..... | 0.09 |
| 40 through 44..... | 0.10 |
| 45 through 49..... | 0.15 |
| 50 through 54..... | 0.23 |
| 55 through 59..... | 0.43 |
| 60 through 64..... | 0.66 |
| 65 through 69..... | 1.27 |
| 70 and above..... | 2.06 |

- Amounts includible in income under a nonqualified deferred compensation plan because of section 409A.
- Moving expenses and expense reimbursements.
- Military differentials pay to former employees while they are on active duty for more than 30 days.
- All other compensation. This includes certain scholarships and fellowship grants.
- All other compensation you pay your employee from which Federal income tax is not withheld.

Reminder: All wages actually paid in 2025 should be included on the 2025 W-2 form, even if they were paid for days worked in another calendar year.

Withheld taxes (boxes 2, 4, and 6).

Report federal income tax, Social Security tax, and Medicare tax withheld from your employee's wages during the year.

Reminder: For 2025, the employee portion of Social Security tax withheld is 6.2% up to \$176,100. The employee portion of Medicare tax withheld is 1.45% up to \$200,000. The portion of Medicare tax withheld on the amount above \$200,000 is 2.35%.

Social Security wages (box 3).

Report all wages subject to employee Social Security tax. Do not include tips. Include elective deferrals to certain cash or deferred compensation arrangement and to retirement arrangement (such as 401(k) plans, 403(b) salary reduction plans, and salary reduction SEP plans). Other items reported in box 1 also may have to be included here; see the W-2 instructions for details.

Reminder: The total of boxes 3 and 7 should not be more than \$176,100.

Medicare wages and tips (box 5).

Medicare tax applies to all the same wages and tips that are subject to Social Security tax, plus any

additional earnings over the Social Security wage base \$200,000 in 2025).

Social Security tips (box 7).

Include all tips reported by your employee, even if you did not have enough employee funds on hand to collect the employee share of Social Security tax on the tips.

Reminder: *The total of boxes 3 and 7 should not be more than \$176,100.*

Allocated tips (box 8).

Large food or beverage establishments should show the dollar amount of tips allocated to employees here. Do not include these allocated tips in box 1, 3, 5, or 7.

Box 9.

No longer being used.

Dependent care benefits (box 10).

Report dependent care benefits including those exceeding the \$5,000 exclusion. Any excess over \$5,000 should also be included in boxes 1, 3, and 5.

Non-qualified plans (box 11).

This is for distributions from a non-qualified deferred compensation plan or Section 457 plan. Undistributed amounts that became taxable in 2025 also should be included.

Box 12a through 12d - Codes

Use the IRS codes A-HH which stands for a specific item and the dollar amount associated with that item.

Box 13

Mark the items (i.e., statutory employee, retirement plan, third-party sick pay) which apply to your employee.

Reminder: *If an employee died during 2025, you should have withheld Social Security and Medicare taxes on any 2025 payments you made of accrued wages, vacation pay, and other compensation. Include the payments in boxes 3 and 5 and the withholding in boxes 4 and 6. Do not include the payments in box 1. If you make a payment after 2025 for an employee who died in 2025, do not report the payment on Form W-2 and do not withhold Social Security or Medicare taxes.*

Other (box 14).

Use this to give your employees additional information they may need for their income tax returns, such as union dues or health insurance premiums that were deducted from their wages.

Also, include the annual lease value of any vehicle you provided your employee if 100% of that value is included in the employee's income.

State and local information (boxes 15 through 20).

Report state or local income tax information. There is room on each W-2 for information applicable to two states and two localities.

Filing Information

You generally should give your employees their W-2's by January 31, 2026. Send the Social Security Administration Form W-3 and Copy A of Forms W-2 by February 2, 2026.

If you have 10 or more W-2s, you will be required to file electronically unless the IRS has granted you a waiver. Instructions on how to file electronically are available in SSA's EFW2 (formerly the MMREF-1) or at www.socialsecurity.gov/employer. If you file electronically, the due date is February 2, 2026.

Reminder: *The address for filing forms W-2 and W-3 is now as follows for all employers:*

Social Security Administration
Direct Operations Center
Wilkes - Barre, PA 18769-0001

If by certified mail:

Social Security Administration
Direct Operations Center
Wilkes - Barre, PA 18769-0002

Reminder: *If you have 25 or more W-2s, you will be required to file electronically with Indiana Department of Revenue. Information on how to file electronically is available at <https://intime.dor.in.gov>*

Reminder: *The W-2 electronic filing deadline for Indiana W-2 is January 31, 2026 as is with federal electronic W-2 filing.*

The IRS will return wage reports for the following reasons:

- Medicare wages in box 5 are less than the sum of Social Security wages in box 3 and Social Security tips in box 7.
- Social security tax is greater than zero when social security wages or tips are equal to zero.
- Medicare tax is greater than zero when Medicare wages or tips are equal to zero.
- Social security wages and tips are less than the minimum yearly earnings for a household employee.
- Medicare wages and tips are less than the minimum yearly earnings for a household employee.

2025 Form 941 Preparation

<https://www.irs.gov/pub/irs-pdf/f941.pdf> -2025 year-end

<https://www.irs.gov/pub/irs-dft/f941--dft.pdf> - Draft 2026 year-end

2025 Form 940 Preparation

The calculation for federal unemployment taxes on Form 940 has the following considerations for 2024.

<https://www.irs.gov/pub/irs-pdf/f940.pdf> -2025 year-end

Credit Reduction

In 2025, California has a potential total credit reduction rate of 1.2%. The potential total credit reduction rate for the U.S Virgin Islands is 4.5%.

Forms 1099

There are many different types of Forms 1099 upon which certain types of payments to others are reported. If filing form 1099-NEC with nonemployee compensation in box 1, those returns must be filed by February 2, 2026. If filing forms 1099-B, 1099-S or 1099-MISC with amounts in box 8 or 10, those returns must be submitted to the recipient no later than February 17, 2026. Any other 2025 1099 is due to the recipients no later than February 2, 2026. All remaining 1099s must be submitted to the Internal Revenue Service no later than March 2, 2026 (March 31, 2026, if electronically filing). There is no requirement that copies of Forms 1099 be submitted to the State of Indiana. In general, there is no requirement to file 1099's for payments made to corporations. If you are in doubt as to whether a payment you made is to a corporation or not and cannot find out, the safe approach would be to issue a 1099.

A few of the more commonly used Forms 1099 are listed below with a brief description of the filing requirements:

| | |
|------------------|--|
| 1099-NEC | The form is used for reporting nonemployee compensation (previously reported on 1099-MISC Box 7) or payments to an attorney. If a payor has paid someone less than \$600 for services performed, a 1099-NEC is not required and should not be issued. |
| 1099-DIV | This form should be issued to each person to whom you paid gross dividends of \$10 or more. (If you are an S Corporation, you will report as dividends only distributions made from earnings and profits.) If the distribution is liquidating, the filing requirement is for amounts in excess of \$600 instead of \$10. If you have any questions about this, contact us. |
| 1099-INT | This form should be issued to each person to whom you paid interest of \$10 or more. In some instances, the filing requirement is for amounts in excess of \$600, instead of the \$10 limit for other interest paid. |
| 1099-MISC | This form should be issued to each person to whom you paid at least \$600 in rents, prizes, awards, or other income payments. The filing requirement is for amounts in excess of \$10 for royalty payments. Payments of this type should be reported only if you are engaged in a trade or business. Therefore, personal payments are not reportable. |

The IRS charges penalties for **each** information return you fail to correctly file on time and **each** payee statement you fail to correctly provide on time.

Charges for each Information return or payee statement

<https://www.irs.gov/payments/information-return-penalties>

| Year due | Up to 30 days late | 31 days late through August 1 | After August 1 or not filed | Intentional disregard |
|----------|--------------------|-------------------------------|-----------------------------|-----------------------|
| 2026 | \$60 | \$130 | \$340 | \$680 |

The information provided is for informational purposes only and should not be considered tax advice. Please consult with your tax advisor to discuss your individual circumstances and for advice specific to your situation.

Forms 1094-C and 1095-C

Generally, if an employer is an Applicable Large Employer (ALE), as classified by the Affordable Care Act (ACA), the employer will need to provide Forms 1094 and 1095. <https://www.irs.gov/instructions/i109495c>

Who must file

An ALE Member is, generally, a single person or entity that is an Applicable Large Employer, or if applicable, each person or entity that is a member of an Aggregated ALE Group. An Applicable Large Employer, generally, is an employer with 50 or more full-time employees (including full-time equivalent employees) in the previous year.

Reporting by Employers That Sponsor Self-Insured Health Plans

An employer that offers health coverage through a self-insured health plan must report information about each individual enrolled in such coverage. ALE Members that offer health coverage through an employer-sponsored, self-insured health plan must complete Form 1095-C, Parts I, II, and III, for any employee who enrolls in the health coverage, whether or not the employee is a full-time employee for any month of the calendar year.

When To File

Generally, you must file Forms 1094-C and 1095-C by February 28 if filing on paper (or March 31 if filing electronically) of the year following the calendar year to which the return relates. For calendar year 2025, Forms 1094-C and 1095-C are required to be filed by March 2, 2026, or March 31, 2026, if filing electronically.

We have tried to cover items that might be of interest to you regarding your year-end reporting requirements. However, if you have questions that we did not answer, please do not hesitate to contact your Dulin, Ward & DeWald, Inc. accountant directly.

Additional Information on Automobiles

In General

If an automobile owned by the employer is used by an employee for business, the employer may generally deduct all the operating expenses of that auto. The cost of the auto may be depreciated according to tables provided by the Internal Revenue Service based on the year the auto was placed in service. In a situation where the auto is used by the employee 100% for business, there are no W-2 consequences to the employee.

Personal Use of Employer-Provided Autos

If an employer provides an auto to an employee and there is personal use of that auto by the employee, this personal use is considered a taxable fringe benefit, and the employer must include the value of that personal use in the employee's W-2 for income tax, FICA tax, and Medicare tax and employment tax purposes. To the extent that the employee reimburses the employer for that personal use, no income results to the employee. We have provided worksheets to assist you and the employee in calculating this personal use which must be included in the employees' W-2.

Business and personal use allocation – If an auto is used for both business and personal purposes, an allocation is required based on the number of miles driven. The business use portion is not taxable to the employee, while the personal use portion must be included in the employee's W-2. The worksheet entitled "Statement to Employer Regarding Use of Employer – Provided Auto" is for the use of you and the employee in determining the allocation between personal use and business use. The employee should complete, sign, and date this worksheet.

Definition of "personal use" – Any use that is not in the employer's trade or business is considered personal use. Commuting expenses between the employee's home and regular place of business is considered personal use.

Valuation of the fringe benefit – The fair market value of the personal use is the amount that is included in the employee's W-2. The Internal Revenue Service provides three safe harbor methods of computing this personal use value:

- (1) Annual Lease Value Method
- (2) Standard Mileage Rate Method
- (3) Special Commuting Method

The worksheet entitled "Fringe Benefit Compensation Value for Employer – Provided Vehicle" is for your use in determining the personal use of an employer-provided auto. Instructions on how and when to use each of the three methods are included on the worksheets. However, there are a couple of comments we would like to make on the Annual Lease Value Method (Method I):

- (1) In using the "Annual Lease Value Table" the employer must determine the fair market value of the auto in the year it is first available for personal use. The employer's purchase price is generally deemed to be the fair market value. The fair market value is redetermined at the beginning of the fifth year of usage.
- (2) An auto is considered as available for the entire year if the period of unavailability is due to personal reasons of the employee. For example, if an employee has an auto available for the entire year except for when he is on vacation, he is considered to have had the auto available for the entire year.
- (3) The Annual Lease Value Table assumes that maintenance and insurance are provided by the employer. However, neither the employer nor employee may reduce the annual lease value if these services are not provided by the employer.
- (4) Use of this method is optional but must be adopted when the auto is first made available to employer for personal use. Once adopted, the Standard Mileage rate Method (Method II) may not be used for that vehicle.

Record Keeping

General – Taxpayers must substantiate auto expenses with adequate records. While oral evidence of an expense may sometimes be accepted, it is obviously preferable that the evidence of expense be written. The evidence that should be shown with respect to an auto is as follows:

- (1) The amount of an expense item.

*The information provided is for informational purposes only and should not be considered tax advice.
Please consult with your tax advisor to discuss your individual circumstances and for advice specific to your situation.*

- (2) The amount of business use.
- (3) The time and date of the expense or use.
- (4) The business purposes.

Adequate records – Examples of types of records that an employee can keep are as follows:

- (1) Account books, diaries, or logs.
- (2) Documentary evidence such as receipts and paid bills.
- (3) Trip sheets.
- (4) Expense reports.

The records should be contemporaneous to as great an extent as possible. That is, they should be recorded on a regular basis as near to the time of their occurring as possible. For example, employee should not attempt to create a log for the entire year on December 15.

Employer-provided autos – If an employer provides the use of an auto to an employee and does not include the full value of that auto on the employee's W-2, the employee generally must substantiate to the employer the amount of business use with adequate records. Alternatively, an employer may rely on a statement submitted by an employee that provides sufficient information to allow the employer to determine the business use of the auto. We discussed earlier in this letter the attached worksheet entitled "Statement to Employer Regarding Employee Use of Employer – Provided Auto." This worksheet satisfies this alternative procedure.

If the employer includes the entire value of the auto on the employee's W-2 without any exclusion for business use, the employee is required to substantiate any deduction for business that he claims on his personal income tax return.

Employer's Tax Obligation

As stated previously, if an employee has personal use of an employer-provided auto, the employer is required to report the personal use as income on the employee's W-2. In addition, the employer is required to withhold income tax, FICA tax and Medicare tax. The personal use value is also subject to FUTA.

Qualified transportation fringe benefits. For 2026, an employee will be able to exclude up to **\$340** a month for qualified parking expenses, and up to **\$340** per month or the combined value of transit passes and transportation in a commuter highway vehicle. See <https://www.irs.gov/pub/irs-pdf/p15b.pdf> further information on the above limitations.

Statement to Employer Regarding Employee Use of Employer Provided Auto

To: _____ (Name of corporate official)

Please be advised that, during 2025, the corporation furnished the auto described below for my use on corporate business. I am providing the information shown below on my business and personal use of this auto:

| Year | Make | Model |
|------|------|-------|
| | | |

Employee Representation:

- | | | | |
|-----|--|-----|----|
| (1) | Was the vehicle available for your personal use during off-duty hours? | YES | NO |
| (2) | Did you have another vehicle available for your personal use? (This includes a car you own personally)? | YES | NO |
| (3) | Are you an officer or 1% owner of the business? | YES | NO |
| (4) | Did the employer pay the cost of fuel consumed by this vehicle? | YES | NO |

- | | | |
|----|---------------------------------|-------|
| 1. | Ending odometer | _____ |
| 2. | Beginning odometer | _____ |
| 3. | Total mileage (line 1 – line 2) | _____ |
| 4. | Business mileage | _____ |
| 5. | Personal mileage | _____ |

The above figures are based on my written records of business use. I understand that I may be required to furnish such documentation in the event of an IRS examination of my return.

(Date)

(Signature)

Employer's Worksheet To Calculate Employee's Taxable Income Resulting From Employer-Provided Vehicle For Calendar Year 2025

Employee _____
Description of Vehicle _____
Date Acquired _____
Date vehicle made available to employee _____

Select one method (note limitations on methods II and III)

Method I – Annual Lease Value Method (For autos available 30 days or more)

Fair market value of vehicle at acquisition date
 (To be redetermined at the beginning of the fifth
 year and every four years thereafter). \$ _____

Annual lease value factor, per attached chart _____ (1)

Enter number of days during the year that the
 vehicle was available x _____

Divide by number of days in tax year ÷ _____

Pro-rated annual lease value _____

Personal use % (personal/total miles, per
 statement from employee) x _____ %

Annual personal-use value \$ _____ (A)

Plus, factor for company-provided gas used personally:

| | | |
|------------------------------|-------------|-------------|
| Total personal miles | _____ | |
| Less mileage where | | |
| gas paid for personally | (_____) | |
| Total personal miles on | | |
| company-paid gas x rate/mile | x _____ (2) | + _____ (B) |

Total additional compensation for 2025 (A) + (B) \$ _____

- (1) If fuel is provided "in kind," the familiar market value may be determined based on all facts and circumstances or, alternatively, at 5 ½ cents per mile if auto usage is within the U.S., Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost, the fleet average cents per mile may be used. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge fuel cost, the fleet-average cents per may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, 5½ cents per mile may be used.

Employer's Worksheet To Calculate Employee's Taxable Income Resulting From Employer Provided Vehicle For Calendar Year 2025

Method II – Standard Mileage Rate Method

Generally, in order to qualify to use the cents-per mile method, the vehicle must:

- (1) be expected to be regularly used in the employer's business throughout the calendar year,
- (2) be driven at least 10,000 miles per year, and
- (3) have a fair market value of \$61,200 or less for a car, a truck or a van).

Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles from

01/1/2025 thru 12/31/2025 _____ x \$0.70 = _____

Less: If fuel is not provided by the
employer enter personal miles _____ x \$0.055 = - _____

Total additional compensation for 2025 **\$** _____

NOTE: If a business has 20 or more vehicles, the company is considered to have a fleet. This method cannot be used if the business maintains a fleet.

Method III – Special Commuting Method

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. Once adopted, this method must be used if the auto qualifies. DO NOT USE this method in any of the following circumstances:

- (1) If the employee is a 1% or more owner
- (2) If the employee is an appointed or elected officer or director with compensation equaling or exceeding \$155,000.
- (3) If the employee is an individual with compensation equaling or exceeding \$285,000.

Number of commuting round trips made _____

Value per trip (\$1.50 one-way; \$3.00 round trip) X _____.

Total additional compensation for 2025 **\$** _____

Annual Lease Value Table

Note: For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to: $(\$0.25 \times \text{automobile fair market value}) + \500 .

| Automobile Fair Market Value | Annual Lease Value | Automobile Fair Market Value | Annual Lease Value |
|---------------------------------|-----------------------|---------------------------------|-----------------------|
| \$ 0 – 999 | \$ 600 | \$22,000-22,999 | \$ 6,100 |
| 1,000 – 1,999 | 850 | 23,000-23,999 | 6,350 |
| 2,000 – 2,999 | 1,100 | 24,000-24,999 | 6,600 |
| 3,000 – 3,999 | 1,350 | 25,000-25,999 | 6,850 |
| 4,000 – 4,999 | 1,600 | 26,000-27,999 | 7,250 |
| 5,000 – 5,999 | 1,850 | 28,000-29,999 | 7,750 |
| 6,000 – 6,999 | 2,100 | 30,000-31,999 | 8,250 |
| 7,000 – 7,999 | 2,350 | 32,000-33,999 | 8,750 |
| 8,000 – 8,999 | 2,600 | 34,000-35,999 | 9,250 |
| 9,000 – 9,999 | 2,850 | 36,000-37,999 | 9,750 |
| 10,000 – 10,999 | 3,100 | 38,000-39,999 | 10,250 |
| 11,000 – 11,999 | 3,350 | 40,000-41,999 | 10,750 |
| 12,000 – 12,999 | 3,600 | 42,000-43,999 | 11,250 |
| 13,000 – 13,999 | 3,850 | 44,000-45,999 | 11,750 |
| 14,000 – 14,999 | 4,100 | 46,000-47,999 | 12,250 |
| 15,000 – 15,999 | 4,350 | 48,000-49,999 | 12,750 |
| 16,000 – 16,999 | 4,600 | 50,000-51,999 | 13,250 |
| 17,000 – 17,999 | 4,850 | 52,000-53,999 | 13,750 |
| 18,000 – 18,999 | 5,100 | 54,000-55,999 | 14,250 |
| 19,000 – 19,999 | 5,350 | 56,000-57,999 | 14,750 |
| 20,000 – 20,999 | 5,600 | 58,000-59,999 | 15,250 |
| 21,000 – 21,999 | 5,850 | | |

Overtime Supplemental Statement – Example**Employee Overtime
Statement****Employer Name****Employee Name****Reported Premium Overtime
Amount*:**

\$

Disclaimer:

The overtime pay amount provided here is for informational purposes only and is not certified as the amount eligible for the federal overtime deduction. Employees are responsible for determining their own eligibility and deductible amount under federal law. This figure may not reflect the actual amount you are permitted to deduct on your federal tax return. Please consult your tax advisor to determine how this information may apply to your individual tax situation.

* The reported amount represents the premium portion only of overtime.