



YEO & YEO

BUSINESS SUCCESS
PARTNERS

2026 Payroll Planning

Prepare now for the following payroll changes that will take effect in the coming year, and also consider some actions to take before year-end.

2026 PAYROLL CHANGES

Social Security Wage Base. The 2026 wage base will be \$184,500. The employee and employer match will be 6.2%. The maximum deduction will be \$11,439 (\$184,500 x 6.2%).

Medicare Tax. 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. Wages paid in excess of \$200,000 will be subject to an extra 0.9% Medicare tax that will be withheld only from employees' wages.

Dependent Care Limits. The maximum exclusion from gross income under the dependent care program is \$7,500 for an individual or married couple filing jointly.

Health Flexible Spending Arrangements. The dollar limitation on voluntary employee salary reductions for contributions to a health flexible spending arrangement (FSA) is \$3,400.

Michigan Minimum Wage. Effective January 1, 2026, the minimum wage will increase from \$12.48 to \$13.73 per hour. The tipped employee rate of hourly pay increases from \$4.01 to \$5.49 per hour.

Federal Standard Mileage Rates. The 2026 mileage rates have not yet been released.

Health Savings Accounts. HSAs are for eligible individuals in a high deductible health plan. The maximum annual contribution that can be made to an HSA in 2026:

- Individual: \$4,400
- Family: \$8,750
- Catch-up contributions: Individuals age 55 and older can make additional catch-up contributions to an HSA until they are enrolled in Medicare. The additional allowable contribution is \$1,000.

IRA Contribution Limits. The 2026 contribution limit for Simple IRAs is \$17,000. The catch-up contribution for those age 50 or older by December 31, 2026, is \$4,000. A new category of catch-up contributions allows participants ages 60-63 to contribute up to \$5,250 annually.

401(k), 403(b) and 457 Contribution Limits.

The contribution limit for these plans' employee deferrals is \$24,500. The catch-up contribution for those age 50 or older by December 31, 2026, is \$8,000. A new category of catch-up contributions allows participants ages 60-63 to contribute up to \$11,250 annually. Employees aged 50+ who earned more than \$150,000 in FICA wages in the prior year must make catch-up contributions as after-tax Roth contributions.

ITEMS TO CONSIDER BEFORE DECEMBER 31, 2025

Employer HSA Contributions. Employer contributions to a Health Savings Account, including employee contributions made through a cafeteria plan, are reported on Form W-2 in Box 12 with Code W.





Group Term Life Insurance. If you provide group term life insurance in excess of \$50,000 of coverage, calculate the taxable benefit and add it to the employees' wages prior to preparing W-2s.

S Corp Health Insurance Premiums. If you are organized as an S Corporation, include company-paid health insurance premiums for each shareholder on their W-2s.

Pension Limits for 2025

- **IRA Contribution Limits.** The 2025 contribution limit for Simple IRAs is \$16,500. The catch-up contribution for those age 50 or older by December 31, 2025, is \$3,500.
- **401(k), 403(b) and 457 Contribution Limits.** The contribution limit for these plans' employee deferrals is \$23,500. The catch-up contribution for those age 50 or older by December 31, 2025, is \$7,500. Super catch-up contributions allow participants ages 60-63 to contribute up to \$11,250 annually.

Verify Social Security Card and Payroll Name

Match. If any of your employees are currently using a name that does not match their Social Security card due to marriage, divorce, citizenship change or any other reason, they need to obtain a new card from the Social Security Administration (SSA).

1099 NEC Reminder: Use Form 1099 NEC to report non-employee compensation. It replaces what was reported in box 7 on Form 1099-MISC in previous years. The layout of the 1099 NEC recipient copy is a 3-up form.

Software Updates. If you process your own payroll, please ensure you are using the correct employee payroll tax withholding rates before processing the first payroll in 2026. Be sure all necessary updates have been completed and you are on the most recent version. For help, contact your software provider.

Auto Usage. If your employee uses a company vehicle, calculate this taxable benefit and add the amount to the employee's wages prior to preparing W-2s.

Form W-4

- Employers should remind employees to file a new W-4 if their filing status, exemptions or exempt status has changed during the year.
- If you have employees claiming exempt from federal withholding on their 2025 Form W-4, this form expires January 31, 2026. A new form is required by February 15, 2026. You may download a W-4 at www.irs.gov or you may contact our office.

Be Certain Your W-2s are Compliant.

- Include all taxable fringes in the year-end payroll.
- If you issued more than 250 W-2s in 2025, then 2025 W-2s must include reporting the cost of employer-sponsored health insurance in Box 12.
- W-2 forms must be submitted electronically if your company has more than 10 W-2s and 1099s combined.
- If you have third-party sick pay, determine who is responsible for preparing the W-2s.

One Big Beautiful Bill Act (OBBBA) W-2 Reporting Updates for 2025 and 2026.

Under OBBBA, employers may estimate and track qualified tips and overtime premiums using reasonable methods in 2025. While no changes to Form W-2 are required this year, it is recommended these amounts be reported separately, either on a separate document or manually in Box 14. Beginning in 2026, employers must follow new W-2 reporting rules under OBBBA, with draft forms showing that qualified tips, overtime, and "Trump Account" contributions will be reported using new Box 12 codes and updated Box 14 categories.

Need guidance on closing 2025, preparing for 2026 payroll, or meeting payroll deadlines?

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REV. 11/2025
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