



Preparing for Year-end Payroll

By Steven P. Witt, CPA, Principal and Payroll Services Group Leader

It is not too early to start planning and preparing for a smooth year-end. To make the job more manageable, following is a checklist of payroll tasks to do throughout the year and especially during the last quarter.

Payroll is complicated, time consuming and can be overwhelming. **For assistance, or to receive the exhibits as referenced in the checklist in Excel format, call Steven Witt, CPA, at (800) 968-0010 or stewit@yeoandyeo.com** or your local Yeo & Yeo office.

Throughout the Year

- Reconcile the taxable earnings and employee tax withholding. (See exhibit 1.) Reconcile the earnings at the end of each quarter as you prepare the 941, 940 deposit and state unemployment tax forms.
- Prepare a monthly deposit schedule. (See exhibit 2.) Reconcile the 941, state withholding, city withholding, etc. at the end of each month to make sure you have deposited what was withheld. Add columns for any items being withheld from employees' pay such as union dues, AFLAC, United Way, savings or pension amounts.
- During September, October or November, ask employees to verify that their name, address, and social security number are correct on their paycheck. Employees who have changed their name due to marriage or divorce should not have it changed in the payroll program until they have received an updated social security card. Depending on the company's payroll program, employees may not be able to verify their social security numbers because the State of Michigan does not allow the full number to be shown on the pay stub. So, employees may have to be asked to verify it as soon as they receive their W-2s.
- Establish a business continuity plan for payroll with the IT department to make sure you can restore a backup file and run payroll in the event of a disaster. It is recommended that you do an actual restore of the program and information on a stand-alone desk unit to make sure that the backup information is actually being backed up.

Preparing for Year-end

- The payroll bank account reconciliation should be forwarded to the payroll department so that they can determine if there are any old, outstanding paychecks. "Old" is defined as outstanding for three months or more. Old paychecks should be researched to see why they have not cleared the bank.
- W-2 printing and distribution procedures should be examined to see if outsourcing the process is more economical. If software has not been updated to print this year's forms, then outsourcing could be cheaper than doing them manually.
- Decide how to handle duplicate W-2 requests. Develop a form to handle employee requests. Decide if a fee will be charged for supplying a duplicate copy of the W-2s; a fee cannot be collected for supplying the original or corrected W-2s or 1099 forms. (See exhibit 3.)
- Go to the Social Security Web site and register to file the W-2s through the Business Service Online system. www.ssa.gov/bsol/bsowelcome.htm
- Decide how W-2s will be distributed -- electronically, by mail or hand delivery.
- Determine what the state requirements are for filing the W-2s. Can you file paper, magnetic media or file online?

Third Quarter

- Order W-2 forms and 1099 forms.

Fourth Quarter

- Review holiday processing schedule for Thanksgiving, Christmas and New Year's Day.
- By December 1, IRS regulations inform employers that they should remind employees to file an amended W-4 if their filing status, exemptions, or exempt status has changed since they filed their last W-4 form.
- Before December 31, employers need to inform employees who are claiming exempt from federal withholding to complete a new Form W-4 by February 16, 2010, to maintain their exempt status. If a new form is not received by the due date, then the employee should have withholding at the single, no allowance rate.
- Earned Income Credit – The Form W-5 for year 2010 expires on December 31. The federal Education Jobs Act provides that the tax year 2011 and beyond there will be no more advance payment of Earned Income Credit effective 1-1-11.
- Establish a year-end payroll adjustment schedule for the following items:
 - Achievement awards
 - Educational assistance
 - Expense accounts – accountable or nonaccountable plan
 - Moving expenses
 - Group term life insurance
 - Listed property – cell phones and laptop computers
 - Personal use of the company car
 - Qualified transportation fringe benefits
 - Gift coupons
 - Loans to employees
 - Deferred compensation
 - Third party sick pay
 - S-Corporation health insurance

ACHIEVEMENT AWARDS

The exclusion applies to the value of any tangible personal property given to an employee as an award for either length of service or safety achievement. The exclusion does not apply to awards of cash, cash equivalents, gift certificates, etc.

An item of tangible personal property meets all of the following requirements:

- Given to an employee for length of service or safety achievement
- Part of a meaningful presentation
- Awarded under conditions and circumstances that do not create a significant likelihood that it is disguised pay.

Deduction limit to any one employee during the tax year is limited to the following:

- \$400 for awards that are not qualified plan awards
- \$1,600 for all awards, whether or not qualified plan awards.

A qualified plan award is an achievement award given as part of an established written plan or program that does not favor highly compensated employees as to eligibility or benefits.

EDUCATIONAL ASSISTANCE

Job-Related

Educational assistance is excludable from employees' income under Sec. 132 working condition fringe benefit.

Three conditions must be met:

- The course must not be necessary to meet the minimum education requirements of the job.
- The course must not be taken to qualify the employee for a promotion or transfer to a different type of work.
- The course must be related to the employee's current job and must help maintain or improve the knowledge or skills required for that job.

Non-Job-Related

Excludable under Sec 127 income of up to \$5,250 per year of employer provided non-job-related educational assistance. The following conditions must be met:

- The educational assistance program is a separate, written plan of an employer for the exclusive benefit of its employees.
- The program shall benefit employees who qualify under a classification set up by the employer.
- The program is not discriminatory in favor of employees who are highly compensated employees or their dependents.
- Not more than 5% of the amount paid during the year is provided to shareholders or owners (spouses of or dependents of) each of who owns more than 5% of the stock.
- No choice between the educational assistance and other remuneration.
- The program is not required to be funded.
- Notification and terms of the program must be reasonably provided to eligible employees.

EXPENSE ACCOUNTS

Amounts paid to employees under a reimbursement or expense allowance agreement are excluded from the employee’s gross income if the amounts are treated as paid under an accountable plan.

Accountable Plan: Arrangement meets the requirements for business connection, substantiations and return of amounts in excess of expenses. Satisfies the 5 “W’s” – who, what, where, when, and why.

Non-accountable Plan: Advances are included in the employee’s gross income, must be reported as wages, and are subject to federal, social security, and unemployment taxes.

MOVING EXPENSES

Deductible moving expenses include only reasonable expenses of:

- Moving household goods and personal effects from the former home to the new home
- Traveling from the former home to the new home

Two tests for deductibility are:

- Distance test – the distance between the employee’s new workplace and his old residence must be at least 50 miles farther than the distance between the employee’s old workplace and old residence.
- Expected to work full time in the new location for at least 39 weeks during the next 12 months.

GROUP TERM INSURANCE

If the employer provides group term life insurance in excess of \$50,000, the amount includable in the employee’s gross income and subject to social security taxes is calculated as follows:

$$C - \$50,000 / \$1,000 * Y * M = \text{taxable amount}$$

C = the dollar amount of the coverage provided. Y = the cost / \$1,000 of coverage from the table. M = number of months of coverage in the year

Cost of Group Term Insurance

Age Bracket	Cost
Younger than 25	\$ 0.05
25-29	0.06
30-34	0.08
35-39	0.09
40-44	0.10
45-49	0.15
50-54	0.23
55-59	0.43
60-64	0.66
65-69	1.27
70 and older	2.06

LISTED PROPERTY – LAPTOP COMPUTERS

When a noncash fringe benefit (laptop computer) obtained from an employer that lends itself to personal use is provided by an employer to the employee, the amount of the benefit is defined as its fair market value, or what it would cost an individual to purchase the benefit on the open market in an arm’s length transaction.

PERSONAL USE OF THE COMPANY CAR

Annual Lease Valuation Method

- Determine the fair market value of the car on the first day it is available for personal use.
- Find the car's fair market value in the Annual Lease Value Table.
- Calculate the percentage of personal miles driven during the year.
- Calculate the fair market value of the employee's personal use that is included in the employee's income by multiplying the annual lease value by personal mile percentage.

NOTE: The annual lease value does not include the value of employer-provided fuel. The employer may determine the personal value of the fuel by using the actual cost of the fuel multiplied by the percentage of the personal miles or the IRS approved \$.055 per personal mile driven.

QUALIFIED TRANSPORTATION FRINGE BENEFITS

Employer provided transportation fringe benefits to its employees without including the fair market value of the benefits in the employee's income include:

1. Transportation between home and work in a commuter highway vehicle provided by the employers if:
 - The vehicle seats at least six adults other than the driver
 - At least 80% of the vehicle's mileage can be expected to be for commuting
 - At least one-half of the vehicle's seating capacity is used by employees, excluding the driver.The excluded benefit is limited to a value of \$120 per month in 2009.
2. Transit passes, vouchers, tokens or fare cards or reimbursement for them by the employer; value is \$120 per month in 2009.
3. Parking provided on or near the employer's premises or at a park-and-ride facility; value of \$230 per month in 2009.

GIFT COUPONS

Under the de minimis fringe benefit rule Sec 132, gift certificates are not administratively impracticable to account for and should be added to the employee's gross income.

LOANS TO EMPLOYEES

An advance made to an employee for services performed generally can be deducted as wages if it is not expected that the employee will repay the advance. However, if the employee performs no services, treat the amount advanced as a loan. If the employee does not repay the loan, treat it as income to the employee.

If the loans or advances are more than \$10,000, beware of the below-market, compensation-related loan rule. Employers are treated as having received interest income and as having paid compensation or dividends equal to that interest on loans below the applicable federal interest rate.

DEFERRED COMPENSATION

Employer contributions to qualified deferred compensation plans are excluded from federal wages and are not subject to social security taxes and unemployment taxes except when contributions are made under a salary reduction arrangement, like a 401(k) plan.

THIRD PARTY SICK PAY

Sick pay or disability payments made from the employer or under an employer plan during the first six months the employee is away from work are subject to federal, social security and unemployment taxes. Payments made after six months are excludable from social security and unemployment taxes, but still taxable for federal.

S-CORPORATION HEALTH INSURANCE

Because 2% or greater shareholders of an S Corporation cannot be treated as an employee for the accident and health benefit exclusion, employers must include the value of accident or health benefits provided to the employee in the employee's wages subject to federal withholding. Employers can exclude the value from the employee's wages subject to social security, Medicare and FUTA taxes.

Yeo & Yeo's Payroll Professionals

Our payroll team, consisting of CPAs and staff accountants certified in the fundamentals of payroll processing, is knowledgeable in the latest changes in federal and state payroll tax rules and regulations. Yeo & Yeo offers flexible payroll solutions that are tailored to your unique needs. Contact your local Yeo & Yeo office.

Alma (989) 463-6108
Ann Arbor (734) 769-1331
Flint (810) 732-3000

Kalamazoo (269) 329-7007
Lansing (517) 323-9500
Marlette (989) 635-7518

Midland (989) 631-6060
Saginaw (989) 793-9830

Exhibit 1

2011 ANNUAL RECONCILIATION WORKSHEET

941	1st	2nd	3rd	4th	Total	W-3	Difference
Fed. Wages	80,000.00	79,560.00	-	-	159,560.00	159,560.00	-
Federal withholding	13,564.00	11,819.00	-	-	25,383.00	25,383.00	-
							-
SS Wages	82,000.00	81,000.00	-	-	163,000.00	163,000.00	-
FICA	10,168.00	10,044.00	-	-	20,212.00	10,105.99	(10,106.01)
							-
Medi. wages/tips	82,000.00	81,000.00	-	-	163,000.00	163,000.00	-
Medi. taxes	2,378.00	2,349.00	-	-	4,727.00	2,363.51	(2,363.49)
							-
State Wages	80,000.00	79,560.00	-	-	159,560.00	159,560.00	-
State withholding	3,200.00	3,510.00	-	-	6,710.00	6,710.00	-
							-
City Wages	80,000.00	79,560.00	-	-	159,560.00	159,560.00	-
City withholding	615.00	1,084.00	-	-	1,699.00	1,699.00	-
							-
FUTA Wages	58,000.00	5,000.00	-	-	63,000.00	63,000.00	-
FUTA Deposits (.011 rate)	616.00	55.00	-	-	671.00	671.00	-
							-
MESC Gross Wages	82,000.00	81,000.00	-	-	163,000.00	163,000.00	-
MESC Taxable Wages	74,000.00	16,000.00	-	-	90,000.00	90,000.00	-
MESC Taxes (.02 rate)	1,480.00	320.00	-	-	1,800.00	1,800.00	-

Exhibit 3

Company Name
Company Address
Attn:

REQUEST FOR REISSUED IRS FORM W-2

Please Print

Please reissue a WAGE AND TAX STATEMENT (W-2) for the following employee, for the tax year ending December 31, _____.

EMPLOYEE NAME: _____

SOCIAL SECURITY NUMBER: _____

EMPLOYEE CURRENT MAILING ADDRESS:

Street Address _____

City _____ State _____ Zip Code _____

FORM W-2 is requested for the following reason:

- _____ Never Received
- _____ Misplaced or Destroyed
- _____ Social Security Number or Name Incorrect
- _____ Other (explain) _____

I authorize that \$5.00 be deducted from my next pay to receive this payroll department service.

Signature of Employee _____ Date of Request _____