



Payroll Benefits and Year End Reminders for 2020 and Changes for 2021

Presented by:
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Topics

- Changes
- Pandemic and Payroll
- W-2 Information
- Pre-tax benefits
- Fringe Benefits
- Exempt vs. Nonexempt Employees
- Employee vs. Independent Contractor
- Affordable Care Act (ACA)



2020-2021 Changes

- Employers may truncate the employee's SS # on the **employee** copies of Forms W-2
 - Copy B, C, 2
 - Cannot truncate on Copy A, 1 (gov't copies)
- FFCRA, Cares Act, form changes related to same
- Form 1099-NEC

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Reminders

- DOL raises "White Collar" salary threshold to \$684 in 2020
- W-2 electronic filing is required if you have over 250 employees (federal)
- Must use the new Form W-4 for employees hired after 1/1/19 and any employees wishing to adjust their withholding
 - If an employee wants to claim "exempt" they need to **write it in** under box 4c

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Key Tax Fact Sheet

Key Tax Fact Sheet 2021

	2021	2020
FICA		
Social Security Rate EE	6.20%	6.20%
Social Security Rate ER	6.20%	6.20%
Social Security Wage Limit	\$ 142,800.00	\$ 137,700.00
Medicare Rate	1.45%	1.45%
Medicare Rate - Wages over \$200,000	0.90%	0.90%
Medicare Wage Limit	No Limit	No Limit
Unemployment Rate		
Federal Unemployment Rate	0.6%	0.6%
Federal Unemployment Wage Limit	\$ 7,000.00	\$ 7,000.00
MN and WI Unemployment Rate		
	Assigned Rates	Calculated on:
MN Unemployment Wage Limit	\$ xxxx.xx	\$ 35,000.00 Gross Wages
WI Unemployment Wage Limit	\$ 14,000.00	\$ 14,000.00 Gross minus Cafeteria
Minimum Wage		
Federal Minimum Wage - 7/24/09	\$ 7.25	\$ 7.25
Minnesota - Small Employer	\$ 10.08	\$ 10.00
Minnesota - Large Employer	\$ 8.21	\$ 8.15
Minneapolis and St. Paul	Based on employer size; rates change 7/1/21 http://minimumwage.minneapolismn.gov/	
Wisconsin Minimum Wage	\$ 7.25	\$ 7.25

Key Tax Fact Sheet

	2021	2020
Retirement Plans		
401(k), 403(b) and 457(b) Plan Limits	\$ 19,500.00	\$ 19,500.00
Over age 50 Catch up	\$ 6,500.00	\$ 6,500.00
Simple Contribution Plan Limit	\$ 13,500.00	\$ 13,500.00
Over age 50 Catch up	\$ 3,000.00	\$ 3,000.00
IRA Contributions (Roth & Traditional)	\$ 6,000.00 subject to AGI	\$ 6,000.00 subject to AGI
Over age 50 Catch up	\$ 1,000.00 subject to AGI	\$ 1,000.00 subject to AGI
Tax-Favored Plans		
HSA - Single	\$ 3,600.00	\$ 3,550.00
HSA - Family	\$ 7,200.00	\$ 7,100.00
HSA - Catch up 55+	\$ 1,000.00	\$ 1,000.00
Health Flex Spending	\$ 2,750.00	\$ 2,750.00
Dependent Care Flex Spending	\$ 5,000.00	\$ 5,000.00
IRS Mileage Rates		
General	\$ 0.56 per mile	\$ 0.575 per mile
Medical/Moving	\$ 0.16 per mile	\$ 0.17 per mile
Charitable	\$ 0.14 per mile	\$ 0.14 per mile

Minnesota and Wisconsin only - other states may vary:

CAFETERIA PLAN - Pretax Federal, State, Social Security, Medicare, FUTA & SUTA

401(K) - Pretax Federal, State; Taxable for Social Security, Medicare, FUTA & SUTA

HEALTH INSURANCE - 2% SHAREHOLDERS - Taxable for Federal & State only

PERSONAL USE OF AUTO - Taxable for all

HEALTH SAVINGS ACCOUNTS - Pretax Federal, State, Social Security, Medicare, FUTA & SUTA

Pandemic and Payroll

Families First Coronavirus Response Act – FFCRA

- Emergency Paid and Sick Leave Act – EPSLA
<https://hawkinsashcpas.com/ffcra-paid-leave-payroll-calculator/>
- Qualified Sick Leave Wages – **employee sick** (EPSLA)
 1. Quarantine or isolation order by Fed or state
 2. Self-quarantine due to advise by health care provider
 3. Experiencing symptoms and seeking a medical diagnosis
- Up to 2 weeks (80 hrs) paid sick leave at regular pay rate up to \$511/day, \$5110 total
- Qualified Family Leave Wages – **employee is required to care for someone else** (EPSLA)
 1. Caring for person under quarantine (defined in #1.) or self-quarantined
 2. Caring for child because school closed, child care unavailable due to Covid-19 precautions
 3. Experiencing substantially similar condition specified by Secretary of Health & Human Services in consultation with the Secretary of the Treasury and Secretary of Labor (currently none)
 - a. Employer cannot *require* to use PTO, can allow him to
- Up to 2 weeks (80 hrs) @ 2/3 paid sick leave up to \$200/day, \$2000 total



Pandemic and Payroll

FFCRA continued

- Emergency Family and Medical Leave Expansion Act (expanded FMLA)
- Employee **unable to work** due to **caring for child** because school or place of care closed, **child care unavailable** due to Covid-19 precautions
 1. Employee must have been on the job at least 30 days
 2. First 10 days can be unpaid or paid if using emergency paid sick leave provision
 - a. The employer *may require* employee to use accrued PTO
- Up to 10 week's pay of at least 2/3 employees usual pay up to maximum of \$200/day, \$10,000 total



Pandemic and Payroll

FFCRA continued

- Employer
 - Fully refundable tax credit equal to the required paid sick leave
 - *Not subject to ER share of SS (6.2%)*; if maintaining health insurance coverage on EE, include *cost of health care* plus *ER Medicare tax* as part of credit
 - Total (ER and EE pre-tax) cost of health insurance (average premium for all employees covered); if EE portion after-tax, don't count
 - ER contributions to HSA do not count
 - ER contributions to HRA or health FSA do count
 - Can pay leave after the fact as long as leave occurred between 4/1 – 12/31
 - Accrual basis for leave payments (if paid in January for Dec wages, can take credit)
- Employee
 - Sick leave wages are taxable income, not excluded as qualified disaster relief payment
 - FFCRA wages are considered wages for retirement contributions

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Pandemic and Payroll

FFCRA continued

- Receive the credit by:
 - Reducing your 941-EFTPS payment
 - Filing Form 7200 to receive advance
 - Claiming a refund on Form 941

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FFCRA Example

FFCRA Emergency Paid Leave Payroll Calculator

For earnings from 4/1/20 - 12/31/20

Effective April 1, 2020, employers with less than 500 employees are required to comply with the Families First Coronavirus Response Act (FFCRA). This includes both emergency paid sick leave (EPSLA) and paid leave under the Emergency Family and Medical Leave Expansion Act (EFMLEA), unless exempted.

Sally was told to self-quarantine by her doctor for 4 days (she works 8 hours per day)
 Sally's hourly rate is \$15.00/hour
 Sally's amount of health insurance is \$145.77/month (the full premium cost); has to be a pre-tax plan to get credit

Employee Name: Sally Example

Reason for Qualified Sick Leave related to COVID-19 (answer Yes to only one):

- No 1. Employee's own quarantine or isolation order under federal, state or local law
- Yes 2. Employee's self-quarantine as advised by a health care provider
- No 3. Employee is experiencing symptoms and seeking a medical diagnosis
- No 4. Employee is caring for another individual subject to quarantine or isolation order
- No 5. Employee is caring for son or daughter as a result of the child's school closing or other child care unavailable
- No 6. Currently N/A
- No 7. Expanded Family Medical Leave (see below)

Calculate Daily Qualified Leave Amount:

Employee's qualified sick pay: \$ 480.00
 Regular rate of pay (hourly rate), must be at or above minimum wage: \$ 15.00
 Hours of qualified sick leave employee to be paid this payroll: 32.00
 # of days of qualified sick leave this pay period: 4.00

If employee covered by a qualified group health plan, complete the following:
 Qualified group health plan expenses allocated per day: \$ 4.78

Reason 1, 2, 3 \$ 480.00 Up to \$511/day (\$5,110 total); may not exceed 10 workdays or 80 hours
 Reason 4, 5, 6 \$ 320.00 2/3 of employee's regular pay, up to \$200/day (\$2,000 total); may not exceed 10 workdays or 80 hours



Pandemic and Payroll

Qualified Family Leave (up to 10 weeks expiring on December 31, 2020), first 10 days may be unpaid:

BOTH of the following must apply:

- A. Employee must be employed for at least 30 days
- Employee is caring for his/her son or daughter as a result of the child's school closing or other child care being unavailable
- B. due to COVID-19
- Employee's daily paid leave amount for reasons A - B above, 2/3 of employee's regular pay, up to \$200/day
 \$ 320.00 (\$10,000 total); may not exceed 10 weeks

941 Credit	
\$ 480.00	Total amount of Emergency Paid Sick Leave
\$ -	Total amount of Expanded FMLA Paid Leave
\$ 19.12	Health Insurance allocation
\$ 6.96	Employer's share of Medicare Tax
\$ 506.08	Total credit to be taken on 941

If your payroll software is unable to calculate the social security portion of the credit, please use the total below:

\$ 29.76	Employer's share of Social Security Tax
\$ 535.84	Total credit to be taken on 941

If Sally gets paid bi-weekly and had 48 regular hours, she would get paid for 80
 48 regular hours + 32 FFCRA pay = 80

If the employer's 941 payment for this pay period is \$22,550.00, short payment by \$506.08 and pay \$22,043.92
 \$22,550 - \$506.08 = \$22,043.92

Subject to change as additional guidelines are published

<https://www.dol.gov/agencies/whd/pandemic/ffcra-questions>

<https://www.irs.gov/newsroom/covid-19-related-tax-credits-for-required-paid-leave-provided-by-small-and-midsize-businesses-faqs>



Pandemic and Payroll

FFCRA continued

- **Form 941**

- Report qualified sick leave/family leave wages on line 5a(1) and 5a(ii); remove these wages from box 5a (they are exempt from SS tax)

	Column 1		Column 2
5a Taxable social security wages . . .	603,168.40	× 0.124 =	74,792.88
5a (i) Qualified sick leave wages . . .	1,420.00	× 0.062 =	88.04
5a (ii) Qualified family leave wages . . .		× 0.062 =	
5b Taxable social security tips . . .		× 0.124 =	
5c Taxable Medicare wages & tips . . .	604,588.40	× 0.029 =	17,533.06

- Worksheet 1, complete step 1 and 2 to determine if you report on line 11b for only nonrefundable portion or if you have a carry over to report on line 13c for refundable portion (next page)



Pandemic and Payroll

Step 1. Determine the employer share of social security tax this quarter after it is reduced by any credit claimed on Form 8974 and any credit to be claimed on Form 5884-C	
1a	Enter the amount of social security tax from Form 941, Part 1, line 5a, column 2 1a 74792.88
1b	Enter the amount of social security tax from Form 941, Part 1, line 5b, column 2 1b 74792.88
1c	Add lines 1a and 1b 1c 149585.76
1d	Multiply line 1c by 80% (0.80) 1d 119668.61
1e	If you're a third-party payer of sick pay that sent an agent and you're claiming credits for amounts paid to your employees, enter the employer share of social security tax included on Form 941, Part 1, line 3 (enter as a positive number) 1e
1f	Subtract line 1e from line 1d 1f 119668.61
1g	If you received a Section 3121(a) Notice and Demand during the quarter, enter the amount of the employer share of social security tax from the notice 1g
1h	Employer share of social security tax. Add lines 1f and 1g 1h 37396.44
1i	Enter the amount from Form 941, Part 1, line 13a (credit from Form 8974) 1i
1j	Enter the amount to be claimed on Form 5884-C, line 11, for this quarter 1j
1k	Total nonrefundable credits already used against the employer share of social security tax. Add lines 1i and 1j 1k
1l	Employer share of social security tax remaining. Subtract line 1k from line 1h 1l 37396.44
Step 2. Figure the sick and family leave credit	
2a	Qualified sick leave wages reported on Form 941, Part 1, line 5a(i), column 1 2a 1420.00
2a(i)	Qualified sick leave wages included on line 5c, but not included on Form 941, Part 1, line 5a(i), column 1, because the wages reported on that line were limited by the social security wage base 2a(i) 0.00
2a(ii)	Total qualified sick leave wages. Add lines 2a and 2a(i) 2a(ii) 1420.00
2b	Qualified health plan expenses allocable to qualified sick leave wages (Form 941, Part 3, line 3f) 2b 227.70
2c	Employer share of Medicare tax on qualified sick leave wages. Multiply line 2a(ii) by 1.45% (0.0145) 2c 20.59
2d	Credit for qualified sick leave wages. Add lines 2a(ii), 2b, and 2c 2d 1668.29
2e	Qualified family leave wages reported on Form 941, Part 1, line 5a(ii), column 1 2e
2e(i)	Qualified family leave wages included on line 5c, but not included on Form 941, Part 1, line 5a(ii), column 1, because the wages reported on that line were limited by the social security wage base 2e(i)
2e(ii)	Total qualified family leave wages. Add lines 2e and 2e(i) 2e(ii)
2f	Qualified health plan expenses allocable to qualified family leave wages (Form 941, Part 3, line 3f) 2f
2g	Employer share of Medicare tax on qualified family leave wages. Multiply line 2e(ii) by 1.45% (0.0145) 2g
2h	Credit for qualified family leave wages. Add lines 2e(ii), 2f, and 2g 2h
2i	Credit for qualified sick and family leave wages. Add lines 2d and 2h 2i 1668.29
2j	Nonrefundable portion of credit for qualified sick and family leave wages. Enter the smaller of line 1l or line 2i. Enter this amount on Form 941, Part 1, line 11b 2j 1668.29
2k	Refundable portion of credit for qualified sick and family leave wages. Subtract line 2j from line 2i and enter this amount on Form 941, Part 1, line 13c 2k 0.00



Pandemic and Payroll

FFCRA continued

- W-2 reporting – in Box 14 or on a separate statement
 - Must separately report FFCRA including the reason:
 - “sick leave wages subject to the \$511 per day limit”
 - “sick leave wages subject to the \$200 per day limit”
 - Must separately report EFMLEA including the reason:
 - “emergency family leave wages”
- Be aware – employer documentation is different between DOL and IRS
- <https://www.dol.gov/agencies/whd/pandemic/ffcra-questions> Question #16
- <https://www.irs.gov/newsroom/how-should-an-employer-substantiate-eligibility-for-tax-credits-for-qualified-leave-wages>

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Pandemic and Payroll

CARES Act – Coronavirus Aid, Relief and Economic Security Act

- Delayed payment of employer payroll taxes
 - Employer portion of Social Security tax (6.2%) due from 3/27/20 to 12/31/20 can be deferred. The extended deadline for the payroll tax deferral period is:
 - 50% of the deferred payroll taxes are due on 12/31/21
 - The remaining 50% is due on 12/31/22

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Pandemic and Payroll

Cares Act continued

- **Employee Retention Credit**
 - Cannot claim FFCRA on same wages
 - Cannot claim EE Retention CR if receives Small Business interruption loan under PPP (Paycheck Protection Program)

- Fully refundable tax credit on 50% of qualified wages, including health plan expenses
- Wages paid between 3/13/20-12/31/20
- Maximum credit is \$5,000/year per employee
- Eligible Employer:
 1. Full/partial suspension of operations by order of government authority due to Covid-19
 2. Significant decline in gross receipts
 - a. Self-employed do not count

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Pandemic and Payroll

Cares Act continued

- **Qualified wages**
 - Under 100 EEs – wages paid to ANY EE by Eligible Employer
 - Over 100 EEs – wages paid to employee who cannot work due to 1. or 2. above; wages may not exceed what the employee would have been paid for working the same duration during the 30 days preceding the economic hardship

- **Significant decline in gross receipts**
 - Gross receipts for a calendar quarter in 2020 are less than 50% of gross receipts for the same quarter in 2019
 - Ends with the first quarter that follows the first calendar quarter that the employer's 2020 gross receipts for the quarter are greater than 80% of its gross receipts for the same calendar quarter during 2019

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Pandemic and Payroll

Executive Order – Employee tax deferral

- Allows employee to defer their portion of Social Security tax from 9/1/20 to 12/31/20. Deferred payroll taxes need to be paid back by 4/30/21
- If you've already made the tax payments, you cannot "unpay" by shorting current/future payments
- 941 Form
 - Report the deferral of the employee with employer (if employer deferred their portion via the Cares Act) on line 13b and report only the employee portion on line 24
- W-2
 - Include any wages which you deferred withholding and payment of social security tax in box 3 and/or box 7
 - Do not include in box 4 any amount of deferred employee social security tax that has not been withheld
 - In 2021 when the employee pays back the tax deferral, you will be required to file a W-2c for 2020 to correct box 4 to increase the amount of the deferral to actual. Look for more guidance to be released in 2021



Form W-2

22222		Void <input type="checkbox"/>	a Employee's social security number		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Control number			9		10 Dependent care benefits	
e Employee's first name and initial		Last name	11 Nonqualified plans		12a See instructions for box 12	
			13 Salary/wages		12b	
			Retirement plan		12c	
			14 Other		12d	
					12e	
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2019** Department of the Treasury—Internal Revenue Service
 Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.
 For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.
 Cat. No. 10154D

Do Not Cut, Fold, or Staple Forms on This Page



W-2 General Info

- Will be rejected if:
 - Medicare wages and tips are less than the sum of Social Security wages and Social Security Tips
 - Social Security wages and Social Security tips are equal to zero
 - Medicare wages and tips are equal to zero
- Due date for filing with SSA: 2/1/2021
- Extensions are not automatic - may request one 30-day extension with Form 8809 before due date of form

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Taxable Wages – Federal

- Federal taxable wages are total wages less Pension-401K Plan amounts, Section 125 Cafeteria Plan items
- Federal wages go in Box 1 on W-2

Example:

250,000	Wages
(4,800)	Section 125 health insurance premiums
(5,000)	Dependent care
<hr/>	
240,200	Net taxable wages for Medicare
(7,500)	401(k)
<hr/>	
232,700	Amount of federal taxable wages

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Taxable Wages – Social Security

- 6.2% is withheld on the first \$142,800 of wages for Social Security in 2020
- Section 125 Plan items are not subject to social security
- Social security wages go in Box 3 on W-2

Example:

250,000	Wages
(4,800)	Section 125 Health Insurance Premiums
<u>(5,000)</u>	Dependent Care
240,200	
142,800	in Box 3 of Form W-2 (maximum for 2021)

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Taxable Wages – Medicare

- 1.45% is withheld for Medicare – no limit
- Additional 0.9% is withheld from employee for Medicare for wages over \$200,000
- Medicare wages go in Box 5 on W-2

Example:

250,000	Wages
(4,800)	Section 125 health insurance premiums
<u>(5,000)</u>	Dependent care
240,200	Net taxable wages for Medicare
200,000	taxed at 1.45%
40,200	taxed at 2.35% (1.45 + .9)

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Form W-2, Box 12 Codes

BOX 12 — CODES: Complete and code this box for all items described below. Report in box 12 any items that are listed as codes A–HH. Do not report in box 12 section 414(b)(2) contributions (relating to certain state or local government plans). Instead, use box 14 for these items and any other information you wish to give your employees. For example, union dues and uniform payments may be reported in box 14.

Code	Description	Code	Description
A	Uncollected Social Security or Railroad Retirement Tax Act (RTA) tax on tips	Q	Nontaxable combat pay
B	Uncollected Medicare tax on tips (but not Additional Medicare Tax)	R	Employer contributions to an Archer medical savings account (MSA)
C	Taxable cost of group-term life insurance over \$50,000	S	Employee salary reduction contributions under a section 408(p) SIMPLE plan including "catch-up" contributions made by employees 50 years of age or older during the plan year
D	Elective deferrals under a Section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement) also including "catch-up" contributions made by employees 50 years of age and older during the plan year	T	Employer-provided Adoption benefits including the pre-tax contributions made by the employee to a § 122 adoption plan account. Report all amounts including those in excess of the \$ 13,810 exclusion.
E	Elective deferrals under a section 403(b) salary reduction agreement	V	Income from the exercise of non-statutory stock option(s)
F	Elective deferrals under a section 408(k)(6) salary reduction SEP	W	Employer contributions (including employee contributions through a cafeteria plan) to an employee's Health Savings Account (HSA)
G	Elective deferrals and employer contributions (including non-elective deferrals) to a Section 457(b) deferred compensation plan	Y	Deferrals under a section 409A nonqualified deferred compensation plan
H	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan including "catch-up" contributions made by employees 50 years of age and older during the plan year	Z	Income under a nonqualified deferred compensation plan that fails to satisfy section 409A
J	Nontaxable sick pay	AA	Designated Roth contributions to a section 401(k) plan including "catch-up" contributions made by employees 50 years of age or older during the plan year
K	20% excise tax on excess golden parachute payments	BB	Designated Roth contributions under a section 403(b) salary reduction agreement plan including "catch-up" contributions made by employees 50 years of age or older during the plan year
L	Report amount of employee business expenses when using a per diem or mileage allowance and the amount that you reimbursed exceeds the amount treated as substantiated under the IRS rules. See Employee business expense reimbursements. Report in box 12 only the amount treated as substantiated (such as the nontaxable part). Include in boxes 1, 3 (up to the Social Security wage base), and 5 the part of the reimbursement that is more than the amount treated as substantiated. Report the unsubstantiated amounts in box 14 if you are a railroad employee. If reimbursements do not exceed IRS allowed rates, nothing needs to be reported.	DD	Cost of employer-sponsored health coverage
M	Uncollected Social Security or RTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only)	EE	Designated Roth contributions under a governmental section 457(b) plan including "catch-up" contributions made by employees 50 years of age or older during the plan year
N	Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (but not Additional Medicare Tax) (former employees only)	FF	Permitted benefits under a qualified small employer health reimbursement arrangement. The maximum reimbursement for an eligible employee under a QSEHRA for 2020 is \$5,150 (\$10,450 if it also provides reimbursements for family members).
P	Excludable moving expense reimbursements paid directly to members of the Armed Forces	GG	Income from qualified equity grants under section 83(i)
		HH	Aggregate deferrals under section 83(i) elections as of the close of the calendar year

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Supplemental Wages – 2021

- Supplemental wages are wages and payments to an employee that aren't regular wages. They include but are not limited to, bonuses, commissions, payments for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, taxable fringe benefits, expense allowances paid under a non-accountable plan and payments for nondeductible moving expenses.

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Federal Withholding on Supplemental Wages – 2021

- Supplemental wages combined with regular wages
 - If you pay supplemental wages with regular wages but don't specify the amount of each, withhold federal income tax like a normal pay period
- Supplemental wages identified separately from regular wages
 - If you pay supplemental wages separately (or combine them in a single payment and specify the amount of each)
 - Withhold at a flat 22%
 - Withhold like a normal pay period
- Employee receives more than \$1 million of supplemental wages during the calendar year-withhold at 37% without regard to the employee's W-4

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WI and MN Withholding on Supplemental Wages - 2021

Wisconsin

- Withhold like a normal pay period
- Estimate employee's annual gross salary and apply flat percentages to the supplemental payments
<https://www.revenue.wi.gov/DOR%20Publications/pb166.pdf>

Minnesota

- Supplemental wages identified separately from regular wages
 - If you pay supplemental wages and list them together on your payroll records
 - Withhold like a normal pay period
 - If you pay supplemental wages and list them separately on your payroll records
 - Withhold like a normal pay period
 - Withhold like a normal pay period for regular wages and withhold 6.25% on the supplemental wages
 - If you pay supplemental wages separately from regular wages
 - Withhold 6.25% on the supplemental wages regardless of withholding allowances

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Benefits

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401(k) Deductions

- On W-2, 401(k) is *not* deducted from wages for Box 3 (ss wages), 5 (medicare) and 7 (ss tips); list out total (including catch up amount) in Box 12 – Code D
- Check the Retirement Plan Box in Box 13
- 401(k) Roth Contributions are after-tax contributions – listed in Box 12 with Code AA
- 401(k) max deduction is \$19,500 for 2020 and 2021 (add'l \$6,000 catch up for individuals 50 and over, no change for 2021)
- If 401(k) withheld was more than max allowed amount, a refund may be issued if done prior to year-end
- Note – 401(k) and Roth 401(k) combined total may not go over the max allowed

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401(k) Codes

Letter code:	Used for:	Description:
D	401(k) contributions	Elective deferrals to a 401(k) cash or deferred arrangement, including SIMPLE 401(k)s
E	403(b) contributions	Elective deferrals made under a 403(b) salary reduction agreement
F	408(k)(6) contributions	Elective deferrals made under a SARSEP
G	457(b) contributions	Elective and nonelective deferrals made to a 457(b) deferred compensation plan
H	501(c)(18)(D) contributions	Elective deferrals to a Section 501(c)(18)(D) tax-exempt organization plan (Included in the "Wages, Tips, Comp." amount in Box 1)
S	408(p) SIMPLE contributions	Deferrals made under a SIMPLE IRA plan
AA	Roth contributions	Designated Roth contributions under a 401(k) plan
BB	Roth contributions	Designated Roth contributions under a 403(b) plan
EE	Roth contributions	Designated Roth contributions under a governmental 457(b) plan (a tax-exempt organization's 457(b) can't have a designated Roth account)

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Form W-2 Box 13 Retirement Plan Checkbox

- You should check the retirement plan box if an employee was an "active participant" for any part of the year in:
 - a qualified pension, profit-sharing, or stock-bonus plan under Internal Revenue Code Section 401(a) (including a 401(k) plan).
 - an annuity plan under IRC Section 403(a).
 - an annuity contract or custodial account under IRC Section 403(b).
 - a simplified employee pension (SEP) under IRC Section 408(k).
 - a SIMPLE retirement account under IRC Section 408(p).
 - a trust described in IRC Section 501(c)(18).
 - a plan for federal, state, or local government employees or by an agency or instrumentality thereof (other than a 457(b) plan).
- Active participant
 - Generally, an employee is an active participant if covered by a:
 - defined contribution plan (for example, a 401(k) plan) for any tax year and is credited with any contributions or forfeitures, or
 - defined benefit plan for any tax year that the employee is eligible to participate.

Don't check the retirement plan box if your company only has non-qualified or 457(b) plans.

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Flexible Spending Accounts

3 types of FSA's

1. Dependent care assistance
 2. Adoption assistance
 3. Medical care reimbursements (health FSA)
- CARES Act allows FSAs to be used to pay for over-the counter medications without a prescription, including certain menstrual care products (retroactive to purchases beginning 1/1/20)
 - Use or Lose Provision
 - Must use by end of plan year or forfeit unspent amounts
 - Employer may utilize Carryover or Grace Period option under special rule:
 - Carryover option
 - Employee *may* be able to carry over up to \$550 of unused funds to the following plan year
 - Grace Period option
 - Employee has 2 ½ months after end of plan year to incur eligible expenses
 - **Cannot do both, have to choose 1**



Dependent Care



Qualifying persons:

- Qualifying child who lived with you over 6 months (under age 13)
- Spouse wasn't physically or mentally able to care for self and lived with you for over 6 months
- A person who wasn't physically or mentally able to care for self, lived with you over 6 months, was your dependent or would have been your dependent except that they received gross income of \$4200 or more, filed a joint return or could be claimed as a dependent on someone else's return
- Cannot discriminate
- Eligible employees must be made aware of plan
- Employer must give employee an annual statement (Box 10 on W-2 is sufficient)



Dependent Care

- Box 10 on W-2 – actual amount paid out regardless if over limit
- If amount is over the limit, it is fully taxable and is included in Box 1, 3, 5 and State Wages (also taxable for FUTA and SUTA)
- Employer's amount of dependent care spent on behalf of employees is excluded from income and counts towards the limit
 - Amount cannot exceed \$5,000 per year (\$2,500 for married filing separate)
- Expenses are for *when incurred* not *when paid*

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Adoption Assistance

- For 2021, the maximum amount of an employer subsidy for qualified child-adoption expenses that can be excluded from an employee's gross income is \$14,400
 - Excludable reimbursements must be "necessary and reasonable expenses" related to adopting a child
 - Phase out with modified adjusted gross income higher than \$216,660

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Health Ins Premiums on 2% (and over) Shareholders

- The amount of the premiums must be considered wages subject to federal and state income tax withholding
- These premiums are not subject to Social Security, Medicare or unemployment taxes
- However, health insurance provided **solely** to 2% or more shareholder of S-Corps, *not to other employees*, does not qualify to the FICA exemption and is subject to SS, Medicare and unemployment taxes

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Health Savings Accounts – HSA

- Contributions (employee and employer) are used to pay current or future medical expenses of the account owner, his/her spouse, and any qualified dependent.
- Employee must be covered by a High Deductible Health Plan (HDHP) and not covered by other health insurance (exceptions-see section 223(c)(3))
- Pre-tax to employee
- Partnerships and S-Corps – not eligible for pre-tax salary reduction; employer contributions treated as distribution or guaranteed payment

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Health Savings Accounts – HSA

- HDHP must have the following:

	Deductible at least	Max out of pocket	Employer tax free contrib max *
Single	1,400	6,900	3,550
Family	2,800	13,800	7,100

* increased by \$1,000 for employee over 55

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Fringe Benefits

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Employer Provided Vehicles

- Personal use is commuting to/from work, trips not related to work, used on vacation, used by someone other than employee
- Personal use of vehicle is subject to federal, social security and medicare taxes. Also subject to FUTA tax.
- Reported on W-2 box 1, 3, 5, 16 and 14 (other)
- Employee must substantiate (track) mileage between business and personal usage
- Or full use of vehicle can be included in the employee's income by using 1 of 4 valuation methods

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Valuation Methods

- See Publication 15-B
 - <http://www.irs.gov/pub/irs-pdf/p15b.pdf>
- General Valuation Method
 - Cost the employee would incur to lease the same vehicle in same geographic area
- Special Valuation Method
 - Cents-Per-Mile valuation
 - Annual lease valuation
 - Commuting valuation

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Commuting Rule

- Employer can value PUA (personal use auto) at \$1.50 for each one-way commute.
- Can use this method if the following conditions are met:
 - Employer owned vehicle is provided to employee for company business
 - Employer requires employee to commute in the vehicle
 - Employer must have written policy prohibiting employee from personal use other than commuting
 - Employee doesn't use vehicle for personal purposes
 - Employee is not a control employee, director, elected officer with wages of \$115,000 or more, an employee with wages of \$230,000 or more, owns 1% or more equity, capital or profits interest in the business

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Cents-Per-Mile Method

- Cannot use if the vehicles value when it is made available to employees is more than \$50,400
- FMV for personal use is determined by using standard mileage rate of \$0.575 per mile in 2020, this includes the costs of maintenance, insurance and fuel. If you don't provide fuel to your employees, you can reduce the rate by \$0.055 per mile.

2021 standard mileage rate not yet published

To use this rule, one of the following conditions must be met:

1. You expect the employee to regularly use the vehicle for business throughout the year.
 - At least 50% of the total mileage each year must be for business.
 - The vehicle is generally used each workday to transport at least three employees to and from work, in an employer-sponsored commuting pool.
2. The mileage test is met.
 - The vehicle is driven by employees at least 10,000 miles per year (business and personal combined)
 - The vehicle is primarily used by employees

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Cents-Per-Mile continued

Consistency requirement:

1. You must begin using the cents-per-mile rule on the first day you make the vehicle available to any employee for personal use *
2. You must use the cents-per-mile rule for all later years in which you make the vehicle available to any employee and the vehicle qualifies *
3. You must continue to use the cents-per-mile rule if you provide a replacement vehicle to the employee (and the vehicle qualifies for the use of this rule) and your primary reason for the replacement is to reduce federal taxes

* See publication 15-B for issues related to commuting rule

- Items included in cents-per-mile: maintenance, insurance and fuel; if you don't provide fuel, reduce the rate by no more the \$0.055 cents

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Annual Lease Valuation

- FMV is determined by multiplying the annual lease value of the car by the percentage of personal miles driven.
 - Determine FMV of vehicle as of the first day it was made available to any employee for personal use.
 - The FMV of an automobile is the amount a person would pay to buy it from a third party in an arm's-length transaction in the area in which the automobile is bought or leased. That amount includes all purchase expenses, such as sales tax and title fees.
 - Use the IRS Annual Lease Value Table

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Annual Lease Valuation

- Calculate percentage of personal miles driven.
 - Multiply the annual lease value by the % of personal miles
 - Personal miles/total miles = % of personal miles driven
 - If you provide the fuel, you must add \$.055 per mile
 - Any use of a company-provided vehicle that isn't substantiated as business use is included in income
 - Consistency requirements:
 - You must begin using this rule on the first day you make the automobile available to any employee for personal use *
 - You must use this rule for all later years in which you make the automobile available to any employee *
 - You must continue to use this rule if you provide a replacement automobile to the employee and your primary reason for the replacement is to reduce federal taxes
- * See publication 15-B for issues related to commuting rule

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IRS Annual Lease Value Table

IRS ANNUAL LEASE VALUE TABLE

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	8,520
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 – 25,999	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		

For Vehicles having a fair market value in excess of \$59,999, the annual lease value
= (0.25 x the auto's fair market value) + \$500

<https://www.irs.gov/pub/irs-pdf/p15b.pdf>

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Example of Personal Use of Auto Calc

	A	B	C	D	E	F	G	H
1	PERSONAL USE OF AUTO							
2		2014 Toyota Tundra	2019 Ram 1500	2017 Ford F150	2020 Corvette	TOTALS		
3	Date placed in service	5/31/2014	8/27/2018	7/14/2017	12/6/2019			
4	Cost	\$ 15,000.00	\$ 49,850.00	\$ 24,600.00	\$ 93,220.00			
5	FMV	\$ 15,000.00	\$ 49,850.00	\$ 24,600.00	\$ 93,220.00			
7	Business miles	4,533	6,050	5,000	2,000			93,220
8	Personal miles	6,000	3,000	2,530	700			* 0.25
9	Total miles	10,533	9,050	7,530	2,700			23,305
10								+ 500
11	Annual lease value	\$ 4,350	\$ 12,750	\$ 6,600	\$ 23,805			23,805
12	Days available	365	365	365	25	WATCH # OF DAYS		
13	Personal use %	56.96%	33.15%	33.60%	25.93%			
14	Personal annual lease value	\$ 2,477.93	\$ 4,226.52	\$ 2,217.53	\$ 422.72			
15								
16	Fuel provided	0.055	0.055	0.055	0.055			
17	Per mile value (pers miles x .055)	\$ 330.00	\$ 165.00	\$ 133.15	\$ 38.50			
18	Personal use subtotal	\$ 2,807.93	\$ 4,391.52	\$ 2,356.68	\$ 461.22	\$ 10,017.34		\$ 10,017.34
19								+ .9235
20	Gross up for payroll (if needed):							
21	Gross Income (pers use x .9235)	\$ 3,040.53	\$ 4,755.30	\$ 2,551.90	\$ 499.42	\$ 10,847.15		\$ 10,847.15
22	Social security wth (6.2%)	188.51	294.83	158.22	30.96	672.52		
23	Medicare wth (1.45%)	44.09	68.95	37.00	7.24	157.28		
24	Net (should = pers use subtotal)	\$ 2,807.93	\$ 4,391.52	\$ 2,356.68	\$ 461.22	\$ 10,017.34		
25								
26	<i>WATCH if any employee is or will be over the social security limit - if so, an adjustment will need to be made to social security withholding and employer match.</i>					Calc of 941 deposit if grossing up		
27						1,345.05	Soc Soc (x2)	
28	<i>OR if employee is over the Medicare limit of \$200,000 for the extra .3% (1.45% x .3% = 2.35%)</i>					314.58	Medicare (x2)	
29	<i>if so, the .3% is employee withholding only (no employer match)</i>					1,659.62	941 deposit	

Group Term Life Insurance

- Non-taxable for the first \$50,000 of coverage if:
 - Provides a general death benefit that is not includable in income
 - Provided to a group of employees of more than 10 (even if not all employees choose the benefit); see Pub. 15-B for exceptions
 - Provides an amount of insurance to each employee based on a formula that prevents individual selection
 - Provided under a policy that the employer either directly or indirectly carries.
- Amount over \$50,000 (reduced by any employee after-tax payroll deductions) is taxable income
 - Taxable for Social Security and Medicare
 - Taxable for Federal Withholding but employer does not have to withhold
 - Non-taxable for FUTA & SUTA

Group Term Life Insurance

- W-2, Box 12 with the Code C
- Nondiscrimination testing required
- Prorate the cost if less than a full month of coverage
- 2% S-Corp shareholders – all included in wages

- Non-taxable to employee when:
 - The beneficiary of the policy is the company for the entire calendar year
 - The beneficiary of the policy is a charitable organization for the entire calendar year
 - The employee terminates during the year due to a permanent disability



Group Term Life Insurance

- Calculating Excess GTL
 1. Determine excess over \$50,000 (to the nearest \$100)
 2. Divide excess by \$1,000
 3. Determine employees' age as of 12/31
 4. Multiply rate found in IRS Publication 15-B (next slide) by amount in Step 3
 5. Deduct any after-tax employee contributions



Group Term Life Table

- Cost per \$1,000 of protection per 1 month

<u>Age</u>	<u>Cost</u>
Under 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 older	2.06



Group Term Life Calculation

	A	B	C	D	E	F
1	Employee	GT Life Insurance	Age at 12/31/19	Employee Pays per Yr		
2	Tom	200,000	45	100		
3						
4	Step 1:	Step 2:	Step 3:			
5	200,000	150,000	0.15	cost from chart		
6	(50,000)	÷ 1,000	x 150	from step 2		
7	150,000	150	22.5			
8			x 12	# of months covered		
9			270	yearly cost of coverage		
10			(100)	employee paid portion		
11			170	include in Tom's wages		
12						



Spouse-Dependent GTL Ins.

- Non-taxable if under \$2,000
 - May be taxable (including the first \$2,000) if over \$2,000
 - In some cases, an amount greater than \$2,000 could be considered a de minimus benefit (if the cost of insurance over the amount the employee paid for it on an after tax basis is so small that accounting for it is unreasonable or administratively impracticable)
- Calculated based on the age of the dependent(s)

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GTL - Former Employees

- When GTL over \$50,000 is provided to an employee (including retirees) after his/her termination, the employee share of FICA on that period of coverage is paid by the former employee with his/her personal tax return and isn't collected by the employer.
- The employer must pay the employers share of FICA
- Uncollected amounts go on W-2, box 12, codes M and N

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Gross Up For Payroll Purposes

- Below Social Security Limit
 - Current Social Security rate is 6.2% and Medicare rate is 1.45%; total FICA rate is 7.65%; Subtract the total rate from 100 = 92.35%
 - Divide the desired net pay by 92.35%
- Over Social Security Limit
 - Subtract 1.45% Medicare rate from 100. Medicare is the only tax withheld on a FICA only check where employee is over Social Security limit

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Adding Fringe Benefits to Pay

- If fringe benefits are entered with a regular payroll, taxes are calculated so it may not be necessary to gross up
 - Federal and State income tax withholding is not required
- If fringe benefits are entered after the final payroll of the year, it will need to be grossed up for Social Security and Medicare
 - Amount of fringe benefit divided by 92.35% (unless employee is over the SS limit)
- Verify fringe benefits are added to Box 1, 3, 5, and 16 on W-2 and listed in Box 14 – if not, give employee separate sheet to accompany the W-2

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Moving Expenses

- Effective in 1/1/18 (and before 12/31/25), moving expenses are no longer a tax free perk from employers and as an above-the-line deduction.
- Members of armed forces on active duty who moves because of a permanent change of station are excluded <https://www.irs.gov/forms-pubs/about-publication-3>

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Third Party Sick Pay


- Fully taxable if employer paid or employee paid for policy with pre-tax dollars
 - Nontaxable if employee paid for policy with after-tax dollars
 - Partially taxable if cost was split, need to prorate
- If insurer is not preparing a W-2, benefits must be added to wages
 - Record a manual check
 - Reported in Boxes 1,3,5 & 16 on W-2 and check Box 13 – Third-Party Sick Pay
 - Check the Third-Party Sick Pay box on the W-3
 - Insurer may need to complete Form 8922, Third-Party Sick Pay Recap

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THIRD-PARTY SICK PAY – NOT AS AN AGENT AND LIABILITY TRANSFERRED TO EMPLOYER		
	Employer Responsibilities	Third-Party Responsibilities
Withhold Employee Taxes Income Social Security Medicare	No No No	Yes if W-4S is filed Yes Yes
Deposit Employee Taxes Income Social Security Medicare	No No No	Yes—using Third-Party EIN Yes—using Third-Party EIN Yes—using Third-Party EIN
Deposit Employer Taxes Social Security Medicare FUTA	Yes—using Third-Party EIN Yes—using Third-Party EIN Yes—using Third-Party EIN	No No No
Report Employee Wage and Taxes on Form 941 Income Social Security Medicare	Report Taxable Wages *Report Taxable Wages *Report Taxable Wages <small>*Adjustment on Line 8 for employee taxes deposited by third party.</small>	Report Taxable Withheld *Report Taxable Wages *Report Taxable Wages <small>*Adjustment on Line 8 for employer taxes deposited by employer.</small>
Report Employee Wage and Taxes on Form W-2* Income Social Security Medicare	Yes Yes Yes	No—File Form 8922 No—File Form 8922 No—File Form 8922


*See the instructions earlier if operating under the Optional rule for Form W-2.





Education Assistance

- Taxable unless provided under an EAP (Educational Assistance Program which is a separate written plan of an employer for the exclusive benefit of its employees)
 - Has a reasonable relationship to your business, or
 - Is required as part of a degree program
- Any amount over \$5,250 per year without an EAP is considered taxable income UNLESS the benefit is a working condition fringe, job-related (see Pub. 15 for details)



Education Assistance



- CARES act has expanded the definition of “educational assistance” to include direct employer payments towards student loans for Non-Job-Related education
 - Payment by employer of expenses incurred by or on behalf of an employee for education of the employee

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Business Travel Expenses

- Only non-taxable if under an **accountable plan**
- An accountable plan must meet these requirements:
 - The expense must be business related
 - Substantiation - proof of amount, time and place within a reasonable period of time (or per diem arrangement)
 - The employee must return any advances that exceed the employee’s substantiated expenses.

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Business Travel Expenses

- Per-Diem allowance for traveling each day is non-taxable
 - Allowance amount is deemed substantiated as long as it does not exceed IRS-established federal per-diem rates – if exceeds these rates, overage is taxable
- Federal per-diem rate is a combination of the federal lodging expense rate and the meal and incidental expense rate (M&IE) for the locality of travel in the continental US (CONUS)
- Go to <https://www.gsa.gov/travel/plan-book/per-diem-rates> for more information

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Business Travel Expenses

- Mileage reimbursement is non-taxable up to the federal business standard mileage as long as it is substantiated
- Mileage rate for 2020 is \$0.575 per mile (*2021 rate is not yet available*)
- Any reimbursement over the federal rate is taxable income; an employer is allowed to pay under the federal rate

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Loans to Employees

- If loan made at interest rate below the applicable federal rate (AFR), the difference is taxable on any day that the outstanding loans are more than \$10,000
 - Taxable amount is subject to SS, Med, FUTA, SUTA and also included in box 1 of Form W-2
 - The AFR can be found at: <https://apps.irs.gov/app/picklist/list/federalRates.html>
- If loan is forgiven or cannot be repaid, then the remaining loan balance is taxable income to employee in the year forgiven

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Prizes and Awards

- Awards and prizes are generally included as income with certain exceptions:
- Achievement awards
 - Length of service award
 - Safety achievement award
- Limit of \$400 for awards that are nonqualified plan awards (written plan)
- Limit of \$1,600 for all awards in a calendar year, whether or not qualified



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Prizes and Awards

- Achievement Awards
 - Given to an employee for length of service or safety achievement
 - Award is tangible personal property (not cash or cash equivalent, stocks, vacations, meals, lodging, or tickets)
 - Award is given in a meaningful presentation
 - Award is not disguised as compensation
- Length of service award is excluded from income if:
 - The employee receives the award *after* five or more years of service employment
 - The employee didn't receive another length-of-service during the same year or in any of the prior 4 years

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Back Pay and Legal Awards

- Back-pay awarded to a taxpayer constitutes wages and is reportable on Form W-2 in the year paid
- Awards for punitive damages, nonphysical injury or sickness, discrimination or defamation is considered income but are reported in Box 3 of Form 1099-MISC (see instructions for 1099-Misc for more information)

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Jury Duty Pay

- Any pay by employer above and beyond payment from the courts is taxable
- If employer requires employee to turn over jury pay, only the difference between amount paid and turned over is taxable

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Tips

- Taxable income (does not include allocated tips which are reported in box 8 of W-2)
- Earnings of \$20 a month in tips must be reported by employee to employer by the 10th of the next month (or more often if employer requires)
 - Reported on Form 4070 or similar statement
- Service charges are not tips but are wages; these charges are added to a customer's check without the customer having a right to determine the "tip line". Some examples are:

– Large dining party automatic gratuity	– Cruise ship pkg fee
– Banquet event fee	– Hotel room svc chg
– Bottle service chg	

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Wages Paid After Death

- Employee dies before cashing check
 - Employer should reissue check to employee's personal representative
 - Wages and withholdings are reported on deceased W-2
 - *Check state law before reissuing check*
- Wages paid in same year as death
 - Wages are only subject to FICA, FUTA and SUTA and should be reported on deceased W-2, boxes 3 through 6
 - Issue 1099-MISC, box 3, for taxable income in the name of beneficiary. The federal taxable income is not reported on Form W-2, Box 1
- Wages paid after year of death
 - Exempt from payroll taxes. Form W-2 is NOT completed. The entire payment should be reported on 1099-MISC, box 3, in the name of beneficiary

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WI Wages Paid After Death

- Wisconsin Chapter 109.03
- **3) PAYMENT UPON DEATH OF EMPLOYEE.**
- **(a)** In case of the death of an employee to whom wages are due, the full amount of the wages due shall upon demand be paid by the employer to the spouse, domestic partner under ch. [770](#), children, or other dependent living with the employee at the time of death.
- **(b)** An employer may, not less than 5 days after the death of an employee and before the filing of a petition or application for administration of the decedent's estate, make payments of the wage due the deceased employee to the spouse, domestic partner under ch. [770](#), children, parents, or siblings of the decedent, giving preference in the order listed.
- **(c)** If none of the persons listed in par. **(b)** survives, the employer may apply the payment of the wage or so much of the wage as may be necessary to paying creditors of the decedent in the order of preference prescribed in s. [859.25](#) for satisfaction of debts by personal representatives.
- **(d)** The making of payment in the manner described in this subsection shall discharge and release the employer to the amount of the payment

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MN Wages Paid after Death

- Payments made following the date of death are reported on Form 1099-Misc to deceased employees' survivors or estates
- Payments prior to the date of death are reported on Form W-2

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W-2's

- **February 1, 2021**- due date for filing 2020 Forms W-2 and W-3 with the SSA (via paper forms or electronically)
- You may request one 30-day extension to file with SSA by submitting Form 8809 by 2/1/21
- MN and WI must file electronically if filing over 10 forms



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Year End Reconciliation

Payroll Reconciliation 2020								
Line #	Column #	Form 941	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	W-3 Amount
2		Wages, Tips, Other Comp	685,133.27	561,170.79	628,530.45	160,135.23	2,034,969.74	Box 1
3		Federal Income Tax w/h	71,846.00	63,459.00	69,191.00	13,003.00	217,499.00	Box 2
5a	1	Taxable SS Wages	737,441.23	603,168.40	601,202.67	155,826.19	2,097,638.49	Box 3
5a	2	Taxable SS Wages (tax)	91,442.71	74,792.88	74,549.13	19,706.54	260,491.26	
5a(i)	1	Qualified Sick Leave Wages		1,420.00	4,628.10	6,037.53	12,085.63	Box 14
5a(i)	2	Qualified Sick Leave Wages (tax)		88.04	286.94	374.33	749.91	Box 14
5a(ii)	1	Qual Family Leave Wages					-	Box 14
5a(ii)	2	Qual Family Leave Wages (tax)					-	Box 14
5b	1	Taxable SS Tips					-	Box 7
5b	2	Taxable SS Tips (tax)					-	
5c	1	Taxable Med Wages & Tips	737,441.23	604,588.40	674,503.65	172,103.72	2,188,637.00	Box 5
Box 6 (1/2)	5c	2 Taxable Med Wages & Tips (tax)		21,385.80	17,533.06	19,560.61	4,991.01	63,470.48
	5d	1 Subject to Add'l Medicare w/h					-	-
Box 6	5d	2 Subject to Add'l Medicare w/h (tax)					-	-
• Med Wages		401K/IRA (+ Fed Wages)		52,307.96	43,417.61	45,973.20	11,968.49	2,188,637.00
							153,667.26	
• Med Wages		S-Corp Health Group Term Life		-	-	-	-	-
• Med Wages		UC-101 Total Covered Wages (Line 9)	737,441.23	604,588.40	674,503.65	172,103.72	2,188,637.00	
Box 17		940 Payments					-	-
		WI Payments		33,851.35	28,459.05	32,191.45	7,633.02	102,134.87
Box #		W-3 Reconciliation		W-3 amount		Difference		
1		Wages, tips, other compensation		2,034,969.74		-		
2		Federal income tax withheld		217,499.00		-		
3		Social security wages		2,109,724.12		-		
4		Social security tax withheld		130,802.90		-		
5		Medicare wages and tips		2,188,637.00		-		
6		Medicare tax withheld		31,735.21		(0.03)		
7		Social security tips		-		-		
16		State wages, tips, etc.		2,034,969.74		-		
17		State income tax		102,134.87		-		



Check List Prior To Processing First Payroll In 2021

- Enter the 2021 State Unemployment rate
- Review and enter any changes for the following:
 - Health Insurance Premiums
 - Health Savings Account(s)
 - Pension Plan Contributions
- If there are employees who claim exempt from withholding taxes, make sure a new W-4, WT-4 (WI), W-4MN (MN) is completed
- Verify if there are any new benefits being offered that should be added
- Verify the first payroll calculates correctly by manually calculating payroll taxes



Exempt vs. Nonexempt Employees

- Type of employee status under Fair Labor Standards Act (FLSA)
- Exempt employees
 - Do not have to be paid minimum wage or overtime
 - Employer does not have to keep detailed records of their work
 - Bona fide executive, administrative, and professional employees (broadened to include computer-related professionals), as well as outside sales employees are exempt 'white collar' employees under FLSA
- Nonexempt employees
 - Paid at least minimum wage for all hours worked
 - Overtime premium for any hours over 40 in a week
- <https://www.dol.gov/newsroom/releases/whd/whd20190924>

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Employee vs. Independent Contractor

Employee

- Employer controls
 - When you work
 - How you do it
- Employer supplies
 - Tools
 - Know how
- Benefits
 - Vacation
 - Personal Time Off
 - Health Insurance
 - Retirement Plan

Independent Contractor

- Individual has written contract that states
 - Length of project
 - What happens in the event project is not completed satisfactorily
 - No reimbursements for gas or supplies
 - Pays in his/her own FICA SS and Medicare

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IRS Common Law Rules

- **Behavioral:** Does the company control or have the right to control what the worker does and how the worker does his or her job?
- **Financial:** Are the business aspects of the worker's job controlled by the payer? (these include things like how worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
- **Type of Relationship:** Are there written contracts or employee type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

There is no "magic" or set number of factors that "makes" the worker an employee or an independent contractor. The keys are to look at the entire relationship. If still unclear, file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding with the IRS. It can take at least 6 months to get a determination.

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Relief Provisions

If you have a reasonable basis for not treating a worker as an employee, you may be relieved from having to pay employment taxes for that worker. To get this relief, you must file all required federal information returns on a basis consistent with your treatment of the worker. You (or your predecessor) must not have treated any worker holding a substantially similar position as an employee for any periods beginning after 1977.

Department of the Treasury

IRS

Do you
Qualify
for Relief
under
Section
530?

Section 530 provides businesses with relief from federal employment tax obligations if certain requirements are met.

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Independent Contractor

- Have contractor complete a Form W-9
- Request a copy of certificate of insurance for workers' compensation and general liability
- If you pay an independent contractor over \$600 in a calendar year, you must issue a 1099-MISC (failure to do so will result in penalties)
 - The penalties are calculated based on when you file the information return. It ranges from \$50 per return to \$550 per return.
- *If the independent contractor fails to furnish their taxpayer ID, you must withhold 24% as backup withholding*



Form W-9

<https://www.irs.gov/pub/irs-pdf/fw9.pdf>

Form #Rev. December 2014 Department of the Treasury Internal Revenue Service	<h3 style="margin: 0;">W-9</h3> <h4 style="margin: 0;">Request for Taxpayer Identification Number and Certification</h4>	Give Form to the requester. Do not send to the IRS.
1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.		
2 Business name/disregarded entity name, if different from above		
3 Check appropriate box for federal tax classification; check only one of the following seven boxes: <input type="checkbox"/> Individual/sole proprietor or single-member LLC <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=S corporation, S=S corporation, P=partnership) ▶ <small>Note. For a single-member LLC that is disregarded, do not check LLC; check the appropriate box in the line above for the tax classification of the single-member owner.</small> <input type="checkbox"/> Other (see instructions) ▶		
4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____ <small>(Applies to accounts maintained outside the U.S.)</small>		
5 Address (number, street, and apt. or suite no.)		Requester's name and address (optional)
6 City, state, and ZIP code		
7 List account number(s) here (optional)		
Part I Taxpayer Identification Number (TIN) Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see <i>How to get a TIN</i> on page 3. <small>Note. If the account is in more than one name, see the instructions for line 1 and the chart on page 4 for guidelines on whose number to enter.</small>		
		Social security number [] [] [] - [] [] [] - [] [] [] or Employer identification number [] [] [] [] - [] [] [] []



Wisconsin Independent Contractors Nine Part Test

The state of Wisconsin uses a strict nine-point test to determine whether a person is considered an independent contractor rather than an employee for purposes of workers' compensation. A person must meet and maintain all nine of the following requirements to be exempt from such coverage as an independent contractor (*WI Gen. Stat. Sec. 102.07*):

1. Maintain a separate business
2. Maintain a Federal ID# OR have filed business or self-employment income tax returns with the IRS based on the work or service in the previous year. **A Social Security # cannot be substituted for an FEIN** and does not meet the legal burden of Section 102.07(8), Wis. Stats.
3. Operate under specific contracts
4. Be responsible for operating expenses under the contracts

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5. Be responsible for satisfactory performance of the work under the contracts
6. Be paid per contract, per job, by commission or by competitive bid
7. Be subject to profit or loss in performing the work under the contracts
8. Have recurring business liabilities and obligations
9. Be in a position to succeed or fail if business expense exceeds income

https://dwd.wisconsin.gov/worker_classification/wc/ninepart/

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Minnesota Independent Contractor Tests

- Five-factor test concerning employee, independent contractor characterizations:
 1. The right to control the means and manner of performance
 2. The mode of payment
 3. The furnishing of tools and materials
 4. Control over the premises where the work was done
 5. The right of discharge
- Independent contractor in construction
 - must meet a nine-factor independent contractor test
- Independent contractor in the trucking and messenger/courier industries
 - must meet a seven-factor test

<https://www.dli.mn.gov/business/workers-compensation/work-comp-independent-contractor-or-employee>

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Form 1099-MISC

- Report payments made in the course of your business or trade; personal payments are not reportable.
- At least \$600 in:
 - rents;
 - services performed by someone who is not your employee;
 - prizes and awards;
 - other income payments;
 - medical and health care payments;
 - crop insurance proceeds;
 - cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish;
 - generally, the cash paid from a notional principal contract to an individual, partnership, or estate;
 - payments to an attorney; or
 - any fishing boat proceeds

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Form 1099-MISC

- Forms 1099-B, 1099-S and 1099-Misc with amounts in box 8 or 10 only, are due by 2/1/21
- Forms 1099-NEC are due by 2/1/21
- Most other payments, 1099 series forms are due to the IRS by 3/1/21 for paper forms, 3/31/21 for electronic forms
- An automatic 30-day extension may be requested by using Form 8809, EXCEPT for Form 1099-NEC.



Form 1099-NEC

7171 VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116		2021 Form 1099-NEC	Nonemployee Compensation
PAYER'S TIN		RECIPIENT'S TIN			
RECIPIENT'S name		1 Nonemployee compensation		Copy A For Internal Revenue Service Center File with Form 1096. <small>For Privacy Act and Paperwork Reduction Act Notice, see the 2021 General Instructions for Certain Information Returns.</small>	
Street address (including apt. no.)		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>			
City or town, state or province, country, and ZIP or foreign postal code		3			
Account number (see instructions)		4 Federal income tax withheld			
2nd TIN not <input type="checkbox"/>		5 State tax withheld		6 State/Payer's state no.	
		7 State income			

Form 1099-NEC Cat. No. 72590N www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page



When to use 1099-NEC

- You made the payment to someone who is not your employee of at least \$600 (including parts and materials)
- Payments to an attorney (fees)
- Cash payments for fish you purchase from someone engaged in the trade or business of catching fish

<https://www.irs.gov/pub/irs-pdf/i1099msc.pdf>

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Payments to Corporations

- Generally, payments to corporations are *not* reportable. There are other exceptions, see page 2 of <https://www.irs.gov/pub/irs-pdf/i1099msc.pdf>
 - Payments to attorneys for settlement agreements (box 10)
 - Legal fees for services - Form 1099-NEC
 - Medical and health care services (box 6)
 - Substitute payments in lieu of dividends or tax-exempt interest (box 8)

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Affordable Care Act

ACA Employer Mandate

- Applies to All Applicable Large Employers (ALEs)
 - ALE's are US employers having 50 or more full-time employees (or equivalents) in the previous tax year
 - Companies that are affiliates or are commonly controlled are treated as one employer for the purpose of determining ALE status
 - These companies must combine their numbers for the full-time employee total

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Reporting Requirements for Organizations

- **Form 1095-A** is issued by exchange <https://www.irs.gov/pub/irs-pdf/i1095a.pdf>
 - Due to IRS and employee by 2/1/21
- **Form 1095-B** is issued by insurance company and small (less than 50 FTE) employers that are self insured <https://www.irs.gov/pub/irs-pdf/i109495b.pdf>
 - Due to individuals by 3/2/21
 - New code G, line 8 to identify an individual coverage HRA
- **Form 1095-C** is issued by employer to the employee of an ALE who is full-time for one or more months of the calendar <https://www.irs.gov/pub/irs-pdf/i109495c.pdf>
 - 13
- Why are these forms required?
 - All large employers (over 50 FTE's) are required to offer affordable health insurance to their employees. These forms help regulate this requirement.
- Employers who fail to comply, fail to comply on time, or fail to properly document their compliance, will face stiff financial penalties. These penalties have gone up as of 2019. The IRS has clearly indicated that it won't waive ACA employer mandate penalties.

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Large vs Small Employer

- **Large Employer** > 50 Full-Time Equivalent Employees
- **Small Employer** < 50 Full-Time Equivalent Employees
 - Not required to provide health insurance

How to Determine FTE:

1. Calculate your Full-Time Employees (average 30 hrs/week or 130 hours per month)
2. Calculate your (part-time and seasonal) FTEs (add up total hours and divide by 120)
3. Add the two numbers in steps 1 & 2
4. Add up the 12 monthly numbers in 3 and divide by 12
 - If less than 50, not applicable large employer
 - If more than 50, greater than 120 days?



Timeframe

- **Employee** mandate is gone – no tax penalty for being uninsured
- **Employer** mandate is still being enforced
- If you need assistance filing 1095's, we are here to help!
 - <https://hawkinsashcpas.com/services/1095-landing-page/>



Recordkeeping

- Always keep all documentation for your records for 7 years in the event of an audit
- <https://hawkinsashcpas.com/tax-document-retention-guidelines-for-small-businesses/>



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Locations & Phone Numbers

For assistance on year-end questions, ask for an accounting services associate in the location nearest you

WISCONSIN

- La Crosse 608.784.7737
- Green Bay 920.336.9850
- Manitowoc 920.684.7128
- Marshfield 715.387.1331
- Medford 715.748.2856
- Mequon 262.243.9610

MINNESOTA

- Rochester 507.424.1233
- St. Charles 507.932.3010
- Winona 507.452.8313