



Payroll Benefits and Year End Reminders for 2019 and Changes for 2020

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Topics

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



2019-2020 Changes

- Returned W-2's – the SSA will be returning W-2s to filers without processing the reports if the report contain the following errors:
 - 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

- EFTPS passwords – IRS has implemented a new policy requiring companies to update their EFTPS password every 13 months
- Overtime Rule – effective 1/1/20. the US Department of Labor announced the final rule regarding exempt and nonexempt employees and overtime pay.

- 2020 Form W-4
 - Is required for any new employee who starts work after 1/1/20
 - The key update is that the form uses money amounts instead of withholding allowances.
 - If an employee wants to claim “exempt” they need to ***write it in*** under box 4c
 - The IRS is urging taxpayers to use the IRS Tax Withholding Estimator to assist in completing the new form
 - <https://apps.irs.gov/app/tax-withholding-estimator>

Key Tax Fact Sheet

	2020	2019
FICA		
Social Security Rate EE	6.20%	6.20%
Social Security Rate ER	6.20%	6.20%
Social Security Wage Limit	\$ 137,700.00	\$ 132,900.00
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	\$ xx.xx	\$ 34,000.00Gross Wages
WI Unemployment Wage Limit	\$ 14,000.00	\$ 14,000.00Gross minus Cafeteria
Minimum Wage		
Federal Minimum Wage - 7/24/09	\$ 7.25	\$ 7.25
MN - Large Employer	\$ 10.00	\$ 9.86
MN - Small Employer	\$ 8.15	\$ 8.04
MN - Minneapolis and St. Paul	Based on employer size; St. Paul effective date based on size	
MN - Minneapolis	Sick and Safe Time and Anti Theft law effective 1/1/2020	
MN - Duluth	Sick and Safe Time effective 1/1/2020	
WI Minimum Wage	\$ 7.25	\$ 7.25

Key Tax Fact Sheet

	2020	2019
Retirement Plans		
401(k), 403(b) and 457(b) Plan Limits	\$ 19,500.00pre-tax	\$ 19,000.00
Over age 50 Catch up	\$ 6,500.00pre-tax	\$ 6,000.00
Simple Contribution Plan Limit	\$ 13,500.00	\$ 13,000.00
Over age 50 Catch up	\$ 3,000.00	\$ 3,000.00
IRA Contributions (Roth & Traditional)	\$ 6,000.00subject to AGI	\$ 6,000.00subject to AGI
Over age 50 Catch up	\$ 1,000.00subject to AGI	\$ 1,000.00subject to AGI
Tax-Favored Plans		
HSA - Single	\$ 3,550.00	\$ 3,500.00
HSA - Family	\$ 7,100.00	\$ 7,000.00
HSA - Catch up 55+	\$ 1,000.00	\$ 1,000.00
Flex Spending	\$ 2,750.00	\$ 2,700.00
Dependent Care	\$ 5,000.00	\$ 5,000.00
IRS Mileage Rates		
General	\$ xx.xxper mile	\$ 0.58per mile
Medical/Moving	\$ xx.xxper mile	\$ 0.20per mile
Charitable	\$ xx.xxper mile	\$ 0.14per 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

Taxable Wages – 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		Suff.		11 Nonqualified plans	
				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/> 14 Other		12a See instructions for box 12	
						12b	
						12c	
						12d	
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.

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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

-4800 Section 125 Health Insurance Premiums

-5000 Dependent Care

240,200 Net Taxable Wages for Medicare

-7500 401K

232,700 amount of Federal (and State) Taxable Wages

Taxable Wages – Social Security

- 6.2% is withheld on the first \$132,900 of wages for Social Security in 2019
- 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

- 5,000 Dependent Care

240,200

132,900 in Box 3 of Form W-2 (maximum for 2019)

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

-4800 Section 125 Health Insurance Premiums

-5000 Dependent Care

240,200 Net Taxable Wages for Medicare

\$200,000 is taxed at 1.45%

\$40,200 is taxed at 2.35% (1.45+.9)

Form W-2, Box 12 Codes

A	Uncollected social security or RRTA tax on tips	L	Substantiated employee business expense reimbursements	Y	Deferrals under a section 409A nonqualified deferred compensation plan
B	Uncollected Medicare tax on tips (but not Additional Medicare Tax)	M	Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only)	Z	Income under a nonqualified deferred compensation plan that fails to satisfy section 409A
C	Taxable cost of group-term life insurance over \$50,000	N	Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (but not Additional Medicare Tax) (former employees only)	AA	Designated Roth contributions under a section 401(k) plan
D	Elective deferrals under a section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement)	P	Excludable moving expense reimbursements paid directly to members of the Armed Forces	BB	Designated Roth contributions under a section 403(b) plan
E	Elective deferrals under a section 403(b) salary reduction agreement	Q	Nontaxable combat pay	DD	Cost of employer-sponsored health coverage
F	Elective deferrals under a section 408(k)(6) salary reduction SEP	R	Employer contributions to an Archer MSA	EE	Designated Roth contributions under a governmental section 457(b) plan
G	Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan	S	Employee salary reduction contributions under a section 408(p) SIMPLE plan	FF	Permitted benefits under a qualified small employer health reimbursement arrangement
H	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan	T	Adoption benefits	GG	Income from qualified equity grants under section 83(i)
J	Nontaxable sick pay	V	Income from exercise of nonstatutory stock option(s)	HH	Aggregate deferrals under section 83(i) elections as of the close of the calendar year
K	20% excise tax on excess golden parachute payments	W	Employer contributions (including employee contributions through a cafeteria plan) to an employee's health savings account (HSA)		

Supplemental Wages – 2020

- 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.

Federal Withholding on Supplemental Wages – 2020

- 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%

WI and MN Withholding on Supplemental Wages - 2020

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 separately (or combine them in a single payment and specify the amount of each)
 - 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

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
- 401k Roth Contributions are after-tax contributions – listed in Box 12 with Code AA
- 401k max deduction is \$19,000 for 2019; \$19,500 for 2020 (add'l \$6,000 catch up for individuals 50 and over for 2019, \$6,500 catch up for 2020)

401(k) Deductions

- If 401k withheld was more than max allowed amount, a refund may be issued if done prior to year-end
- Note – 401k and Roth 401k combined total may not go over the max allowed



Form W-2 Box 13 Retirement Plan Checkbox Decision Chart

Type of Plan	Conditions	Check Retirement Plan Box?
Defined benefit plan (for example, a traditional pension plan)	Employee qualifies for employer funding into the plan, due to age/years of service—even though the employee may not be vested or ever collect benefits	Yes
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee is eligible to contribute but does not elect to contribute any money in this tax year	No
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee is eligible to contribute and elects to contribute money in this tax year	Yes
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee is eligible to contribute but does not elect to contribute any money in this tax year, but the employer does contribute funds	Yes
Defined contribution plan (for example, a 401(k) or 403(b) plan, a Roth 401(k) or 403(b) account, but not a 457 plan)	Employee contributed in past years but not during the current tax year under report	No (even if the account value grows due to gains in the investments)
Profit-sharing plan	Plan includes a grace period after the close of the plan year when profit sharing can be added to the participant's account	Yes, unless the employer contribution is purely discretionary and no contribution is made by end of plan year

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 count towards the limit
 - Amount cannot exceed \$5,000 per year (\$2,500 for married filing separate)
- Expenses are for *when incurred* not *when paid*

Dependent Care

- Care must be necessary (under age 13)
- Cannot discriminate
- Eligible employees must be made aware of plan
- Employer must give employee an annual statement (Box 10 on W-2 is sufficient)
- On site day care valued at arm's length



Flexible Spending Accounts

- 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 – *cannot do both*
 - Carryover option
 - Employee *may* be able to carry over up to \$500 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

Health Ins Premiums on 2% 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

Employer Provided Vehicles

- 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

Valuation Methods

- See Publication 15-B
 - <http://www.irs.gov/pub/irs-pdf/p15b.pdf>
- General Valuation Method
 - Cost of employee to lease vehicle in arm's length transaction in same area
- Special Valuation Method
 - Cents-Per-Mile valuation
 - Annual lease valuation
 - Commuting valuation

Commuting Rule

- Employer can value PUA (personal use auto) at \$1.50 for each one-way commute. If more than one employee commutes in the vehicle, this value applies to each employee. Must be included in wages or reimbursed by employee
 - Employer owned vehicle is provided to employee for company business
 - Employer requires employee to commute in the vehicle for bona fide non-compensatory business reasons
 - Employer must have written policy prohibiting employee from personal use
 - Employee doesn't use vehicle for personal purposes
 - Employee is not a control employee (director, elected officer with wages of \$110,000 or more, an employee with wages of \$220,000 or more)

Cents-Per-Mile Method

FMV for personal use is determined by using standard mileage rate of \$0.58 per mile in 2019, 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.

2020 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.

Cents-Per-Mile continued

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
3. FMV of vehicle on the first day of use in 2019 cannot exceed \$50,400 (2018 cannot exceed \$50,000)
4. If you did not adopt the vehicle cents-per-mile valuation rule in a prior year because the vehicle had a FMV in excess of the maximum permitted at that time, you may adopt this method in 2019 based on the higher FMV
 - Once the employer adopts the Cents-Per-Mile rule, they must continue to use the rule for all subsequent years. Although in subsequent years, if the vehicle qualifies for the commuting rule, you may use that rule.

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.
 - Use the IRS Annual Lease Value Table
 - Calculate percentage of personal miles driven.
 - Multiply the annual lease value by the % of personal miles
 - $\text{Personal miles} / \text{total miles} = \% \text{ of personal miles driven}$
 - If you provide the fuel, you must add \$.055 per mile

IRS Annual Lease Value Table

IRS ANNUAL LEASE VALUE TABLE

Automobile Fair

<u>Market Value</u>	<u>Annual Lease Value</u>
\$ 0 – 999	\$ 600
1,000 – 1,999	850
2,000 – 2,999	1,100
3,000 – 3,999	1,350
4,000 – 4,999	1,600
5,000 – 5,999	1,850
6,000 – 6,999	2,100
7,000 – 7,999	2,350
8,000 – 8,999	2,600
9,000 – 9,999	2,850
10,000 – 10,999	3,100
11,000 – 11,999	3,350
12,000 – 12,999	3,600
13,000 – 13,999	3,850
14,000 – 14,999	4,100
15,000 – 15,999	4,350
16,000 – 16,999	4,600
17,000 – 17,999	4,850
18,000 – 18,999	5,100
19,000 – 19,999	5,350
20,000 – 20,999	5,600
21,000 – 21,999	5,850

Automobile Fair

<u>Market Value</u>	<u>Annual Lease Value</u>
22,000 – 22,999	\$ 6,100
23,000 – 23,999	6,350
24,000 – 24,999	6,600
25,000 – 25,999	6,850
26,000 – 26,999	7,250
28,000 – 29,999	7,750
30,000 – 31,999	8,520
32,000 – 33,999	8,750
34,000 – 35,999	9,250
36,000 – 37,999	9,750
38,000 – 39,999	10,250
40,000 – 41,999	10,750
42,000 – 43,999	11,250
44,000 – 45,999	11,750
46,000 – 47,999	12,250
48,000 – 49,999	12,750
50,000 – 51,999	13,250
52,000 – 53,999	13,750
54,000 – 55,999	14,250
56,000 – 57,999	14,750
58,000 – 59,999	15,250

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>

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	5/3/2014	8/27/2018	7/14/2017	12/6/2019			
4	Cost	\$ 15,000.00	\$ 49,650.00	\$ 24,600.00	\$ 93,220.00			
5	FMV	\$ 15,000.00	\$ 49,650.00	\$ 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			x 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	\$ 139.15	\$ 38.50			
18	Personal use subtotal	\$ 2,807.93	\$ 4,391.52	\$ 2,356.68	\$ 461.22	\$ 10,017.34		
19							**	\$ 10,017.34
20	Gross up for payroll (if needed):							÷ .9235
21	Gross Income (pers use/.9235)	\$ 3,040.53	\$ 4,755.30	\$ 2,551.90	\$ 499.42	\$ 10,847.15	**	\$ 10,847.15
22	Social security w/h (6.2%)	188.51	294.83	158.22	30.96	672.52		
23	Medicare w/h (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	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.					Calc of 941 deposit if grossing up		
27						1,345.05	Soc Soc (x2)	
28	OR if employee is over the Medicare limit of \$200,000 for the extra .9% (1.45%+.9% = 2.35%)					314.58	Medicare (x2)	
29	If so, the .9% is employee withholding only (no employer match).					1,659.62	941 deposit	

2020 Corvette



A few helpful tips:

- If you use the cents-per-mile or annual lease valuation method, you must use it for all subsequent years you provide a vehicle to an employee
- The same special valuation method doesn't have to be used for all company-provided vehicles or for all employees
- If you have one company-provided vehicle that is used by multiple employees, you must use the same valuation method for all employees using that vehicle

Group Term Life Insurance

- Non-taxable for the first \$50,000 of coverage
- Amount over \$50,000 is
 - Taxable for Social Security and Medicare
 - Taxable for Federal Withholding but employer does not have to withhold
 - Non-taxable for FUTA & SUTA
- Goes on W-2 in Box 12 with the Code C
- Nondiscrimination testing required
- Prorate the cost if less than a full month of coverage

Group Term Life Insurance

- Follows the 10 employee rule
 - Generally, life insurance is not group-term unless it is provided to at least 10 full-time employees some time during the year.
 - Exception: S-Corp shareholders. Two percent shareholder(s) are not considered employees. You must include the cost of all group-term life insurance coverage in his or her wages.

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)

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

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
- 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

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>

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

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



- Non-taxable assistance must be provided through 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 is considered taxable income UNLESS the benefit is a working condition fringe, job-related (see Pub. 15 for details)

Business Travel Expenses

- The Tax Cuts and Jobs Act suspends the allowance to claim un-reimbursed employee business expenses on individual tax returns (Form 2106)
- 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.

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

Business Travel Expenses

- Mileage reimbursement is non-taxable up to the federal business standard mileage as long as it is substantiated
- Mileage rate for 2019 is \$0.58 per mile (2020 rate is not yet available)
- Any reimbursement over the federal rate is taxable income

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

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



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

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 and emotional distress arising from employment discrimination or defamation is considered income but are reported in Box 3 of Form 1099-MISC (see instructions for 1099-Misc for more information)

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

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
 - Banquet event fee
 - Bottle service chg
 - Cruise ship pkg fee
 - Hotel room svc chg

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

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

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

W-2's

- **January 31, 2020** - due date for filing 2019 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 1/31/20
- MN and WI must file electronically if filing over 10 forms



Year End Reconciliation

Payroll Reconciliation 2018

Form 941	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	W-3 Amount
941-Line 2 Fed Wages	179,178.11	177,194.56	188,878.78	307,865.73	853,117.18	Box 1
941-Line 3 Fed w/h	21,763.76	22,926.00	23,624.68	56,836.49	125,150.93	Box 2
941-Line 5a SS Wages	198,151.60	193,525.71	206,276.76	218,502.21	816,456.28	Box 3
941-Line 5a SS w/h	24,570.80	23,997.19	25,578.32	27,094.27	50,620.29	Box 4
941-Line 5b SS Tips	-	-	-	-	-	Box 7
941-Line 5b SS Tips w/h	-	-	-	-	-	Box 4
941-Line 5c Med Wages	198,151.60	193,525.71	206,276.76	328,036.44	925,990.51	* Box 5
941-Line 5c Med w/h	5,746.40	5,612.25	5,982.03	9,513.06	13,426.87	Box 6
941-Line 5d Addl Med Wages	-	-	-	-	-	
941-Line 5d Addl Med w/h	-	-	-	-	-	Box 6
401K/IRA (+ Fed Wages)	25,159.39	21,633.35	23,583.88	25,474.45	948,968.25	* = Med Wages
				95,851.07		Box 12a
S-Corp Health	-	-	-	22,977.74	925,990.51	* = Med Wages
Group Term Life	-	-	-	-	-	
UC-101 Total Covered Wages (L	198,151.60	193,525.71	206,276.76	328,036.44	925,990.51	= Med Wages
940 Payments	467.76	1.80	7.37	9.16	486.09	
WI Payments	9,885.67	10,019.42	10,547.32	18,587.73	49,040.14	Box 17
W-3 Reconciliation	W-3 amount	Difference				
Box 1	853,117.18	-	Wages, tips, other compensation			
Box 2	125,150.93	-	Federal income tax withheld			
Box 3	816,456.28	-	Social security wages			
Box 4	50,620.31	0.02	Social security tax withheld			
Box 5	925,990.51	-	Medicare wages and tips			
Box 6	13,426.85	(0.02)	Medicare tax withheld			
Box 7	-	-	Social security tips			
Box 12a	95,851.07	-	Deferred compensation			
Box 16	853,117.18	-	State wages, tips, etc.			
Box 17	49,040.14	-	State income tax			

* will not equal if S-Corp health; then tie to S-Corp health line

Check List Prior To Processing First Payroll In 2020

- Enter the 2020 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

The Department of Labor has released new overtime regulations detailed in the Fair Labor Standards Act (FLSA). These new regulations may affect you and your business. Here is a summary of the changes that are effective January 1, 2020.

The new rule increases the salary threshold for white-collar exemptions from \$23,660 (\$455 per week or \$1,972 per month) to \$35,568 (\$684 per week or \$2,964 per month). The white-collar exemption is also known as the standard salary level or minimum salary to avoid paying overtime. The annual compensation level for highly compensated employees (HCE) increases from \$100,000 to \$107,432. All employees earning below \$35,568 will be eligible for overtime effective January 1, 2020, assuming these employees meet the duties test.

The duties test has not changed. Employees who perform executive, administrative and professional duties are exempt from overtime requirements. So are certain computer professionals. Doctors, lawyers, and teachers aren't subject to the salary tests as well. Please remember that job titles do not determine exempt status.

The new overtime rules allow employers to use nondiscretionary bonuses and incentive payments (including commissions) paid at least annually to satisfy up to 10% of the standard salary level, in recognition of evolving pay practices.

The implementation options that employers may choose from in order to comply with the new overtime rules are not dictated by the Department of Labor. Some options available to employers include the following:

- Increase salaries to at least \$35,568 annually.

- Pay overtime above the employee's set salary for weeks where hours worked exceed 40.

- Change employees to hourly rates and reduce or eliminate overtime hours by shifting work around or hiring more part-time workers.

- Adjust base pay and pay overtime.

Exemption for business owners

This exemption remains unchanged under the new overtime rules. Under a special rule for business owners, an employee who owns at least a bona fide 20 percent interest in the enterprise in which employed, regardless of the type of business organization (e.g. C-Corporation, S-Corporation, or other), and who is actively engaged in its management, is considered a bona fide exempt executive.

For more information and future updates regarding the new Overtime Rules please contact your Hawkins Ash accountant or visit the U.S. Department of Labor Wage and Hour Division website for more information:

https://www.dol.gov/whd/overtime_pay.htm

FLSA Overtime Rules

- FLSA requires overtime pay for hours physically worked over 40 in a work week, unless exempt
- Hours paid but during a week which no actual work is done is excluded in the calculation of number hours worked
 - Paid time off for vacation, holiday, illness, jury duty
- Example: Employee Chrissy worked 12 hours a day for 4 days in a work week and also paid 8 hours holiday pay (56 hrs total). Since she physically worked 48 hours, Chrissy is entitled to 8 hours of overtime pay. The holiday pay is paid at straight time

Employee With Multiple Pay Rates

- If employee has two or more different pay rates for two or more different jobs during a work week, both rates need to be considered when calculating overtime
- General rate formula is used for a 'weighted average/blended rate' calculation
 - Total regular pay from all jobs / total hours worked = regular rate of pay
- Example: George works as a copy editor for 8 hours a day Monday – Friday at \$12 an hour. During the same week, he works an extra 12 hours as a proofreader at \$9 an hour. His regular rate of pay for the work week is \$11.31 $[(40 \times \$12) + (12 \times \$9)] / 52 = 11.31$
 - Overtime rate for this week = \$16.97

Employees With Multiple Pay Rates

- Weighted Average/Blended Rate calculation can be bypassed by using the *highest rate paid to determine overtime rate*
 - Overtime rate in previous example would be \$18.00 (\$12 x 1.5)
- Method is considered lawful under FLSA since employee would receive higher amount than the law guarantees

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

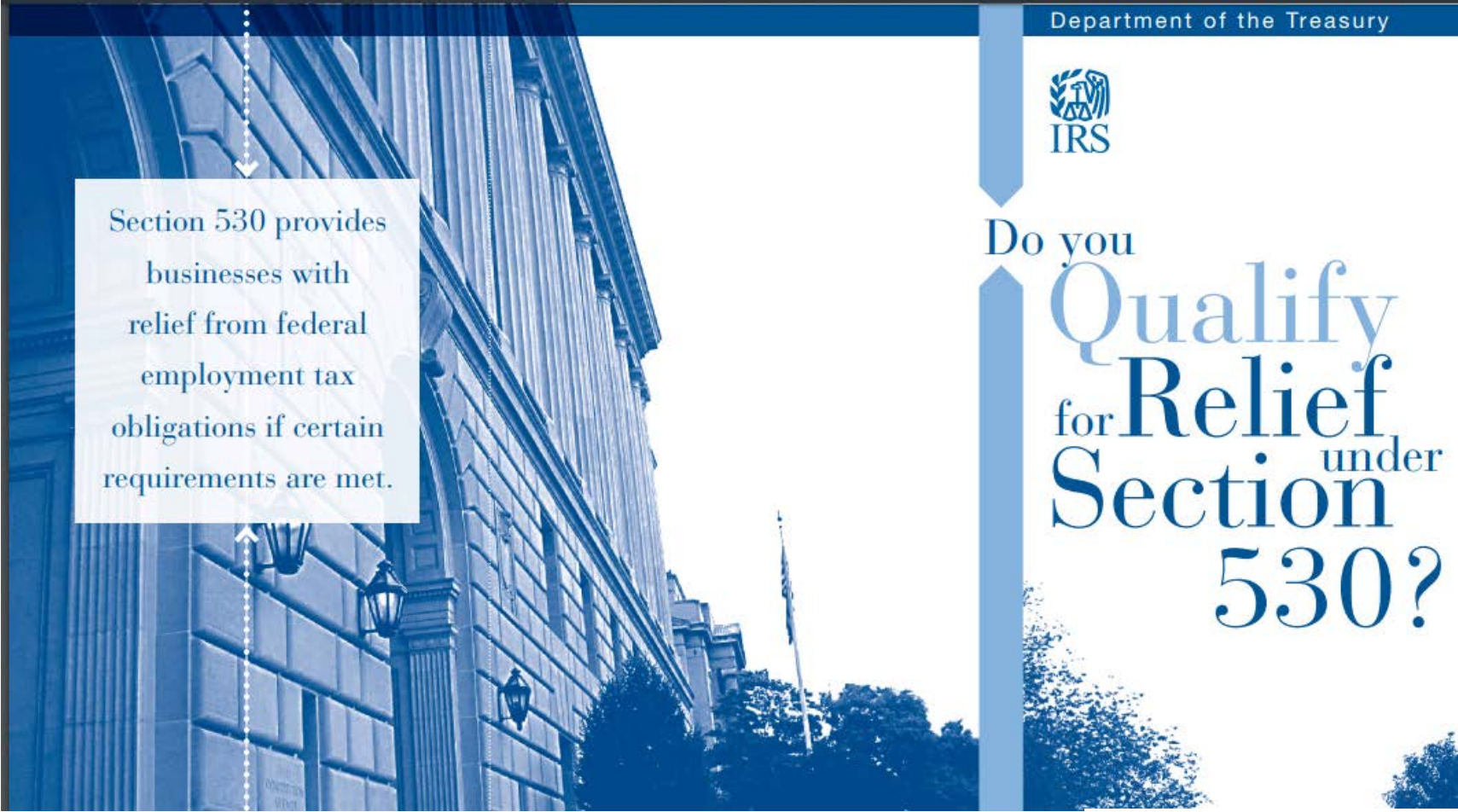
IRS Common Law Rules

- 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.

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.



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

Department of the Treasury



Do you
Qualify
for **Relief**
under
Section
530?

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Part of your business. Part of your life. **CPAs**

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 W-9 (Rev. December 2014) Department of the Treasury Internal Revenue Service	Request for Taxpayer Identification Number and Certification	Give Form to the requester. Do not send to the IRS.
Print or type See Specific Instructions on page 2.	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"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ 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. <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 *How to get a TIN* on page 3.

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.

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

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/

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>

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

Form 1099-MISC

- Form 1099-MISC – must be filed on or before January 31, 2020, when reporting nonemployee compensation (NEC) payments in **Box 7**
 - *No extensions for filing these 1099-Misc reporting NEC*
- If you file any Forms 1099-Misc reporting NEC after 1/31/20, file them in a **separate transmission** from your Forms 1099-Misc **without NEC**
- IRS revenue generator – penalties and interest apply for failure to file forms and late filing.
- Forms 1099-B, 1099-S and 1099-Misc with amounts in box 8 or 14 only, are due by 2/18/20

Payments to Corporations

- Generally, payments to corporations are *not* reportable. The following payments should be reported on 1099-Misc:
 - Medical and health care payments, Box 6
 - Fish purchases for cash reported, Box 7
 - Attorneys' fees, box 7
 - Gross proceeds paid to an attorney, box 14
 - Substitute payments in lieu of dividends or tax-exempt interest, Box 8
 - Payments by a federal executive agency for services, Box 7
- See example of attorney fees, box 7 versus 14 at:
<https://www.irs.gov/pub/irs-pdf/i1099msc.pdf>

Recordkeeping

- Always keep all documentation for your records for 7 years in the event of an audit



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

Reporting Requirements for Organizations

- **Form 1095-A** is issued by exchange
- **Form 1095-B** is issued by insurance company and small (less than 50 FTE) employers that are self insured
- **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.
- Due Dates:
 - 01/31/20 Deadline to furnish employee statements
 - 02/28/20 Deadline to mail file with IRS
 - 04/01/20 Deadline to electronically file (e-file)
- 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 for 2019. The IRS has clearly indicated that it won't waive ACA employer mandate penalties.

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/>

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