

Payroll Year End

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Preparing for Year End

Meet with your internal stakeholders

Hold a year-end kickoff meeting with your HR, Finance, and other relevant departments to go over what information and assistance you will need from each of them to complete your company's year-end.

Insist on an in-person meeting together to create a collaborative environment and accountability on each individual stakeholder's part.

From there, maintain one-on-one communication with team members to ensure alignment and resolve any issues so that everything runs on schedule and necessary adjustments can be made quickly.

Year End Tasks

Create your 2020 calendars

- Consider Holidays and Weekends
- Update your payroll system
- Provide to your benefits group for open enrollment
- Provide to your 401k, HSA administrators

Check Employee and Employer data that is used for quarterly tax reports and W2s.

- Employer and employee names
- FEIN and SSN formatting
- IRS may penalize for missing or incorrectly formatted names or SSN.

Year End Tasks

Review your payroll system reports that are available for quarter/year end tasks: (For Example)

- Employees with Exempt of Taxes
- Missing or Applied for Taxes
- Social Security Variance
- W2 Box Detail

Check Wage, Tax and Benefits data:

- Verify Taxable wages for each tax and reconcile any differences
 - run report showing any employees that are missing any SS/MED/FIT wages (wages that are reported in Boxes 1, 3, and 5 of the Form W-2)
- Review discrepancies such as Negative quarter/year to date fields.
- Verify the Employer's state unemployment insurance tax rate and taxable wage base limits.

Year End Tasks

Check Wage, Tax and Benefits data: (continued)

- Test reasonableness of Social Security Tax Withholding
 - Multiply SS taxable wages by .062 (up to wage base limit of \$132,900; should be no more than \$8,239.80)
 - Verify Employer amount; should match
- Test reasonableness of Medicare tax
 - Multiply MED taxable wages by .0145 for taxable wages up to \$199,999.99; excess MED Tax rate is .009 for a total rate of .0235 for taxable wages over \$200k
 - Verify the Employer Medicare amount; should be MED taxable wages multiplied by .0145; this does not match the employee amount if taxable wages exceed \$200k.

Year End Tasks

Check Wage, Tax and Benefits data: (continued)

- Test the reasonableness of the State Unemployment Insurance tax. (Verify taxable wages and multiply by the employer experience rate for that state).
- Compare payroll register totals match form W3 totals.
- Compare forms W2 to state and local report totals.
- Verify that form W3 totals equal tax deposits – Balance to Forms 941
- Check contributions to Section 125 plans i.e 401k, HSA balance to payroll register totals.
- Check for excess contributions to qualified plans, i.e. 401k and HSA

Year End Tasks

Check Wage, Tax and Benefits data: (New Year)

- Verify that Employee benefit deduction changes for the new plan year have been updated.
- Change any employee tax exemptions or blocked taxes have been removed.
 - Best practice is to remove and require employees to complete new W4
- Confirm that special accumulators have been cleared/reset
- Confirm that PTO/Sick plan accruals are rolled over correctly.
 - Review the State and Local laws
 - Employers should work with counsel to ensure compliance with the state-specific requirements for each location in which they operate.

Year End Tasks

Special Procedures:

- Schedule any special off cycle payrolls for quarter/year end adjustments.
- Verify the new year month end close dates.
- Verify that month end reports are scheduled according to month end close dates.
- Verify that payroll calendar is updated correctly in system
 - Check pay period begin and end dates
 - Verify all check dates against holiday schedule
 - Don't forget to share the final calendar(s) with your business partners and employees
- **Printing of forms W2 and 1095-C**
 - Order forms or notify your vendor of how many forms you will need printed

2020 Federal Holidays

Date	Federal holiday	Day of the week
January 1, 2020	New Year's Day	Wednesday
January 20, 2020	Martin Luther King Day	Monday
February 17, 2020	Presidents' Day*	Monday
May 25, 2020	Memorial Day	Monday
July 3, 2020	Independence Day (observed)	Friday
July 4, 2020	Independence Day	Saturday
September 7, 2020	Labor Day	Monday
October 12, 2020	Columbus Day	Monday
November 11, 2020	Veterans Day	Wednesday
November 26, 2020	Thanksgiving Day	Thursday
December 25, 2020	Christmas Day	Friday

2019 Tax Rate and Wage Base Info

2019 — Tax Rate and Wage Base						
Tax	Federal or State	ER	EE	Wage Limit	Max Tax ER	Max Tax EE
Social Security	Federal	6.2%	6.2%	\$132,900	\$8,239.80	\$8239.80
Medicare	Federal	See table below.			NO MAX	NO MAX
Federal Income Tax	Federal	N/A	Varies	NO LIMIT	N/A	NO MAX
FUTA	Federal	0.6%	N/A	\$7,000	\$42	N/A
State Income Tax	State	N/A	Varies	NO LIMIT	N/A	NO MAX
State Unemployment	State	Varies	Varies	Varies	Varies	Varies

Medicare		
Employee Medicare Wages	Employee Tax Rate	Employer Tax Rate
Wages equal or less than \$200,000	1.45%	1.45%
Wages greater than \$200,000	2.35% (1.45% + 0.9%)	1.45%

2019 Tax Rate and Wage Base Info

Compliance Update



401(k), 403(b), 457(b) Pre-Tax Contribution Limit Increases to \$19,000 for 2019

The IRS has announced the changes to the dollar limits on benefits and contributions under qualified retirement plans, as well as other items, for tax year 2019 [IRS Notice 2018-83, 11-1-18]. The notice is available on the APA website at <https://www.americanpayroll.org/compliance/compliance-overview/annual-irs-announcements>.

2019 Tax Rate and Wage Base Info

SUI Taxable Wage Bases 2017-2020

<https://www.americanpayroll.org/compliance/compliance-overview/state-unemployment-wage-bases>

Link on APA website page to download chart of state taxable wage bases

Avoid Incorrect Forms - W2

Run an audit report to be sure that every employee and contractor has a valid social security/TIN number in your system.

- As of January 1, 2011, the IRS imposes a \$50 penalty for information returns for each missing/incorrect social security/TIN number. Make it a practice not to pay an employee/contractor without this information.
- For filings due after December 31, 2019 (during 2020), the penalty is \$50 per W-2 form if filed correctly within 30 days of the due date. The penalty is \$110 per W-2 form if filed correctly more than 30 days after the due date but by August 1st, and \$270 per W-2 form if filed after August 1st, if corrections are not filed, or forms are not filed at all.

To Go Green or Not ??

Encourage employees to adopt electronic forms (Go Green)

- If your system allows an electronic enrollment feature, configure and activate it.
- W2 and 1095-C forms
- Track your performance in adoption of electronic sign ups

Determine if all terminated employees will receive paper copies of forms W2 and 1095-C

Document Retention

Now that Year End is complete, it is a good time to review your document retention policy.

- Update the policy as needed for any legal or regulatory changes
- Ship last years documents off to storage
- Destroy any documents that have exceeded their retention

Quiz

- Q: What is the retention period for IRS documents?
- Q: What is the retention period for payroll registers?

Document Retention Quiz - Answers

Quiz

- Q: What is the IRS retention period for employment tax records?
 - A: Four years
- Q: What is the FLSA retention period for payroll records?
 - Three Years – This applies to all payroll records

****State Laws may differ****

Employers should work with counsel to ensure compliance with the state-specific requirements for each location in which they operate—to the extent that such laws impose more stringent requirements than the FLSA.

General Instructions for forms W2/W3

<https://www.irs.gov/pub/irs-pdf/iw2w3.pdf>

Form W2/W3 for 2019 (current)

<https://www.irs.gov/pub/irs-pdf/fw2.pdf>

<https://www.irs.gov/pub/irs-pdf/fw3.pdf>

Social Security – Business Services Online

<https://www.ssa.gov/employer/>

Form 941

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

Year End Reconciliation

https://www.irs.gov/pub/irs-tege/year-end_reconciliation_worksheet.pdf

Year-end Reconciliation Worksheet for Forms 941, W-2, and W-3

- Annual amounts from payroll records should match the total amounts reported on all Forms 941 for the year.
- Total amounts reported on all Forms 941 for the year should match the sum of the same data fields shown in W-2/W-3 totals.
- If these amounts do not match, recheck records and identify necessary adjustments.

a	b	c	d	e	f	(c-e)
Comparison Area	941 Line#	Form 941 (all 4 quarters)	W-2, W-3 Box #	W-2s (total of all forms)	Amount on W-3	Difference (col c minus col e)
Compensation	Line 2		1			
Federal Income Tax	Line 3		2			
Social Security Wages	Line 5a Column 1		3			
Social Security Tips	Line 5b Column 1		7			
Social Security Tax	Line 5a + 5b Column 2					
Social Security Tax Comparison Computation	Line 5a + 5b x (4.2/10.4)		4			
Medicare Wages	Line 5c Column 1		5			
Medicare Tax	Line 5c Column 2					
Medicare Tax Comparison Computation	Line 5c divided by 2		6			

2020 Social Security Wage Base

2020 Social Security Wage Base will be **\$137,700**, an increase of \$4,800 from \$132,900 in 2019

Maximum Social Security tax employees and employers will each pay in 2020 is **\$8,537.40**, an increase of \$297.60 from \$8,239.80 in 2019



Questions?

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