



2019

An Essential Guide for Business Owners and Managers

PAYCHEX[®]

Payroll | Benefits | HR | Insurance

The Power of Simplicity

Overview

As a small business owner or manager, you may be tasked with complex functions such as payroll, taxes, human resources, and employee benefits. If not managed properly, these areas can create headaches for your business, and may even result in government fines or litigation. Many businesses turn to outside experts for help, but if you prefer to handle these functions in-house, where do you start? This helpful guide is your first step. It's chock full of rules, regulations, and best practices to help you manage your business.

If you'd like the help of a third-party provider, give us a call at **855-973-2413**. We have more than 45 years' experience helping small- and mid-sized businesses with their payroll, HR, and benefits needs.

We'd love to help you simplify your business.

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Part 1

Handling Tax Deposits and Returns

- Employee-Paid Taxes
- Employer Tax Deposits
- Tax Returns
- State Unemployment Insurance Tax

Employee-Paid Taxes

If you have employees, you may be required to withhold specific employment taxes from their pay, including:

Federal income tax

The amount withheld is based on IRS withholding tables, taxable compensation, and any other information reported on Form W-4 (such as the employee's marital status, number of allowances, and exemptions).

Social Security and Medicare (FICA)

The Federal Insurance Contributions Act (FICA) provides a federal system for old-age, survivors, disability, and hospital insurance. Employees are required to contribute a percentage of their wages to support the financing of this system, with employers generally making matching contributions. All of these benefits are supported by the Social Security portion of FICA. The only exception to is hospital benefits, which are supported by the Medicare portion.

State and local income tax

Every employer who pays employee wages is required to withhold income taxes from each payment of taxable wages, if required by the state or local taxing agencies. Not all states have withholding tax, and many states do not have local taxing jurisdictions that affect payroll. Some employers face particularly complicated state income tax situations.

Those who conduct business operations in multiple states must meet each state's requirements. The same is true for those who have what may be called "dual-state" situations (employees living in one state and working 100 percent of the time in another state, or employees working in more than one state during a single pay period).

State unemployment insurance (SUI)

SUI is primarily an employer-paid tax. However, a few states require employees to contribute to the state's unemployment compensation program as well.

Taxing on tips:

All tips are taxable to the employer and employee for social security and federal unemployment tax until the employee's taxable compensation reaches the wage base limits for these taxes. Tips are also fully taxable for Medicare and federal income tax. Generally, states and localities follow federal laws regarding the taxability of tips.

Employer Tax Deposits

Employers are responsible for depositing employee paid and employer-paid taxes on a schedule enforced by the federal, state, or local tax agency. Depending on the amount of tax liability, **deposits may be due: Quarterly • Monthly • Semi-weekly (twice per week) • Daily (made in specific situations)**

At the end of each tax year, the IRS sends notices to all employers notifying them of their deposit frequency for the New Year. The employer remains responsible for depositing federal taxes at the correct frequency even if a notice is not sent by the IRS, or if the notice was sent incorrectly. Using a payroll provider can shift some of the actual duties of depositing your taxes, but as the business owner, you are ultimately responsible for paying your taxes on time. Employers mandated for EFTPS (Electronic Federal Tax Payment System) must make their payments electronically, and file Form 941 (Employer's Quarterly Federal Tax Return) every quarter to reconcile taxes calculated with taxes paid.

Failure to pay taxes on time may result in a penalty being assessed by the tax agency. State and local withholding is paid directly to the state or local agency based on a deposit schedule mandated by that tax agency. As the employer, you may be required to pay the following taxes:

Social Security and Medicare (FICA)

Along with your employees, you may be required to contribute to Social Security and Medicare. You are liable for the entire tax, regardless of the amount actually withheld from employees. After the total liability is calculated and the amount collected from employees is subtracted, you are responsible for paying the remaining portion.

Federal unemployment tax

The Federal Unemployment Tax Act (FUTA), in conjunction with state unemployment insurance programs, provides payments to workers who lose their jobs. FUTA tax is used strictly to pay administrative costs and fund state programs as needed. The act established the employer tax that finances the federal unemployment program. An employer's liability for this tax begins January 1 of the year in which certain conditions are met. When you become liable, you're liable for the entire year, not from the point when one of the conditions was met. FUTA is strictly an employer tax, so no part of this tax can be deducted from employee wages.

Employers mandated for EFTPS must make these payments electronically. Each covered employer must file a Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, annually to report taxable wages paid during the year and reconcile quarterly FUTA tax deposits.

State unemployment insurance (SUI)

The SUI program pays the actual benefits to unemployed workers. Employers are responsible for paying SUI tax based on the number of employees in the business and a rate assigned by the state. All states have an unemployment program and require most employers to pay SUI tax. SUI is closely tied to the federal unemployment insurance program, FUTA, which is collected from employers; however, compensation benefits are paid from the state fund. If the state fund is depleted, the state may borrow from the federal government. Each state has a limit on compensation that is taxable for SUI. The wage limits vary by state. Generally, each state assigns every subject employer a tax rate once a year based on their experience or merit rating.

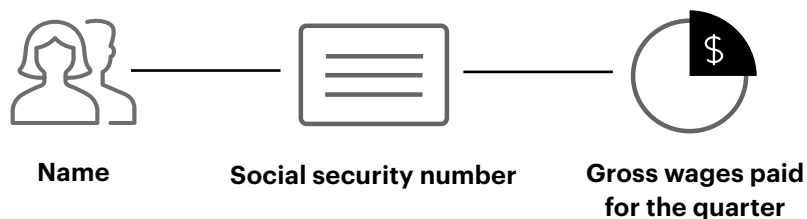
State disability

A few states require that an employer or employee contribute to a state mandated disability program. The primary purpose of disability taxes is to provide benefit payments to employees absent from their jobs because of illness, accident, or disease not related to their employment. Disability taxes provide the fund from which this type of insurance is paid. Plans vary by state, with employers paying the full amount in some states, and employers and workers sharing the cost in others.

When a disability plan is funded 100 percent by employer contributions, and an employee receives benefits from that plan, the benefits must be included as part of the employee's compensation. When the plan is funded 100 percent by employee money, benefits that the employee receives are tax free. In plans where both employers and employees contribute, employees are taxed only on that portion of the benefit related to employer contributions.

Tax Returns

Most state and federal agencies require employers to report using tax returns for both employer and employees quarterly. These returns usually include the employee's:



This information is used to verify an employee's eligibility for state unemployment insurance and the amount of compensation benefits to be paid. Tax returns are also used to reconcile the tax deposits remitted; some tax payments can be sent when the return is filed.

Return	Function	Frequency
Form 941: Employer's Quarterly Federal Tax Return	Reports wages and taxes for federal income tax, employee social security and Medicare tax, and employer social security and Medicare tax.	Quarterly
Form 940: Employer's Annual Federal Unemployment Tax Return	Reports wages and taxes for FUTA. Although deposits are made quarterly if FUTA tax liability is \$500 or more, the return itself is still filed annually.	Quarterly deposits if over \$500; annual filing
Form W-2: Wage and Tax Statement	Reports individual employee wages and taxes. One copy is given to employees; another copy is filed with the Social Security Administration (SSA).	Annually
Form W-3: Transmittal of Wage and Tax Statements	Summarizes information reported on Forms W-2. Filed with the SSA along with copies of Forms W-2.	Annually
SUI	Reports wages and SUI tax on state-specific form.	Quarterly
Withholding	Reports wages and taxes for state and local withholding.	Varies by agency

You may decide to hire an accountant, tax professional, or outside vendor to help with your tax-related processes; it is important, however, that all business owners have an understanding of the tax system.

The responsibility for fulfilling your business tax obligations is ultimately yours.

State Unemployment Insurance Tax

Businesses often assume that there's no way to control their state unemployment insurance (SUI) tax rates. A company's SUI premiums can range widely, often by several hundred dollars per employee per year. The actual rates vary based on two factors. The first is your state jurisdiction. The second is how many former employees have successfully filed for unemployment benefits against you.

Managing your response to unemployment claims — specifically claims made by former employees who should not be eligible for benefits, because they left voluntarily or were terminated with cause — can ultimately help lower your SUI tax rates. **Here's what you need to know.**

What Is State Unemployment Insurance?

The Federal-State Unemployment Insurance Program was founded in the 1930s to provide a safety net to employees who lost their jobs through no fault of their own. Each state administers its unemployment insurance program within federal guidelines. When an employee rightfully files a claim, benefits are generally charged directly to the employer or indirectly through their SUI experience rate. The SUI experience rate — along with big picture factors such as the health of the overall state unemployment insurance fund and the wage base — determine the final rates paid.

Employer Experience Rates

The SUI tax rates that employers pay are determined by specific formulas. The formulas are calculated with the intent that those employers with workers who experience the most involuntary unemployment should pay at a higher rate than those employers with very few claims. Therefore, an active program to manage your response to unemployment claims is essential.

Responding successfully to claims requires the ability to demonstrate a clear process and having the documentation to back it up.

Steps You Can Take to Control Your SUI Tax Rate

When an employee files for unemployment benefits, your company has the option of protesting that claim. If your company can show that an employee left voluntarily or was terminated for just cause, you can have that claim denied. Your company's SUI rate will not increase.

An established HR partner with SUI specialists can help you navigate this process. Responding successfully to claims requires the ability to demonstrate a clear process and having the documentation to back it up. *For example:*

Employees who quit: *When employees leave voluntarily and without cause, they may not be eligible for benefits. Documentation in this case may include a resignation letter, email trails related to resignation, exit interview documents, signed letters of separation, and financial details of any final payouts such as cashed-out vacation time.*

Employees who are terminated with cause: *Employees who are terminated with cause are not eligible for unemployment. Depending on the state, companies may need to demonstrate that an employee knew the company's rules. For example, did they sign job and handbook acknowledgments while onboarding? From there, it's important to outline that the company used progressive discipline to address the problem, remained professional during meetings, and ideally, had the employee sign an acknowledgment of reasons for termination.*



Part 2

2019 Payroll Tax Deposit Rules, Regulations, and Deadlines

- Federal Tax Deposit Rules
- Federal Tax Return Due Dates
- Federal Tax Deposit Due Dates
- End-of-Year Payroll Checklist

Federal Tax Deposit Rules

Federal Tax Payments

Effective January 1, 2011, federal taxes must be paid via the Electronic Federal Tax Payment System (EFTPS®) unless you owe \$2,500 or less with your quarterly Form 941. Details for enrolling in EFTPS are available at eftps.gov.

FICA Limits	2018	2019
Social Security (OASDI) Wage Base	\$128,400.00	\$132,900.00
Medicare Wage Base	No Limit	No Limit
OASDI Percentage	6.2%	6.2%
HI Percentage	1.45% (2.35% for individuals earning over \$200,000)	1.45% (2.35% for individuals earning over \$200,000)
Maximum OASDI Withholding	\$7,960.80	\$8,239.80
Maximum HI Withholding	No Limit	No Limit
Maximum FICA Withholding	No Limit	No Limit

For self-employed individuals, the 2019 social security wage base is \$132,900.00 with the social security tax rate remaining at 12.4%. There is no Medicare wage limit, and the Medicare tax rate remains at 2.9% (3.8% for those individuals earning over \$200,000). The tax applies to the net earnings from self-employment.

The employer is responsible for determining the correct federal tax deposit frequency for the business.

- 1. An employer is a monthly depositor** for 2019 if the aggregate amount of employment taxes reported for the period July 1, 2017, to June 30, 2018, is \$50,000 or less, unless a daily deposit is required as explained in Rule 3 on this page. Deposits are due on the 15th of the following month. If the 15th falls on a holiday or weekend, the due date is extended to the next banking day.

Note: *New businesses deposit using the monthly deposit rule, unless a daily deposit is required under Rule 3.*

- 2. An employer is a semi-weekly depositor** for 2019 if the aggregate amount of employment taxes reported for the period July 1, 2017, to June 30, 2018, exceeds \$50,000. Deposits for payments made on Wednesday, Thursday, and/or Friday are due on or before the following Wednesday. Deposits for payments made on Saturday, Sunday, Monday, and/or Tuesday are due on or before the following Friday. In the event of a holiday, employers have three banking days from the end of the semi-weekly period to deposit.

Note: *Semi-weekly depositors with an accumulated unpaid liability of \$100,000 or more during the deposit period must deposit within one banking day of the payroll check date, as stated in Rule 3.*

If the semi-weekly period includes the end of the first month of the quarter and the beginning of the second month, or the end of the second month and the beginning of the third month, only one deposit is required. If an employer has payroll for two different reporting quarters within the same semi-weekly period, two deposits must be made.

- 3. Employers with an accumulated unpaid liability of \$100,000 or more** during the deposit period must deposit within one banking day of the payroll check date. When a monthly depositor is subject to this rule, that employer immediately becomes a semi-weekly depositor for the rest of 2019 and for 2020. Also, any monthly depositor who had a deposit of \$100,000 or more between January 1, 2018, and December 31, 2018, is considered a semi-weekly depositor for the rest of 2018 and for 2019.
- 4. Form 941 employers** with accumulated liability of less than \$2,500 for the entire quarter may deposit or remit the amount with a timely filed Form 941, Employer's Quarterly Federal Tax Return.
- 5. Form 944 employers** with accumulated liability of less than \$2,500 for the entire year may deposit or remit the amount with a timely filed Form 944, Employer's Annual Federal Tax Return.



Federal Tax Return Due Dates

Form	Period	Due Date
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through December 2018	January 31
940, Annual Federal Unemployment Tax Return	For tax year 2018 with undeposited taxes of \$500 or less	January 31
941, Quarterly Federal Tax Return	For fourth quarter 2018 (10/1–12/31)	January 31
944, Annual Federal Tax Return	For tax year 2018 with undeposited taxes of \$2,500 or less	January 31
1096, Annual Summary and Transmittal of U.S. Information Returns with Forms 1099	For tax year 2018 Note: The electronic filing due date is also January 31	January 31
W-3, Transmittal of Income and Tax Statements with Forms W-2 (Copy A)	For tax year 2018 Note: The electronic filing due date is also January 31	January 31
941, Quarterly Federal Tax Return	For fourth quarter 2018 (10/1–12/31) if all taxes were deposited when due	February 11
944, Annual Federal Tax Return	For tax year 2018 if all taxes were deposited when due	February 11
940, Annual Federal Unemployment Tax Return	For tax year 2018 if all taxes were deposited when due	February 11
8027, Employer's Annual Information Return of Tip Income and Allocated Tips, and if required, Form 8027-T Transmittal	For tax year 2018 Note: The electronic filing due date is March 31	February 28
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through March 2019	April 30
941, Quarterly Federal Tax Return	For first quarter 2019 (1/1–3/31)	April 30
941, Quarterly Federal Tax Return	For second quarter 2019 (4/1–6/30) if all taxes were deposited when due	May 10
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through June 2019	July 31
941, Quarterly Federal Tax Return	For second quarter 2019 (4/1–6/30)	July 31
941, Quarterly Federal Tax Return	For second quarter 2019 (4/1–6/30) if all taxes were deposited when due	August 12
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through September 2019	October 31
941, Quarterly Federal Tax Return	For third quarter 2019 (7/1–9/30)	October 31
941, Quarterly Federal Tax Return	For third quarter 2019 (7/1–9/30) if all taxes were deposited when due	November 12
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through December 2019	January 31, 2020
940, Annual Federal Unemployment Tax Return	For tax year 2019 with undeposited taxes of \$500 or less	January 31, 2020
941, Quarterly Federal Tax Return	For fourth quarter 2019 (10/1–12/31)	January 31, 2020
944, Annual Federal Tax Return	For tax year 2019 (1/1–12/31)	January 31, 2020
941, Quarterly Federal Tax Return	For fourth quarter 2019 (10/1–12/31) if all taxes were deposited when due	February 10, 2020
940, Annual Federal Unemployment Tax Return	For tax year 2019 if all taxes were deposited when due	February 10, 2020

Federal Tax Deposit Due Dates

Semi-weekly Deposit Due Dates

Calculate the accumulated tax liability. If the unpaid liability is \$100,000 or more, then the deposit is due within one banking day of the payroll check date. A monthly depositor who accumulates \$100,000 or more is required to follow the semi-weekly rule for the rest of 2019 and for 2020.

First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Payroll Check Date	Due Date	Payroll Check Date	Due Date	Payroll Check Date	Due Date	Payroll Check Date	Due Date
January 1	January 4	April 1–2	April 5	July 1–2	July 8 ⁴	October 1	October 4
January 2–4	January 9	April 3–5	April 10	July 3–5	July 10	October 2–4	October 9
January 5–8	January 11	April 6–9	April 12	July 6–9	July 12	October 5–8	October 11
January 9–11	January 16	April 10–12	April 17	July 10–12	July 17	October 9–11	October 17 ⁶
January 12–15	January 18	April 13–16	April 19	July 13–16	July 19	October 12–15	October 18
January 16–18	January 24 ¹	April 17–19	April 24	July 17–19	July 24	October 16–18	October 23
January 19–22	January 25	April 20–23	April 26	July 20–23	July 26	October 19–22	October 25
January 23–25	January 30	April 24–26	May 1	July 24–26	July 31	October 23–25	October 30
January 26–29	February 1	April 27–30	May 3	July 27–30	August 2	October 26–29	November 1
January 30–February 1	February 6	May 1–3	May 8	July 31–August 2	August 7	October 30–November 1	November 6
February 2–5	February 8	May 4–7	May 10	August 3–6	August 9	November 2–5	November 8
February 6–8	February 13	May 8–10	May 15	August 7–9	August 14	November 6–8	November 14 ⁷
February 9–12	February 15	May 11–14	May 17	August 10–13	August 16	November 9–12	November 15
February 13–15	February 21 ²	May 15–17	May 22	August 14–16	August 21	November 13–15	November 20
February 16–19	February 22	May 18–21	May 24	August 17–20	August 23	November 16–19	November 22
February 20–22	February 27	May 22–24	May 30 ³	August 21–23	August 28	November 20–22	November 27
February 23–26	March 1	May 25–28	May 31	August 24–27	August 30	November 23–26	December 2 ⁸
February 27–March 1	March 6	May 29–31	June 5	August 28–30	September 5 ⁵	November 27–29	December 4
March 2–5	March 8	June 1–4	June 7	August 31–September 3	September 6	November 30–December 3	December 6
March 6–8	March 13	June 5–7	June 12	September 4–6	September 11	December 4–6	December 11
March 9–12	March 15	June 8–11	June 14	September 7–10	September 13	December 7–10	December 13
March 13–15	March 20	June 12–14	June 19	September 11–13	September 18	December 11–13	December 18
March 16–19	March 22	June 15–18	June 21	September 14–17	September 20	December 14–17	December 20
March 20–22	March 27	June 19–21	June 26	September 18–20	September 25	December 18–20	December 26 ⁹
March 23–26	March 29	June 22–25	June 28	September 21–24	September 27	December 21–24	December 30 ⁹
March 27–29	April 3	June 26–28	July 3	September 25–27	October 2	December 25–27	January 2, 2020 ¹⁰
March 30–31	April 5	June 29–30	July 8 ⁴	September 28–30	October 4	December 28–31	January 6, 2020 ¹⁰
Holidays							
¹ January 21	Martin Luther King, Jr. Day			⁶ October 14	Columbus Day		
² February 18	Presidents' Day			⁷ November 11	Veterans Day		
³ May 27	Memorial Day			⁸ November 28	Thanksgiving Day		
⁴ July 4	Independence Day			⁹ December 25	Christmas Day		
⁵ September 2	Labor Day			¹⁰ January 1, 2020	New Year's Day		

Paychex will not observe the following holiday: Emancipation Day — April 16, 2019.

Monthly Deposit Due Dates

First Quarter		Second Quarter	
Month Tax Liability Incurred	Due Date	Month Tax Liability Incurred	Due Date
January 2019	February 15, 2019	April 2019	May 15, 2019
February 2019	March 15, 2019	May 2019	June 17, 2019
March 2019	April 15, 2019	June 2019	July 15, 2019
Third Quarter		Fourth Quarter	
Month Tax Liability Incurred	Due Date	Month Tax Liability Incurred	Due Date
July 2019	August 15, 2019	October 2019	November 15, 2019
August 2019	September 16, 2019	November 2019	December 16, 2019
September 2019	October 15, 2019	December 2019	January 15, 2020

Quarterly Deposit Due Dates

If an employer is unsure that liability will be less than \$2,500 for a quarter, it would be prudent to deposit in accordance with the monthly deposit rule. When the accumulated liability is \$2,500 or more in a quarter, an employer is subject to deposit penalties if monthly deposits were not made.

Quarter	Period	Due Date
1	For employers who accumulated less than \$2,500 in federal taxes during the first quarter (1/1–3/31)	April 30, 2019 Remit with Form 941
2	For employers who accumulated less than \$2,500 in federal taxes during the second quarter (4/1–6/30)	July 31, 2019 Remit with Form 941
3	For employers who accumulated less than \$2,500 in federal taxes during the third quarter (7/1–9/30)	October 31, 2019 Remit with Form 941
4	For employers who accumulated less than \$2,500 in federal taxes during the fourth quarter (10/1–12/31)	January 31, 2020 Remit with Form 941

End-Of-Year Payroll Checklist

As the end of the year approaches, it's important to **make sure that your payroll information is up to date**. From end-of-year reporting and taxation to preparing for 2019 you can take numerous steps that can help keep your information organized and accurate. **Here is a closer look at a high-level checklist that business owners and payroll managers can use:**

- Ensure that contact information for all employees is up to date, including phone numbers and mailing addresses. Check for missing or invalid social security numbers. There can be penalties associated with incorrect information. Having the wrong address on file can also create difficulties in mailing out Forms W-2, Forms 1099, and other forms.
- Determine when employees should have the "retirement plan" indicator for box 13 of Form W-2.
- Verify that you have up-to-date and accurate taxation documentation on file for all employees for the previous year.
- Ensure that all information that needs to be filed in compliance with the Affordable Care Act is completed.
- Have any employees died in the last year? If so, deceased employees need to be coded correctly in your payroll system.
- Review your employee data for individuals who have left the company during the past year. Determine whether those employees have zero balances for categories such as vacation time, sick time, and loans. Correct any issues in the final payroll of the year.
- Update your records for any employees who have left the company, removing them from the system as the 2019 payroll framework is created.
- Review wage, tax, and withholding information for categories such as bonuses, other compensation, group life insurance, business expense reimbursements, taxable fringe benefits, tips, and any other benefits/compensation categories relevant to your business. If appropriate withholding has not been made, ensure that this is corrected by the final payroll of the year.
- Schedule special payrolls, such as for seasonal or annual bonuses.
- Create a list of year-end reporting needs; if required, communicate those requests to your payroll provider along with deadlines.
- Audit payroll supplies, such as blank checks required, if you handle these issues in-house.
- Ask current employees who will remain with the company in 2019 to update their Form W-4 if desired.
- Balance the books to ensure that any manual or voided checks are properly reflected in the accounting statements.
- Verify Earned Income Credit (EIC) reporting, if applicable.
- Review state regulations related to unemployment insurance and disability insurance taxation rates.
- Complete reasonableness of withholding for categories such as Social Security, Medicare, and state unemployment. Make adjustments as necessary.
- Verify compliance for contributions to all plans such as retirement plans, health savings plan, and childcare plans. Ensure that all administration and reporting is complete. Check for excess contributions.
- Schedule payroll dates, reporting, and monthly/quarterly/year-end close dates for the fiscal year ahead.



Part 3

Employer Shared Responsibility (ESR)

- What You Need to Remember for ESR Reporting
- What Applicable Large Employers Need to Know About the Forms
- Filing Deadlines

If you are an applicable large employer (ALE) under the ESR provisions of the Affordable Care Act (ACA), you'll need to make sure you provide detailed informational reporting to the IRS at tax time.

What You Need to Remember for ESR Reporting

ALE Status

In general, the ESR provisions require that ALEs offer affordable and adequate coverage to full-time employees and their dependents in order to avoid a potential penalty. Your ALE status for 2019 is mainly based on workforce hours from 2018. Note that different rules can apply to new businesses.

Offers of Coverage

The ESR provisions require that ALEs offer minimum essential coverage to at least 95 percent (or all but 5 percent) of full-time employees and their dependents, in order to avoid potentially being assessed one of the penalties under section 4980H. Keep in mind that the employer is still at risk for being assessed another penalty if the coverage offered does not meet minimum actuarial value or affordability requirements. Both types of penalties are triggered if at least one full-time employee receives a premium tax credit for coverage obtained through a state or federal marketplace. An employer is also at risk for the second type of penalty if one of the full-time employees is not offered coverage and receives a premium tax credit from a government marketplace.

Minimum Essential Coverage (MEC) and Minimum Actuarial Value (MAV)

Most broad-based medical plans meet the requirements for MEC and minimum value. Minimum essential coverage is the coverage an individual must have to comply with the individual mandate of the ACA. In general, a plan must cover at least 60 percent of the cost of allowable medical expenses to meet the minimum actuarial value requirement.

Affordable Coverage

The IRS has three optional safe harbor methods to help you determine if the coverage offered meets affordability requirements:

1. Form W-2 Safe Harbor
2. Rate of Pay Safe Harbor
3. Federal Poverty Line Safe Harbor

For more information about the three affordability safe harbors, visit the IRS website ([irs.gov](https://www.irs.gov)).

What Applicable Large Employers Need to Know About the Forms

Form 1094-C: Employer Transmittal Form

This informational return is filed with the IRS and provides a summary of the health insurance coverage an employer offers, as well as employer level data. This form helps the IRS determine whether an applicable large employer may potentially be subject to an ESR penalty.

Form 1095-C: Employee Form

- Applicable large employers are expected to complete this form and provide it to all applicable individuals by **March 4, 2019 (as extended by the IRS)**.
- This form reports information about any health insurance coverage offered to the spouses and dependents of full-time employees. It also provides information on safe harbors or other types of relief available to the employer.
- This form also helps the IRS determine whether the company owes an ESR penalty and whether its full-time employees are eligible for the premium tax credit for coverage obtained through a public health insurance marketplace.
- It is also used to report individuals enrolled in coverage for self-insured employers.

Filing Deadlines

February 28, 2019

File hard copies of Forms 1094-C and 1095-C with the IRS.

April 1, 2019

Electronically file Forms 1094-C and 1095-C.





Part 4

Paying Employees

- Employee Classification
- Minimum Wage
- Regular and Overtime Rates
- Employee vs. Independent Contractor
- Pay Frequency
- Garnishments
- Common Types of Garnishment Withholdings
- Garnishment Checklist

Employee Classification

The Fair Labor Standards Act (FLSA) provides federal standards for minimum wage, overtime, child labor law, and recordkeeping requirements. Non-exempt employees are subject to all of the Act's provisions, including overtime pay. The regulations provide exemptions from minimum wage, overtime, or both.

Many exempt positions fall under the white-collar exemptions — executive, professional, administrative, outside sales, or certain computer professionals. These positions are not required to be paid overtime pay for hours worked over 40 in a workweek. Most employees covered under these exemptions must:

- Be compensated at a rate not less than \$455/week.
- Be paid on a salary or fee basis, and
- Meet the applicable duties test under the FLSA regulations.

Exempt Positions Are Generally Not Eligible for Overtime Pay

Employers can better ensure appropriate classification of employees by seeking the help of legal counsel to review their positions and classifications. Employees should be informed upon hire or promotion of the exempt or non-exempt status of their position. Employers are encouraged to develop job descriptions for all positions to assist in the classification process. Job descriptions should include job requirements and identify primary job duties and responsibilities.

You should review exact terms and conditions regarding requirements on the U.S. Department of Labor (DOL) Wage and Hour Division website at dol.gov/whd, contact the U.S. DOL, or seek guidance from an attorney.



Compensation includes, but is not limited to, remuneration for all compensable hours worked. Workers may be compensated in cash or other form of payment where permitted, under applicable law.

A worker's total compensation may include regular pay, overtime, vacation pay, sick pay, commissions, bonuses, and fringe benefits.

Minimum Wage

Covered, non-exempt employees must be paid at least the federal minimum wage of \$7.25 an hour for the first 40 hours of work each workweek. State and local jurisdictions may establish their own minimum wage rates. Where multiple minimum wage laws apply, employers must follow the provision that is most beneficial to the employee. See a listing of current state minimum wage rates at [dol.gov/whd/minwage/america.htm](https://www.dol.gov/whd/minwage/america.htm).

Non-exempt employees must receive at least minimum wage for all hours worked and one-and-one-half times their regular rate of pay for all hours worked over 40 in a workweek. State law may allow for additional overtime pay.

Under the FLSA, any work which is suffered or permitted may be considered "hours worked" and therefore compensable time under the Act, even if the work is

not requested or approved in advance by the employer. Other time that may be considered compensable under federal law can include:

- Breaks and meal periods
- Sleeping time
- On-call time
- Time in meetings and training
- Travel time

Employees covered under multiple minimum wage laws are entitled to the higher rate.

Regular and Overtime Rates

The regular rate of pay used for calculating overtime must be at least minimum wage and include all remuneration for employment, with the exception of certain payments excluded by the FLSA.

Under the Act, the regular rate need not include payments for certain expenses or premium pay for hours worked on weekends/holidays, nor does it include discretionary bonuses or gifts/payments. The Act does not limit the number of hours each week that employees (age 16 or over) may work.

The Act, however, requires employers to pay an overtime premium to non-exempt employees who work over 40 hours in a workweek. State laws may differ. Under the FLSA, overtime pay must be at a rate of at least one-and-one-half times the employee's regular rate of pay.

Generally, employers are not permitted to average the hours of two or more workweeks. Each workweek is reviewed in and of itself for overtime purposes, regardless of pay frequency, (for example, weekly, bi-weekly, semi-monthly, or monthly).

Recordkeeping

In addition, the FLSA mandates that certain records relating to wages, hours, and other items be maintained by employers. The Act does not specify a particular form in which records must be maintained.

Overtime pay cannot be waived.

Even if the employer announces "no overtime" or the employee signs an agreement to not be paid overtime after 40 hours each week, the employer is still required by law to pay the appropriate overtime rate.

Employee vs. Independent Contractor

It's important to correctly classify your workers as employees or independent contractors. Typically, employers must withhold income taxes, withhold and pay social security and Medicare taxes, and pay unemployment tax on wages paid to an employee. Independent contractors, on the other hand, usually don't have taxes withheld and pay all their own taxes.

Misclassification of an individual can result in fines, penalties, and payment of back taxes as well as owed minimum wage or overtime payments for individuals determined to be employees. To assist businesses with making this classification correctly for tax purposes, the IRS has developed the "Independent Contractor (Self-Employed) or Employee?"¹ online resource. Here is a closer look at what you should know.

Determining the Relationship

The first step businesses need to complete is determining their relationship with the person completing the services. The IRS lists four options:

1. Independent contractor
2. Employee (common-law employee)
3. Statutory employee
4. Statutory nonemployee

The categories most often in question are independent contractor vs. employee (common-law employee). The IRS provides detailed guidelines for both statutory employees and statutory nonemployees online as well.

¹<https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>

Factors Used to Classify Workforce Relationships

In the past, the IRS used a “20 factor test” to determine whether an individual was an employee or an independent contractor. Today, it takes a different approach. The IRS instructs businesses to consider three categories of “facts that provide evidence of the degree of control and independence” in the relationship.

According to IRS.gov, the three categories are:

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



Making Individual Determinations

Often, business owners find it challenging to evaluate these broad categories of control and influence effectively. Further breakdowns of each of these categories are provided to help ask the right questions and consider the essential factors.

Each of the categories offers specific aspects to consider. For example, **behavioral control** can include whether the individual is given detailed instructions, whether they are required to provide services personally, and what kind of reports they give their contact at your company. **Financial questions** address how and when the individual is paid, whether expenses are reimbursed, and who provides any necessary tools or equipment. In terms of **the type of relationship**, the IRS online guide outlines specific factors such as whether the individual is working for more than one firm at a time and whether the individual makes services available to the general public.

For firms that have evaluated the three categories of evidence and are still struggling to make an accurate

classification, there are a number of choices available. One option is to file Form SS-8, answer a detailed questionnaire, and submit it to the IRS. The IRS website notes that it may take up to six months to receive a determination.

It is important to keep in mind that a worker may qualify as an employee under the various IRS guidelines outlined earlier, but the determination of employee status may be different for other purposes such as wage/hour laws, workers’ compensation, or unemployment insurance. Conservatively, as an employer or business owner, you will want to verify that the worker’s status as an employee meets the criteria of all applicable laws, including the Fair Labor Standards Act (FLSA).

Another strategy is to work with an experienced HR service provider who can review resources so you can better determine which classification is right for your unique situation. You may also wish to discuss your situation with legal counsel.

Pay Frequency

The frequency at which you pay your employees is generally determined by state statute. **Options include:**

- Weekly
- Bi-weekly (every two weeks — some months may have three pay periods).
- Semi-monthly (twice per month)
- Monthly

Employers can usually establish the actual pay day as long as they adhere to the applicable pay frequency law mandated by the state. Where permitted, employers may also elect to (or may be required to) pay employees using a mixed pay frequency; for example, some employees could be paid weekly, and others paid monthly.

For some types of businesses, such as restaurants, payrolls can be more complicated because there are several forms of compensation with varying tax treatments that can make up an employee's paycheck.



Possible restaurant compensation examples:

- Hourly wage paid by the employer
- Service charges
- Tips and gratuities
- Meals
- Banquet tips
- Lodging

Garnishments

You've just received a court order or IRS levy demanding that you garnish the wages of one of your employees. What do you do? A good place to start is with a general overview of the different types of garnishments and what they can mean to your employee — and your business.

Wage Garnishment

A wage garnishment is any legal or equitable garnishments made by court order — an employer may receive a letter that expressly requires the company to garnish the wages of one of their employees. Employers must comply with a wage garnish request, and usually need to start garnishing wages and remitting payments to the appropriate party as soon as the order is received.

Garnishments are time-sensitive, and failure to process the garnishment within the allotted time frame can lead to penalties.

Common Types of Garnishment Withholdings

Employee Garnishment

When served on an employer, garnishments are taken from the employee as part of the payroll process. Title III of the Consumer Credit Protection Act limits the amount of an employee's earnings that may be garnished and protects an employee from being terminated if pay is garnished for only one debt. The amount of pay that can be garnished is based on an employee's disposable earnings, which are the monies left after required payroll deductions are made.

Title III protects employees by limiting the amount of earnings that may be garnished in one week to the lesser of two figures:

1. **25 percent of the employee's disposable earnings,** or
2. **The amount by which an employee's disposable earnings are greater than 30 times the federal minimum wage.**

The law protects everyone receiving personal earnings, such as wages, salaries, commissions, bonuses, or other income — including earnings from a pension or retirement program. Tips are generally not considered earnings for the purposes of the wage garnishment law.

Wage garnishments continue until the entire debt is paid or arrangements are made to pay off the debt. As an employer, you can be held liable for the full garnishment amount, plus other expenses such as the costs of litigation, if you do not initiate a garnishment as required.

Child Support

In the case of child support, the law allows employers to garnish up to 50–65 percent of an employee’s disposable income. The amount of garnished wages varies but it’s mostly dependent on whether a spouse is supporting another spouse/child. Once an employer receives a child support court order, they must notify the employee that they will be making the wage garnishment. An employee can contest the garnishment with the court.

Each state uses its own formula to calculate a child support amount, which is based on:

- **Payee’s income and consideration of the number of children,**
or
- **Combined income of both parents, with consideration of both parents’ number of children.**

In most states, a child support obligation ends when the child reaches the age of majority, which is usually 18 to 21. If a parent is obligated to pay child support until age 18, and that child support order covers multiple children receiving a lump-sum amount every month (such as \$300/per month), the parent must continue to pay that amount until the youngest child reaches age 18 to 21.

Garnishments and Payroll

It is a good idea for your payroll department to have a garnishment process or checklist for setting up a garnishment.

Garnishment Checklist

- Date stamp the garnishment order, so you have a record of the day of receipt.
- Verify that the garnishment order is legal and valid.
 - Does it belong to one of your employees?
 - Is it from a valid source?
 - Was it received on proper documentation?
- Check to see if the issuer needs a response. You are not obligated to send one if:
 - No response is included with the garnishment, or
 - State or federal laws do not require a response.
- Return the response, if necessary, to the issuer.
- Inform your employee of the garnishment order by the deadline, if any. Most garnishment order documentation includes:
 - A part to distribute to the employee, and
 - A deadline for distribution.
- Explain to the employee how the garnishment will be handled through payroll.
- Set up the garnishment deduction in the company payroll system.

Note: *If an employee has more than one garnishment order, you are responsible for ensuring the amount of the payroll deduction is within the limits established under the Consumer Credit Protection Act.*

Depending on the type of garnishment and the state jurisdiction, the payment due dates for the garnishments may vary. As a best practice, the payroll department can process the garnishment payments so that the checks are available for mailing on payday or before. If for any reason a garnishment check is issued for less than the amount

stated on the garnishment order, a letter of explanation should accompany the check. Due to the complexity of processing garnishments, you may also consider contracting with an outside provider to collect and remit garnishments.



Sick Leave and Paid Time Off

- Creating a Paid-Time-Off Policy
- The Family and Medical Leave Act
- Mandatory Sick and Family/ Medical Leave Laws FAQs

Creating a Paid-Time-Off Policy

The availability and convenience of paid time off (PTO) is often a critical factor for both a prospective candidate's interest in your business as well as your ability to retain current employees. Generally, a PTO policy is the availability of paid time off that may be used as vacation, for personal reasons, or for sick time. State and local laws may dictate certain provisions, but here are five general steps to consider when creating a PTO policy:

1. Decide on an appropriate number of days off.

The average amount of PTO that companies offer varies between 14 days (for employees with less than one year of service) to 26 days (for employees with 20 or more years of service) per year. To determine the appropriate amount of time off to give your employees, you may want to look at patterns in your staffing needs and compare your proposed PTO program with other businesses in your industry and geographic area.

2. Choose between carryover, payout, or "use-it-or-lose-it" plan.

You may choose to institute a plan whereby employees have the option to carry over unused PTO into a new benefit year. If you choose this option, consider implementing a cap on hours to be carried and/or used in the year, where permitted under state law. Employees who exceed that maximum number of hours would generally be required to use a portion of their current balance before they are able to accrue more. You may also choose to simply pay employees for any earned but unused PTO at the end of the benefit year. Alternatively, where permitted under law,

some businesses require that hours not used by the end of the year (calendar or anniversary) are lost and everyone begins the new year with zero hours or a set allotment of hours.

3. Decide between an allotment or accrual.

Broadly speaking, companies dispense PTO in one of two ways:

- By awarding or frontloading an allotment of time at the start of each year, permitting employees to use it throughout the year until they run out; or
- By letting employees accrue PTO for hours or weeks worked, with the ability to use only the amount they've accrued up to the present date.

Some businesses prefer the second option because it may reduce the incidence of employees requesting extended periods of paid time off. On the other hand, some employees are inclined to stockpile accrued PTO and take it all at once toward the end of the year, which can also create staffing issues. A close look at your business' specific needs can help you make the best decision.

4. Ensure your policy is compliant with state and local laws and regulations.

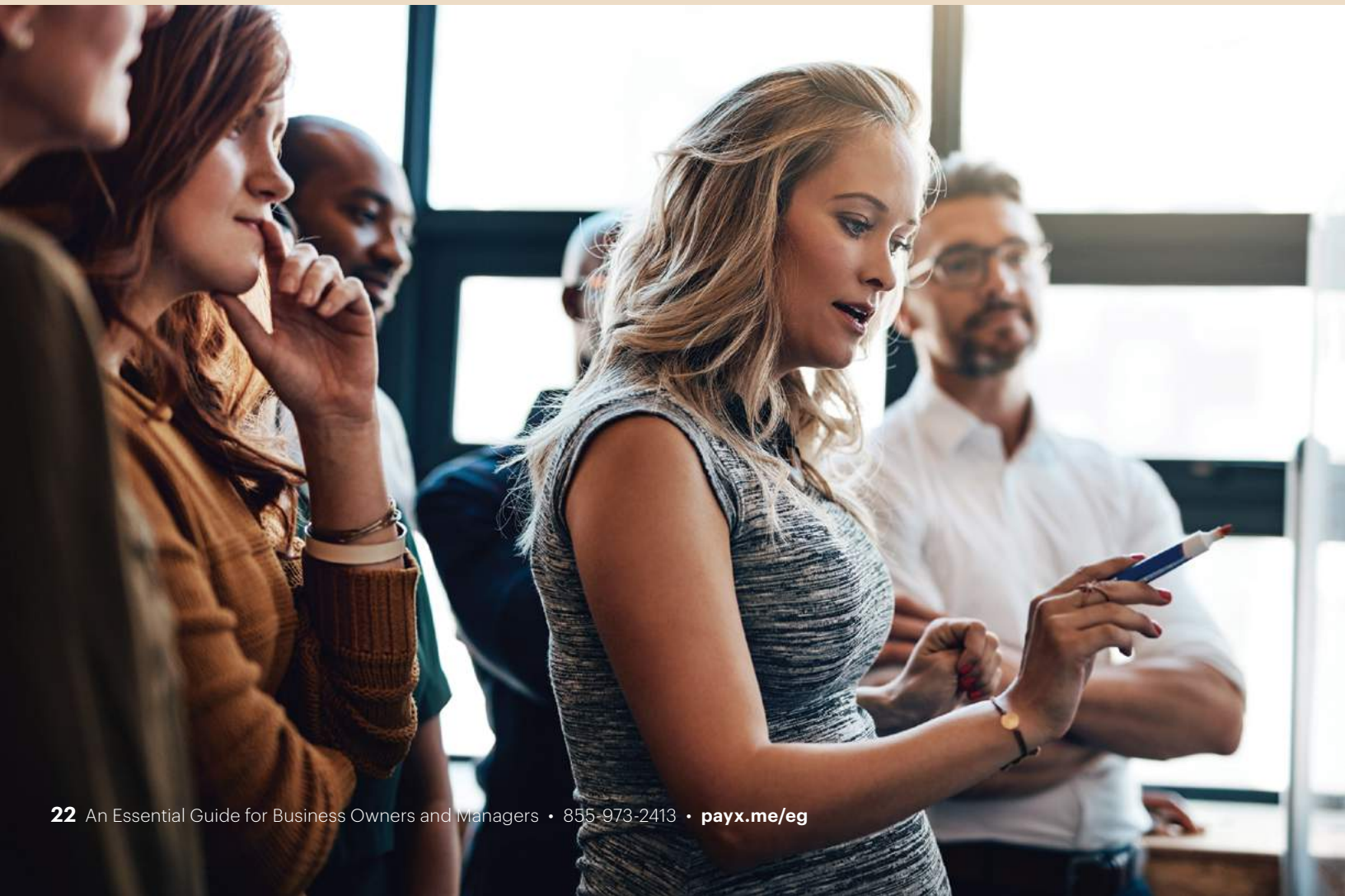
State and/or local laws may affect the type of policy you offer. It is important to understand these requirements when creating a time-off program. Applicable laws may regulate accrual of certain types of paid time off as well — it may be considered as a form of vested wages that must be paid upon termination. Laws may also require that policies be provided to employees in writing or dictate the use of such paid time off.

5. Clearly communicate your policy.

Whichever type of PTO policy or policies you decide to implement, it's important to communicate the details to employees. This can be achieved by outlining PTO policies during employee benefits meetings and with clearly worded information in your employee handbook. Be sure to address the most common questions employees have, such as the number of PTO hours they're entitled to, what the time may be used for, the methods in which PTO is earned or awarded, time-off request/approval procedures, and what happens to unused time at the end of the year and upon separation from employment.

The Family and Medical Leave Act

The Family and Medical Leave Act (FMLA) was enacted in 1993, providing eligible employees of covered employers to receive unpaid, job protected leave from work for qualified family and medical reasons including a serious health condition (their own or a qualified family member's), the birth and care of a child, and adoption/foster care placement — without risking the loss of their jobs.



The Act also includes military family leave provisions that grant eligible employees up to 26 weeks of unpaid leave. Employers covered by the FMLA include businesses with 50 or more employees, as well as public agencies and public and private elementary or secondary schools (regardless of the number of employees).

Businesses Covered by the FMLA

Employers covered by the FMLA include businesses with 50 or more employees, as well as public agencies and public and private elementary or secondary schools (regardless of the number of employees).

Employees eligible for FMLA leave

- Employees must work for a covered employer for at least 12 months (not necessarily consecutive) and have worked at least 1,250 hours in the prior 12-month period.
- Employees must work at a location where the employer has at least 50 employees within 75 miles.

How an employee qualifies to take FMLA leave and the length of leave time permitted

An eligible employee may be entitled to up to 12 weeks of FMLA leave for any of the following reasons:

- Birth of a child or placement of a son or daughter with the employee for adoption or foster care
- The need to care for a spouse, child, or parent with a serious health condition
- The employee's own serious health condition that renders him or her unable to fulfill essential job functions
- Any qualifying exigency arising out of the fact that the employee's spouse, son, daughter, or parent is a covered military member on "covered active duty"

An employee may be entitled to up to 26 workweeks of unpaid leave during a single 12-month period to care for a covered service member with a serious injury or illness if the eligible employee is the service member's spouse, son, daughter, parent, or next of kin (military caregiver leave).

Time taken for family and medical leave

Employees are not required to be paid for time taken under the FMLA, but the employee may choose to

use — or be required by their employer to use — any available vacation or other paid-time-off benefit, although specific criteria may be applicable depending on the reason for the leave and coverage under other leave laws.

Employer requirements to provide health insurance coverage to an employee on family and medical leave

An employer must continue existing coverage for an employee on leave under its health insurance plan as if the employee were not on leave. The employer may, however, require the employee to continue to pay their usual share of the premium during the leave.

Giving notice prior to taking leave

Whenever possible, an employee should give at least 30-days' notice when requesting FMLA leave. If circumstances make this impossible, employees should give notice as soon as possible. Intermittent leave and reduced schedule leave, where an employee can take leave in small individual blocks of time or by reducing the amount of time worked each day or week, respectively, is permitted in certain circumstances.

Return to work

Employees are entitled to job-protected leave under the FMLA and must be restored to their same job or an equivalent position with equivalent pay, benefits, and other conditions of employment (an exception may apply for an employee who is a "key employee", as defined under the law). However, if the employee would have been laid off without regard to taking leave (or if the employer had eliminated the position), the affected employee may not be entitled to his or her previous job.

Mandatory Sick and Family/Medical Leave Laws FAQs

You may have noticed the passage of paid sick leave laws as well as paid family and medical leave laws in certain states and many local jurisdictions. This trend is expected to continue, requiring many employers to revisit their leave policies. Following are the top questions Paychex is hearing from small-business clients in jurisdictions with mandatory paid sick leave laws, and information to answer them.

1. Do I need to change my policy if I already have a sick leave policy in place or offer a PTO policy?

Many of the sick leave laws — passed at either the state or local level — permit employers to maintain their current sick leave or PTO policies if they satisfy the accrual, carryover, use, and any other requirements of the applicable law. In most cases, employers who provide a policy that exceeds the minimum requirements must also notify employees of these additional terms and conditions and comply with the applicable notice requirements.

2. What sick leave-related reporting/tracking requirements am I responsible for?

Reporting and tracking requirements are specific to the applicable sick leave law. Such requirements may include, but are not necessarily limited to, keeping detailed records related to:

- Hours worked
- Sick time accrued
- Amount of sick time taken, as well as when it was taken
- The rate at which the paid sick time was paid
- Any amount of paid sick time carried over or paid out

In some instances, the employer may be required to provide notice of some of this information to their employees with each pay check.

3. Do I need to let my employees know how much sick leave they have available? If so, how often?

This may not necessarily be a requirement in your jurisdiction, but if it is, the method and timing will likely be detailed in the actual statute, ordinance, or implementation regulations. Please refer to these resources or consult with legal counsel to best determine how you will meet the provisions of the applicable requirements.

4. Will there be a federal paid sick leave law that will supersede all of the state and local sick leave laws and eliminate the need to accommodate more than one sick leave in certain jurisdictions?

Federal sick leave is mandatory for certain employees working on federal contracts, but a federal mandate for sick time for employees of private employers does not currently exist. It's important to be aware that private employers covered under the federal Family and Medical Leave Act (FMLA), may need to provide eligible employees, who take leave for qualified family and/or medical reasons, with unpaid time off. For more information about the FLMA, visit the U.S. Department of Labor website (dol.gov). State paid family leave laws may also run concurrently with sick leave or PTO. More information can be found on your state's website.



Note: The preceding questions and answers are not all-inclusive and are not to be considered legal advice. Employers are encouraged to seek legal counsel to address their compliance efforts to meet the specific obligations under applicable laws and regulations.



Part 6

Employee Benefits

- Section 125 Plans
- Flexible Spending Account
- 401(k) Plans
- 401(k) Plans vs. SIMPLE IRA Plans
- Fringe Benefits
- Fringe Benefits FAQs

Offering a complete and attractive benefits package that fits your employees' needs can also help retain employees. Providing health insurance, life insurance, flexible spending accounts, and retirement plans is essential these days when trying to attract and retain top employees.

Additional benefits that aren't as common, but are increasing in popularity, include:

- Flextime or work from home options
- Financial rewards, such as stock options
- Dental and vision coverage
- Outside "work" courtyards
- Flexible scheduling (e.g., four, 10-hour days)
- On-site daycare
- Health savings accounts (HSA)

In this section we will discuss several types of benefits you may want to offer your employees.

Section 125 Plans

Also known as cafeteria plans, section 125 plans allow employees to pay for certain benefits on a pretax basis, effectively reducing their taxable income and your Social Security (FICA) liability. Named after a part of the Internal Revenue Code, section 125 plans enable employees to set aside pretax dollars for any qualified medical, dental, or dependent-care expenses.

As an employer, you can also save on a variety of taxes, including FICA, federal income, and federal unemployment. This savings also includes state unemployment taxes in most states. Employers should contact their accounting professional for specific state details.

Premium Only Plan

A Premium Only Plan (POP) is a simple way for employees to reduce health insurance costs while increasing their tax savings potential. With a POP, employers allow employees to pay a portion of their employer-sponsored group health insurance premiums on a pretax basis through payroll deductions, which reduces their taxable income and helps them save on FICA, federal, and (where applicable) state and local taxes as well. By reducing employees' taxable income, a POP also helps reduce your company's payroll taxes. See the following example.

Employer Savings	
This example shows 15 employees, each contributing \$1,200 in pretax medical contributions annually.	
Pretax medical contributions	\$ 1,200
Number of employees	x 15
Total employee contributions	\$18,000
FICA factor	x .0765
Estimated annual FICA savings	\$ 1,377

This example is for illustrative purposes only. Actual tax savings will vary.

Flexible Spending Account

A **flexible spending account** (FSA) provides a way for employees to pay for qualified out-of-pocket health and dependent care expenses not covered by your benefit plans. As a pretax benefit, it's also a powerful savings tool. Participants designate a portion of their salary (up to the lesser of the IRS or plan maximum) to be deducted on a pretax basis and deposited into the plan, effectively reducing their taxable income along with your social security (FICA) payroll tax liability. See the following example of your potential employer savings.

Employer Savings	
The example below shows 15 employees, each contributing \$1,200 in pretax medical contributions; five employees, each contributing \$3,500 in dependent-care expenses; and nine employees, each contributing \$1,000 in unreimbursed medical.	
Pretax medical contributions	$\$1,200 \times 15 = \$ 18,000$
Dependent-care contributions	$\$3,500 \times 5 = \$ 17,500$
Unreimbursed medical contributions	$\$1,000 \times 9 = \$ 9,000$
Total employee contributions, annually	\$44,500
FICA factor	x .0765
Estimated annual FICA savings	\$3,404.25

This example is for illustrative purposes only. Actual tax savings will vary.

Additional Rules for FSAs

In 2014 the government announced guidelines for health FSAs that may affect your benefit options. The most significant changes are:

- Health FSAs must be offered in conjunction with a group health insurance plan. If an employer offers a stand-alone FSA without a companion group health plan, they may be subject to a penalty.
- Employers have the choice of offering their employees either:
 - 1) a rollover of unused FSA funds of up to \$500 into the next plan year, or
 - 2) the already existing FSA grace period for unused funds for 2½ months into the next plan year.
- Employers are not required to offer either of these options — they can choose to offer neither a rollover nor a grace period.



401(k) Plans

A **401(k) plan** lets participants save and invest a portion of their paycheck before taxes are taken out. Saving with tax-deferred dollars means no federal or state (if applicable) income taxes are paid on the money until it's withdrawn, which is generally at retirement when beneficiaries may be in a lower tax bracket than today.

401(k) plans are also permitted to allow employees to designate some or all of their elective deferrals as "Roth elective deferrals" that are generally subject to taxation under the rules applicable to **Roth IRAs**. Roth deferrals are included in the employee's taxable income in the year of the deferral.

No longer just for large companies, 401(k) plans now can fit into the scope and budgets of small businesses. You may have educated yourself about common misconceptions that often deter small businesses from adopting 401(k) plans, and understand that:

- Any size company can benefit from a 401(k).
- Employer matching of employee contributions is not required for employees to enjoy many benefits.
- Plan management fees are affordable for small companies if you look for administrators that specialize in serving your market.

Choosing the Type of 401(k) Plan

Two main types of plans are available to employers of any size: a traditional 401(k) plan and a safe harbor 401(k) plan.

Traditional 401(k) plan

A traditional 401(k) plan is the most flexible. You decide whether to make contributions for all participants, to match employees' deferrals, to do both, or do neither. (Employer contributions are tax-deductible, up to certain limits, so you reap tax savings.) You also decide whether to create a vesting schedule, which establishes employees' rights to employer contributions after a period of time.

Safe harbor 401(k) plan

A safe harbor 401(k) plan has several variations, and requires that employees receive a certain level of employer contributions. Traditional safe harbor plans mandate that employer contributions are fully vested at the time they're made.

Setting Up a 401(k) Plan

Setting up a 401(k) plan is a four-step process. With your service provider:

- 1.** Receive an adoption agreement and basic plan document that specify the plan's provisions. The 401(k) service provider usually provides these.
- 2.** Arrange a trust for the plan's assets to ensure that they're used only to benefit participants and their beneficiaries.
- 3.** Establish a recordkeeping system to track and attribute contributions, earnings and losses, investments, expenses, and benefit distributions. Your 401(k) service provider typically fulfills this function. Careful recordkeeping helps you and the service provider prepare the plan's annual filing with the DOL and IRS.
- 4.** Provide your employees with all necessary information to participate in the 401(k) plan: notify those who are eligible, provide a summary plan description, and distribute information about a 401(k) plan's benefits, such as pretax contributions, employer contributions (if you decide to make them), and compounded tax-deferred earnings.



401(k) Plans vs. SIMPLE IRA Plans

Choosing the right retirement plan for your company involves some key decisions:

- Who and what type of employees are you trying to benefit?
- What benefits do you want for the selected group of employees?
- What administration costs are you able to pay?

Traditional 401(k)

A traditional 401(k) plan may offer you more flexibility than a Savings Incentive Match Plan for Employees (SIMPLE) plan. Most plan providers offer different levels of prototype plans or varying options available under a particular plan: for example, an automatic enrollment option or varied vesting schedules.

With a traditional 401(k), you are not required to make employer contributions, and your employees can contribute up to an annual maximum as set by the Internal Revenue Service.

A traditional plan is subject to reporting obligations and tests:

- **Average Deferral Percentage (ADP) test**
Compares employee deferrals of highly compensated versus non-highly compensated employees.
- **Average Contribution Percentage (ACP) test**
Compares employer matching contributions and employee post-tax contributions of highly compensated versus non-highly compensated employees.
- **Top-Heavy test**
Compares the overall benefits in the plan for key employees, such as owners and officers, to non-key employees.

These compliance tests must be performed annually. Failing a test may require additional contributions or highly compensated employee distributions to bring the plan into compliance.

SIMPLE IRA Plans

A SIMPLE IRA Plan makes it possible for companies with as few as two employees to establish an IRA (SIMPLE 401(k) plans are also an option for certain businesses). SIMPLE IRA plans are designed for businesses with 100 employees or fewer who earn \$5,000 or more per year.

A SIMPLE IRA plan allows employees and employers to make contributions to Individual Retirement Arrangements (IRAs) set up for employees. These plans are typically for start-up employers who do not sponsor another type of plan and have fewer than 100 employees. Under a SIMPLE IRA plan:

- The employer makes contributions to an individual account set up for each eligible employee.
- Employees defer a part of their salaries into the plan for retirement.
- The plan is funded both by employer and employee contributions.
- Each employee is always 100 percent vested in their SIMPLE IRA.

An employer is required to make a contribution to the plan and can choose to:

- Make a non-elective contribution of at least two percent of compensation for all eligible employees earning at least \$5,000; or
- Make a matching contribution of at least 100 percent up to the first three percent of compensation.

Choosing a fitting retirement plan is one of the most important financial decisions a business owner can make. The retirement plan not only allows employers to claim a tax deduction for contributions, but also can attract and retain valuable employees. It may be best to consult with your tax or financial advisor when choosing or adopting either a SIMPLE IRA plan or Traditional 401(k) plan.

Feature	Traditional 401(k)	SIMPLE IRA
Maximum Employee Deferral (For Pretax and Roth)	\$19,000	\$13,000
Roth 401(k) Contribution Option	Yes; subject to deferral limit	No
Catch-up Contributions (For participants 50 or older)	\$6,000	\$3,000
Employer Contribution	Optional	100% up to 3% match; or 2% non-elective contribution
Vesting	Options available	Immediate
Loans	Yes	No
ADP/ACP Testing	Yes	No
Top-Heavy Testing	Yes	No
Investment Providers	Choice of many	Single
Compatible with Money Purchase or Profit Sharing Plans	Yes	No

Fringe Benefits

Fringe benefits for employees can take the form of property, services, cash, or some cash equivalent (something that can be turned into cash, such as a gift card or savings bonds). Generally speaking, fringe benefits are taxable to the employee and must be included as supplemental income on the employee's Form W-2. These fringe benefits are also generally subject to withholding and employment taxes.

Fringe Benefits FAQs

In the following FAQs, we answer questions most often asked by employers regarding fringe benefits.

What are the potential advantages of offering fringe benefits to employees?

For many small businesses, offering fringe benefits may be a way to differentiate themselves from the competition and to attract and retain new employees. At the same time, employers who choose to offer such benefits need to be aware of federal (and state, if applicable) income tax withholding requirements. These benefits are considered taxable income unless specifically excluded by current tax laws.

Are employee bonuses considered a fringe benefit?

Yes. Because bonuses take the form of cash (or a cash equivalent), they must be reported as supplemental income on the employee's W-2. The fair market value of such bonuses, regardless of how much money is involved, must be reported.

Is vacation time considered a fringe benefit under federal tax law?

Yes, just like employee bonuses.

Is reimbursement for a business trip considered a fringe benefit?

Reimbursements received by an employee who travels on business outside of the area of their tax home may be excludable from wages. Qualifying expenses for travel are excludable if they are incurred for temporary travel on business away from the general area of the employee's tax home. In order to be excludable as reimbursements, the travel must be temporary and be substantially longer than an ordinary day's work, requiring an overnight stay or substantial sleep or rest.

Is use of a company car considered an employee benefit?

Yes. The IRS indicates that when an employee uses a company car for occasional personal driving, the value must be reported in the employee's income. Frequently, the employee reports "a percentage of the car's annual lease value as determined by IRS tables."

What other employee benefits are regarded as taxable?

Other taxable employee benefits include:

- Athletic club membership or health resort expenses
- The amount provided to employees for moving expenses, in excess of actual expenses
- Business frequent-flyer miles converted to cash
- Group term life insurance for employees amounting to more than \$50,000

What employee benefits are not considered taxable?

Among non-taxable employee perks are those known as "de minimis" fringe benefits. These include property or services provided by an employer of such a small value that accounting for them would be unreasonable. These may include:

- Soft drinks, coffee, doughnuts
- Personal use of an office copy machine
- Occasional tickets to a theater production, concert, or other type of entertainment
- Non-cash holiday gifts

When are taxable fringe benefits subject to withholding?

Taxable fringe benefits are generally subject to withholding when they are made available. Employees can elect to treat taxable fringe benefits as paid in a pay period (quarterly, semi-annually, or annually), but all benefits must be treated as paid by December 31 of the calendar year in which they were provided.

For more detailed information on fringe benefits (taxable and non-taxable), consult the IRS publication *Employer's Tax Guide to Fringe Benefits* at [irs.gov/publications](https://www.irs.gov/publications).

Employee Separation

- Employment-at-Will Relationship
- Progressive Discipline
- Minimizing Pain for Separating Employees
- Best Practices to Comply with Employment Laws



The separation of an employee can feel like such a final act, but for many small businesses it's really just another part of the employee life cycle. If a situation arises where separation is necessary, supervisors and managers should consider how to mitigate the risk to the company as well as the disruption to the company and the exiting employee.

Employment-at-Will Relationship

During the hiring process, it is typically considered a best practice to have all applicants complete a company employment application. The application should contain employment-at-will disclaimer language, unless state law dictates otherwise.

Once hired, employees should generally be given a copy of their current written job description and a copy of the employee handbook, which should also include an employment-at-will disclaimer (where applicable) and an outline of company policies.

Employers are encouraged, as a best practice, to have employees sign a form acknowledging receipt of the employee handbook, which usually includes language regarding the employment-at-will status of the employment relationship. This acknowledgement asks the employee to attest to having read and understood the policies. Signed receipt pages are recommended for all future updates to the handbook policies as well, and may be retained in the employee's personnel file.

In most states, where the employment relationship is not controlled by an employment contract or collective bargaining agreement, employment is generally considered "at-will." All employers, however, are at risk for claims of discrimination and/or wrongful discharge lawsuits when terminating employees.

To potentially mitigate exposure to such claims, employers should consider whether they have a specific, job-related reason for the termination.

Job related reason for termination

- Misconduct and violation of company policy
- Unsatisfactory performance
- Organizational change (e.g., reduction in work force)

Progressive Discipline

Progressive discipline is an established process that employers may use to attempt to change employee behavior, in addition to citing performance issues and/or violations of company policy. Using progressive discipline involves taking disciplinary steps with employees, where the consequences generally increase in severity if performance issues and/or violations continue.

The use of progressive discipline can help give the employee clear expectations and make them aware of the consequences if poor performance or misconduct does not improve. Progressive discipline also helps the employer create a paper trail of documentation that can be useful should an employee file a wrongful termination or discrimination claim, or if the company wants to defend a claim for unemployment benefits.

Four Common Levels of Progressive Discipline

1. Verbal warning

Typically, a first infraction or performance issues may result in a verbal warning. A verbal warning may be as simple as the supervisor bringing to the employee's attention the performance deficiency or behavior problem, and reiterating expectations. Or, the verbal warning could involve a formal meeting where the employee is counseled regarding performance or behavior problems and given a plan for improvement.

2. Written warning

When a verbal warning fails to correct the performance or behavior problem, or if the infraction was severe enough, employers typically issue a written warning as a next step. The written warning is a formal disciplinary measure that documents the nature of the performance or behavior problem, prior warnings that may have been given for similar offenses, and consequences that may occur if the problem is not corrected. A written warning should be signed by both the supervisor and the employee.

3. Final written warning and suspension

After prior discipline, or if the circumstances are severe enough, the employer may decide to take more drastic measures if the problem still is not corrected. Final written warning with or without suspension¹ may be appropriate when performance or behavior issues continue. The employee may be given a final written notice which could include a suspension for a specific amount of time. The final notice often indicates that termination will follow if there is another infraction.

4. Termination

When all prior attempts to improve performance or correct undesirable behavior have failed, or the severity of the incident warrants immediate dismissal, termination is the final step of the progressive discipline process. Terminations may have additional legal ramifications depending on employment contracts and collective bargaining agreements, and it may be a good idea to consult with legal counsel before taking this action.

¹Be sure to follow deduction guidelines for exempt employees: <https://webapps.dol.gov/elaws/whd/flsa/overtime/cr5.htm>



Minimizing Pain for Separating Employees

The way an employee is informed of their termination may affect whether they will file a discrimination charge or take other legal action. Consider the following steps*:

- Avoid beginning the conversation with small talk or beating around the bush. Make it clear that the employee has been terminated — tell them immediately. Explain that the termination decision is final and inform the employee of their last day of employment.
- Avoid personal references or accusations that cannot be proven. Maintain a professional demeanor. In some states, an employer is not legally required to disclose the reason for termination. To do so could potentially expose your company to litigation.
- Have a witness present, preferably another member of management or a representative from your human resources department.
- Be prepared for the employee's reaction. No matter how much an employee may suspect that it was coming, employment termination is a traumatic event. The employee may respond with anger or tears. Do not react. Concentrate on listening and avoid defensive comments or counterattacks.
- Request the return of company property, including the employee handbook, and discuss other issues that need to be finalized.
- Provide notification of health insurance continuation coverage (COBRA) and certificate of creditable coverage where required. This information should be reviewed by management or legal counsel prior to the termination meeting and handled in compliance with the law during the termination meeting.
- Maintain confidentiality. The details of the termination should be kept confidential to the extent possible.
- Make sure to address the issue of the employee's last paycheck. Comply with state final pay requirements and other notice requirements to let the employee know when and how they will receive their final paycheck. Be sure to include payment for earned but unused paid time off where consistent with past company policy or required under state law.

*This is not inclusive, as the action will depend on the circumstances of the separation from employment. Employers are encouraged to consult with legal counsel to review their termination procedures to mitigate exposures to litigation. Procedures may differ where employees are represented by a collective bargaining unit and/or have signed an employment contract.

Best Practices to Comply With Employment Laws

Of all the expenses a small business incurs, few are as significant as employment-related litigation. Business owners who take a consistent and thorough approach to workplace policies, HR documentation, and management training may be less likely to find themselves facing employment litigation. **Here are five best practices to follow to help you comply with employment laws:**

1. Stay current with FLSA changes.

As an employer, you're responsible for adhering to rules and regulations established by the federal Fair Labor Standards Act (FLSA), as well as applicable state and local wage and hour laws. Infractions such as misclassifying workers or failing to pay appropriate overtime compensation can get you in trouble with the U.S. Department of Labor or your state department of labor, the agencies which enforce wage and hour laws — and possibly expose you to employee litigation as well.

2. Comply with discrimination laws.

Employers are prohibited under several federal laws from discriminating in employment on the basis of membership in a protected class, including, but not limited to, race, color, sex, age, national origin, religion, disability, genetic information, and pregnancy status. Some states and localities have nondiscrimination laws with additional protected classes, such as sexual orientation, that businesses may also be required to follow.

3. Maintain consistent employee policies

Businesses should establish specific policies for employee conduct in the workplace. Policies should be consistent; making exceptions to the rules for a favored employee or singling out someone you don't like for special disciplinary actions can quickly lead to allegations of discrimination and employee lawsuits. If, however, the guidelines in your employee handbook are vague or confusing, you may leave your business open to potential litigation. Once a policy is put into writing, it's the responsibility of you and your managers to implement and enforce it fairly. Employee-initiated lawsuits can arise when employees aren't all held to the same standards of conduct.

4. Make documentation a top priority.

In cases of progressive discipline, it's critically important to document every step. In the event of litigation, this will clearly establish the steps that were taken to correct a situation. Such disciplinary documents can demonstrate the employer's job-related reasons for taking actions that an employee may attempt to dispute in court. The same holds true for employee performance evaluations. If a manager fails to be honest or thorough in their evaluation of an employee — or if they give a rating that doesn't honestly reflect the employee's performance — it may be difficult for the employer to establish sufficient documentation should it become necessary to terminate the employee at a later date.

Employee lawsuits are no laughing matter for small businesses, and they're growing in frequency. By following a few simple best practices, business owners can help protect themselves from crippling litigation expenses as a result of potentially preventable events in the workplace.

5. Train managers to help ensure compliance.

Investing in HR training for your managers can be one of the smartest ways to spend your HR budget. Managers should be trained in all aspects of employment regulations, company policies, and HR best practices. Managers may also be your best line of defense against incidences of workplace harassment — a common cause of HR lawsuits. With the proper skills, they can defuse a situation before it gets out of hand.



Part 8

Productivity

- The Benefits of Automated Payroll and HR Outsourcing
- Choosing the Right HR Provider
- The Advantages of Expert Guidance

The Benefits of Automated Payroll and HR Outsourcing

As a business owner, manager, or HR professional, do you:

- Spend too much time on administrative tasks, and not enough on business goals?
- Worry that you can't keep up with tax laws and regulations?
- Wish you had more time to recruit and train employees?

If you said “yes” to any of these questions, you're not alone. Many business owners and managers feel overwhelmed by the daily tasks of payroll and HR administration. Issuing paychecks, managing benefits, and keeping up with tax laws — these alone can be a full-time job. Trying to do it all in-house can rob you of time, energy, and focus — taking you away from the business of doing business.

An integrated payroll/HR platform can take routine tasks off your plate and free you up to do more. It can reduce paperwork, eliminate duplication, and boost productivity. It can also help alleviate stress — reducing the frustration employees feel doing duplicate or low-level tasks. And, it can help you feel more secure knowing that your administrative work is being handled professionally.

Automated versus manual processing – what's the difference?

Payroll processing and HR administration are complicated. On any given day, you may handle state and federal wage laws, tax records, and employee information, to name a few. Manual processing may be too slow and labor-intensive to keep up with your daily demands. It's also prone to error and poorly suited for today's fast-paced world.

With an integrated payroll and HR system, your life can become a lot simpler. Staff reviews, benefits information, payroll, and tax forms are all accessed from a single interface. That means you enter data only once. This not only eliminates duplication, it also reduces the frustration of having to look for information in different places. Automated processing is also more accurate, so it helps protect you from costly compliance fines.

Benefits of an integrated payroll/HR system:

- Improves accuracy, recordkeeping, and compliance
- Automatically generates W4 forms and other tax documents
- Helps HR professionals manage benefit packages and retirement plans
- Houses all employee and HR information in a single database
- Reduces errors to help protect against compliance fines and tax audits

Is Automation Right for Small Businesses? In a Word, Yes.

Automation isn't just for big business anymore. From mom-and-pop retail stores to mid-sized companies, businesses of all types and sizes are enjoying its benefits. Look for a payroll/HR provider that can right-size their solutions to your business.

More than 1 in 10 small-business owners acknowledge spending more than 11 hours each month on the administration of their payroll taxes.¹ Automating these processes can save you time, headaches, and mitigate risk. Ask your provider about self-service options that could put valuable hours back into your day.

Employee self-service

Something else you can't get with manual processing? Employee self-service. Through a mobile app or online, employees can access their own payroll and HR information anytime, from anywhere. For administrators, this helps cut down on time spent looking up payroll inquiries. It can also make your business more attractive to potential employees: a recent Paychex survey found that an overwhelming majority (73 percent) of full-time U.S. workers expect their employer to provide a high-level of employee self-service.²

What to Look for in a Provider:

1. Integrated technology with modern features

Look for a company that offers integrated payroll processing and human resources administration all within one system. In addition to being easy to use, payroll and HR software should be accessible from anywhere with an internet connection, on any device. You should also have access to a wide range of services, such as:

- Pay options such as direct deposit, paper checks, and paycards
- Employee self-service to check pay stubs and W-2s
- Mobile apps
- HR reporting and analytics software
- An extensive online library for employee development
- An HR events calendar

2. Tax and benefits administration

Some payroll companies leave the burden (and risk) of paying taxes and filing returns on you. Choose a company that handles payroll tax administration. Also, make sure they handle employee benefits, 401(k), COBRA, and insurance administration.

3. Customer service

You need to be able to get answers to your questions quickly. You also need someone who knows your business. That's why a single point of contact — a dedicated representative — is so important. In addition, the company should have multiple channels of service for when your representative isn't available. For example, you can get help via an app, a specialist, a call center, or an online library.

4. Compliance expertise

Regulations and tax laws change by the minute. Not all providers are experts in compliance, nor do they have the resources to keep their systems current. Be sure to choose one with legal professionals on staff, and a proven history of helping clients comply with federal, state, and local laws.

5. Disaster preparedness

If severe weather or a natural disaster hits, you need an HR provider you can count on to be there for you, regardless of local conditions. Be sure that they back up client information in geographically diverse data centers that are built to withstand power failures and prevent downtime.

¹ <https://www.paychex.com/articles/payroll-taxes/diy-payroll-costs-benefits>

² <https://www.cpapracticeadvisor.com/news/12415223/survey-most-us-workers-want-self-service-hr-and-payroll-tools>

Choosing the Right HR Provider



Recruitment and onboarding. Health care. Retirement benefits. Employee engagement. The field of human resources has a diverse range of functions, each requiring its own level of expertise. On any given day, you may wear many hats as an administrator, problem-solver, and employee mentor. HR leaders are challenged to do it all and to do it well — despite rising costs and shrinking budgets.

Then there's the paperwork. Human resource departments are burdened by a massive amount of forms processing. Before you know it, you are spending more time on paper, and less time on people. Worse, processing inefficiencies can turn your department into a cost center — a liability to your company.

Integrated Payroll and HR— the Best of Both Worlds

By performing a wide array of routine functions, an integrated platform can free you from routine tasks in both payroll and HR. To help with recruitment, it may have an applicant tracking system, as well as ways to reduce onboarding paperwork. Other features such as time and attendance, employee self-service, and management reporting give you more time to focus on high-value activities.

By automating these areas, you can demonstrate measurable improvements in accuracy, processing time, and cost management. This frees you from time-consuming tasks so you can focus on “big picture” goals, such as driving employee engagement, expanding benefit offerings to attract top talent, and training your workforce to be more productive.

When shopping for a provider, be sure they offer:

- Recruiting, applicant tracking, and hiring
- Expense management
- Performance improvement
- Employee assistance and counseling services
- Background checks
- COBRA administration and workers' compensation
- Healthcare benefits
- 401(k) retirement planning
- Payroll processing
- Human capital management (HCM) solutions
- Reporting and analytics

Glossary: Payroll Forms, Terms, and Acronyms

The Advantages of Expert Guidance

Choosing the right payroll/HR provider is not just about having the latest technology. It's about having expert people and support systems in place and on call for you — 24/7. You want a partner, not just a vendor, who can help you and your employees in ways that are productive and meaningful.

How knowledgeable is your provider? Here's what to look for.

A dedicated HR consultant

This highly trained HR professional is assigned to your business and becomes a valued member of your team. They have specialized knowledge throughout the employee life cycle, and can help with assessment, planning, and specific issues within your organization. Be sure you hire a company that can offer this deep — and personal — level of expertise.

Resources and support

Choose a company that has 24/7 support via online chat, mobile app, or phone. They should also have a large online resource library with a searchable database and training videos. Also, Google them to see whether they are an influencer in the industry. Do they host webinars, or write articles on a wide range of payroll and HR topics? That's a sure sign that they will bring a deeper level of expertise and thought leadership to your business.

Legal and compliance specialization

Does the provider have an entire team of legal and regulatory specialists to help reduce your compliance risk? They should also have relationships with the IRS and local, state, and federal regulatory agencies.

Professional programs

Do you have payroll, HR, and compliance issues that are unique to your industry? When shopping for a provider, ask if they have professional programs. Accounting professionals, franchises, and financial institutions can bring added value to their clients by calling on the expertise of an experienced payroll/HR partner. As a trusted consultant, they can provide solutions, insights, and services to help you help your clients — and grow your business.

Form 940—This IRS return reconciles federal unemployment tax deposits made for the year. It also serves as a verification of state unemployment tax deposits made.

Form 941—This IRS return reconciles federal withholding and FICA taxes as well as the depositing of them throughout the quarter.

Form W-2—This federal IRS tax form must be provided by employers to all their employees, with a statement of wages paid and taxes withheld for the previous calendar year, on or before January 31. This statement is used by the employees when filing their annual federal tax return.

Form W-3—All employers are required to file this transmittal form accompanied with Copy A of their employees' issued Forms W-2. The transmittal reflects payroll totals for the year and must be filed for the previous calendar year with the Social Security Administration on or before the last day of January.

401(k)—A 401(k) is a feature of a qualified profit-sharing plan that allows employees to contribute a portion of their wages to individual accounts.

ACA—(Affordable Care Act)
The Affordable Care Act contains comprehensive health insurance reforms and includes tax provisions that affect individuals, families, businesses, insurers, tax-exempt organizations, and government entities.

S Corporation—Corporations that elect to pass corporate income, losses, deductions, and credit through to their shareholders for federal tax purposes. Unlike C corporations, S corps are not subject to income tax, their shareholders are.

EIN—(Employer Identification Number) The unique, identifying number assigned to each employer upon their registration with the Internal Revenue Service. This number is also called the Federal Employer Identification Number (FEIN).

ESR—(Employer Shared Responsibility) As part of the Patient Protection and Affordable Care Act, this provision generally requires business owners with 50 or more full-time employees, including full-time equivalents, to offer adequate and affordable health insurance to their full-time employees and their dependents, or potentially pay a penalty.

FLSA—(Fair Labor Standards Act) The federal wage and hour law that provides the federal standards for minimum wage, overtime pay, recordkeeping, and child labor for most private and public companies.

FICA—(Federal Insurance Contributions Act) This act imposed a tax (FICA tax) on employees and employers as part of the Social Security Program created by the federal government to provide economic security to workers and their families. FICA consists of social security tax and Medicare tax.

FUTA—(Federal Unemployment Tax Act) This act imposed an employer (FUTA) tax to finance a federal unemployment program.

FSA—(Flexible Spending Account) A type of section 125 plan in which participating employees are reimbursed on a pretax basis for eligible out-of-pocket health expenses (excluding insurance premiums) or child care expenses that are not covered by an employer-provided benefit plan.

HRA—(Health Reimbursement Arrangement) Accounts that allow employers to reimburse employees for eligible medical expenses not covered by the company's health insurance policy.

HSA—(Health Savings Account) A tax-sheltered savings account that allows the account holder to pay for current, qualified medical expenses and save for future qualified medical expenses on a tax-free basis. Contributions, earnings, and qualified distributions are exempt from federal income, social security (FICA) taxes, and state taxes (based on state tax regulations).

ITIN—(Individual Taxpayer Identification Number) A tax processing number only available for certain nonresident and resident aliens, their spouses, and dependents who cannot get a social security number (SSN). It is a nine-digit number, beginning with the number "9," formatted like an SSN (NNN-NN-NNNN).

LLC—(Limited Liability Company) A business structure that has elements of a corporation and a partnership. Similar to a corporation, owners have limited personal liability for the debts and actions of the LLC.

POP—(Premium Only Plan) A type of section 125 plan that offers the participant a nontaxable benefit when paying a portion of an insurance premium through payroll salary deduction.

SSN—(Social Security Number) A unique, nine-digit number issued by the Social Security Administration to U.S. citizens, permanent residents, and temporary (working) residents under section 205(c)(2) of the Social Security Act. Its primary purpose is to track individuals for taxation purposes.

SUI—(State Unemployment Insurance) Tax paid to support the unemployment fund in each state. The amount of payment depends on wages paid to the employees, the current taxable wage base limit for the state, and the employer's experience rate, which is set by the state. Generally, this tax is paid by the employer, but some states allow for an employee contribution.

TEFRA—(Tax Equity and Fiscal Responsibility Act of 1982) A U.S. federal program designed to produce additional revenue through various reform measures and tougher enforcement of tax rules, as opposed to changing marginal income tax rates.

About Paychex

Paychex, Inc. is a leading provider of integrated human capital management solutions for payroll, human resources, retirement, and insurance services. By combining its innovative software-as-a-service technology and mobility platform with dedicated, personal service, Paychex empowers small- and mid-sized business owners to focus on the growth and management of their business. Backed by more than 45 years of industry expertise, Paychex serves over 650,000 payroll clients as of May 31, 2018, across more than 100 locations in the U.S. and Europe, and pays one out of every 12 American private sector employees. Learn more about Paychex by visiting www.paychex.com, and stay connected on Twitter and LinkedIn.

855-973-2413

payx.me/eg



How Paychex Can Help

Paychex has the technology, services, and experience to bring a comprehensive human capital management solution to your business. Our products address the time-consuming administrative tasks that may keep your HR department from becoming a full-time partner at the C-suite level.

We invite you to review our wide range of business solutions and contact us for more information.

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The Power of Simplicity