

# Paychex 2020 Client Year-End Reference Guide



**PAYCHEX**<sup>®</sup>

HR | Payroll | Benefits | Insurance

# Overview

Paychex is committed to helping you prepare and plan for year-end. Please use this guide to help make sure you have a successful 2020 year-end. The guide contains reminders about payroll that occur only at the end of the year so they can be easy to forget from year to year. We value your business and look forward to helping you with your payroll processing needs for fourth quarter and year-end.



## Year-End Reminders

The deadline for reporting fourth quarter and year-end payroll information or changes to your payroll contact is **Thursday, Dec. 31, 2020, at 4:00 p.m.** or before your first payroll with a **Jan. 2021** check date, whichever is earlier. If any adjustments are needed after the deadline, please let your payroll contact know immediately. We can reprocess the tax returns, including employee Forms W-2, after the deadline; however, **there will be an additional charge and a processing delay.**

**Note:** If you work with an accounting professional, please remind them to report payroll-related adjustments on or before the deadline.

## Year-End Checklist

### Verify that tax liabilities were collected for bonus checks

Bonus checks can be processed with your regular payroll, but must be processed independently if a separate payroll journal is necessary or the bonus payroll has a different date than the regular payroll. Specify how the bonus checks are to be taxed and any adjustments that need to be withheld, as bonus checks may be handled differently from regular payroll checks.

### Confirm employee names and addresses

Report employee information changes by the assigned due date. Ensure you have necessary federal and state withholding forms when reporting new employees. Verify employee names and social security numbers (SSNs). A SSN/name mismatch affects the employee's social security wage benefits. Wages reported on Form W-2 with a mismatch error will not be credited to that employee's earnings statement. Instead, the wages will be housed in a "suspense file" until corrected. If the error is not corrected, the wages will never be credited to the employee.

**Note: The Internal Revenue Service (IRS) may charge employers a penalty of up to \$270.00 for each return or Form W-2 that has a missing or incorrect SSN or federal identification number.** We cannot file your federal Forms W-2 electronically if a substantial percentage of the SSNs are missing and you have more than 10 employees. For security purposes, all but the last four digits of the SSN are masked in any transaction.

### Report other amounts on Form W-2, Box 14

The IRS allows employers to use Form W-2, Box 14 (Other), to report certain adjustments to an employee's pay (e.g., charitable contributions); these can be set up to print in Box 14. Use the following guidelines when choosing a title for the adjustment:

- Only the first five letters of the adjustment (earning or deduction) will print in Box 14.
- Be descriptive. For example, "Misc" may not clearly substantiate a charitable contribution.
- Your payroll contact can change your adjustment title before processing your Forms W-2.

### Verify your W-2 Delivery Address

To ensure we are delivering your W-2 package with your company's original W-2 forms and reference copies please verify the W-2 delivery address with your Paychex representative.

### Report Third-Party Sick Pay (Disability Payments)

Third-party companies are required to furnish employers with a sick pay statement of any disability insurance benefits paid to employees during the year. The statement must show the following information about each employee who was paid sick pay: employee name, employee SSN, sick pay paid to the employee, any federal income tax withheld, any employee social security tax withheld, and any employee Medicare tax withheld. If you are notified about this information after reporting the last payroll of the year, you should call your payroll contact as soon as possible.

If you have not already done so, please notify your insurance company that we will include third-party sick pay on the Forms W-2 that we prepare for you. Since third-party sick pay may affect quarter-end and year-end returns, including Forms W-2, the processing of returns will be delayed if sick pay is reported after the deadline date for year-end information. Clients can expect to receive their returns and Forms W-2 no later than **Friday, Jan. 29, 2021**.

# COVID-19 Quarter-End/Year-End Reporting

## 2020 Form W-2

The [IRS issued Notice 2020-54](#) providing instructions on reporting the amount of qualified sick leave wages and expanded family leave wages paid to employees under the Families First Coronavirus Response Act (FFCRA).

To comply with this requirement, Paychex will report the following information on the 2020 Forms W-2:

- Boxes 1, 3, and 5 as taxable wages
- Box 14:
  - **ESL1** - Emergency Paid Sick leave wages subject to the \$511 per day limit that are for employees directly impacted by COVID
  - **ESL2** - Emergency Paid Sick leave wages subject to the \$200 per day limit that are for employees who are caring for someone else impacted by COVID
  - **EFML** – Expanded Family Medical Leave for employees caring for their children whose school or place of care is closed.

## Form W-2 and ESR Paychex Business Continuity Plans

The COVID-19 pandemic has added complexity and uncertainty to today's business environment. Paychex wants to ensure you're prepared for circumstances that may arise because of the challenges of the pandemic.

We're making contingency plans if we need to provide year-end returns, including Forms W-2 through a different channel based on the COVID-19 pandemic. As part of this preparation, we sent you an updated service

agreement that allows us to provide your employee and employer copies of Form W-2s online through your Paychex Flex® or Paychex HR Online account.

While we're planning to print and deliver your Form W-2s as we normally do, we want to be prepared in case you cannot receive your print delivery on time. If we need to deliver your Forms W-2s online, we will notify you by mid-January 2021.

## Paychex Employee Shared Responsibility (ESR) Service

We're making similar plans for Forms 1094-C and 1095-C for our ESR clients to meet Affordable Care Act regulations.

## Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, is designed to encourage Eligible Employers to keep employees on their payroll, despite experiencing economic hardship related to COVID-19, with an employee retention tax credit (Employee Retention Credit). The Employee Retention Credit is a fully refundable tax credit for employers equal to 50 percent of qualified wages (including allocable qualified health plan expenses) that Eligible Employers pay their employees after March 12, 2020, and before January 1, 2021.

The credit equals 50% of the qualified wages (including qualified health plan expenses) that an Eligible Employer pays in a calendar quarter. The maximum amount of qualified wages for each employee for all calendar quarters is \$10,000 so that the maximum credit for qualified wages paid to any employee is \$5,000.





## Application of the Employee Retention Credit

The credit is allowed against the employer portion of social security taxes under section 3111(a) of the Internal Revenue Code (the “Code”), the credits are fully refundable because the Eligible Employer may get a refund if the amount of the credit is more than certain federal employment taxes the Eligible Employer owes.

## Definition of Qualified Wages

The definition of qualified wages depends, in part, on the average number of full-time employees (as defined in section 4980H of the Code) employed by the Eligible Employer during 2019.

- **Employers with 100 or fewer full-time employees.** If an Eligible Employer averaged 100 or fewer full-time employees in 2019, the Employee Retention Credit is based on qualified wages paid to any

employees, regardless of whether they worked or not during any period of economic hardship (1) a full or partial suspension of operations or (2) a significant decline in gross receipts (i.e., employees who were and were not working, but were still paid).

- **Employers with more than 100 full-time employees.** If an Eligible Employer averaged more than 100 full-time employees on average in 2019, then the credit is allowed only for wages paid to employees who did not work during the calendar quarter due to either (1) a full or partial suspension of operations or (2) a significant decline in gross receipts. For these employers, qualified wages taken into account for an employee may not exceed what the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.

**Important:** The IRS has specific guidelines about identifying full-time employees employed during 2019 according to the [Determining Qualified Wages on their FAQ site](#).

**Employers can report the employee tax credit on Form 941 in second, third, and/or fourth quarters of 2020.**

For additional information about Employee Retention Credits, go to the IRS website FAQs: [Employee Retention Credit under the CARES Act](#).

### **How is Paychex Handling the Employee Retention Credit?**

Paychex updated our software to include earnings codes that automatically take half of the wages entered and apply this amount to the credit up to \$10,000 in wages for each employee. The credit is calculated at 50% of the eligible wages, up to a maximum of \$5,000 per employee.

By reporting amounts through the earnings codes set up, we'll calculate the credit and reduce clients federal tax liability. Any excess amount will be carried over and applied as a credit to the next payroll. Any excess credit at the end of the quarter will be marked for a refund by the IRS on Form 941.

## **Reporting Employee Retention Credits**

It's important that you report this information to Paychex so that we can accurately complete your Forms 941.

If you overlooked reporting this information in previous quarters, it can still be applied.

In order for you to apply the Employee Retention Credit, you must report this with a check date no later than **December 31, 2020**.

For additional information about how Paychex is handling the Employee Retention Credit, go to [Customer Support during COVID-19/Employee Retention Credit](#).

## **Families First Coronavirus Response Act (FFCRA)**

With COVID-19 spiking in several areas of the country, we're reminding you that you can still use these refundable tax credits in fourth quarter 2020.

The FFCRA requires employers to provide paid leave through two separate provisions:

**Emergency Paid Sick Leave Act (EPSLA)**, which entitles workers to up to 80 hours of paid sick time when they are unable to work for certain reasons related to COVID-19 (EPSL), and

**Emergency Family and Medical Leave Expansion Act (EFMLEA)**, which entitles workers to certain expanded paid family and medical leave (EFML).

**Refundable Tax Credit.** The FFCRA provides that employers subject to the EPSLA and the EFMLEA paid leave requirements are entitled to fully refundable tax credits in the full amount (100%) of the qualified sick leave wages and qualified family leave wages, plus allocable qualified health plan expenses and the employer's share of Medicare tax, paid for leave during the period beginning April 1, 2020, and ending December 31, 2020.

**Emergency Paid Sick Leave.** Under the EPSLA there are six qualifying reasons for which an employee is entitled to take paid leave related to COVID-19 if the employee is unable to work (including unable to telework) because the employee:

- 1.) is subject to a Federal, State, or local quarantine or isolation order related to COVID-19;
- 2.) has been advised by a health care provider to self-quarantine related to COVID-19;
- 3.) is experiencing COVID-19 symptoms and is seeking a medical diagnosis;
- 4.) is caring for an individual subject to an order described in (1) or self-quarantine as described in (2);
- 5.) is caring for his or her child whose school or place of care is closed (or child care provider is unavailable) due to COVID-19 related reasons; or
- 6.) is experiencing any other substantially-similar condition specified by the U.S. Department of Health and Human Services.

For more information on details of the FFCRA, go to: [COVID-19-Related Tax Credits for Required Paid Leave Provided by Small and Midsize Businesses FAQs](#)

## Reporting FFCRA to Paychex

It's important that you report this information to Paychex so that we can accurately complete your Forms 941.

In order for you to apply the FFCRA, you must report this with a check date no later than December 31, 2020.

## FFCRA and Employee Retention Credits/Form 7200

If you elected to receive a COVID-19 tax credit, Paychex will apply the amount of the credits to your federal tax liability each time you process payroll, which in most cases is the quickest way to access the credit.

If you choose to file one or more Forms 7200 (Advance Payment of Employer Credits Due to Covid-19) instead of electing to have Paychex apply the credits to your federal tax liability, you must provide Paychex with this information as soon as possible, but no later than **Thursday, December 31, 2020**, so we can report this information on your fourth quarter Form 941.

## New IRS guidance on Form 7200 Filing

On December 3, 2020, the IRS let us know that the last day to File Form 7200 is either January 31, 2021, or the date employers' 941s are filed for fourth quarter 2020, whichever is earlier. Any 7200s received after that date will be rejected.

## Employer Social Security Tax Deferral Information

On June 3, 2020, the PPP Flexibility Act was passed. As part of this Act, if you received a Paycheck Protection Program (PPP) Loan, you can defer deposit and payment of your share of social security tax for until December 31, 2020, whether or not your loan was forgiven. Previously, you could only defer deposit and payment of this tax until your PPP loan was forgiven.

As a reminder, the amount of deposit and payment of your share of social security that was deferred will be due as follows: 50% due by December 31, 2021, and the remaining 50% due by December 31, 2022 or as otherwise set forth in the FFCRA/CARES Act tax credits and deferrals addendum to the service agreement between you and Paychex.

## 941 Return

We'll complete the updated Form 941 based on the information you've reported to Paychex, including:

- Qualified wages for qualified sick leave and family leave wages
- Qualified health plan expenses on qualified sick and family leave wages
- Qualified wages for the employee retention credit
- Qualified health plan expenses on wages reported for the employee retention credit
- Employer social security tax you've deferred
- Advances received from filing Forms(s) 7200

**Important** – We'll report this information based on what you've reported to Paychex, including any advances you've received from filing Form(s) 7200. The 941 has been expanded to three pages to accommodate additional reporting for COVID-19 related wages and employer tax credits

Schedule B for semiweekly schedule depositors has also been revised. Schedule B amounts will be reduced by the employer social security tax credits based on the information you reported to Paychex.

## Work Opportunity Tax Credit

- Work Opportunity Tax Credit (WOTC) (section 51 of the Internal Revenue Code): No wages used for WOTC are eligible for COVID-19 tax credits.

## Employee Social Security Tax Deferral

[IRS Notice 2020-65](#) provides guidance to defer the withholding, deposit, and payment of the employee share of Social Security tax. The deferral period is from **September 1, 2020 to December 31, 2020**.

On October 31, 2020, the IRS released guidance for 2020 W-2 reporting of the Employee Social Security Tax Deferral provided in [IRS Notice 2020-65](#).

- Employers who deferred the employee portion of social security should include any wages that withholding, and payment was deferred in **Box 3** (Social security wages) and/or **Box 7** (Social security tips).
- Employers should **not** include any amount of employee social security tax that has not been withheld in **Box 4** (Social security tax withheld).
- All employee social security tax withheld in 2021 for the deferred amounts in 2020 should be reported in **Box 4** (Social security tax withheld) on Form W-2c, Corrected Wage and Tax Statement.

Paychex will report this information as required by the IRS on the 2020 Forms W-2.

Employers who have elected to defer the employee Social Security tax are responsible for collecting and paying back deferred taxes. Payments would be due between **January 1, 2021 and April 30, 2021**.

If you choose to defer employee Social Security, you should contact your payroll service representative. To opt-in to the service, we will require you to agree to terms and conditions of an addendum.



For information on quarterly reporting of Form 941 and Form 7200, go to <https://www.irs.gov/forms-pubs/about-form-7200>.



# Fourth Quarter and Year-End Reporting



## Taxpay<sup>®</sup> Clients

### **Check to see if you have any items to report.**

Report any fourth quarter payroll changes before the year-end deadline. On or before your final payroll of the quarter, report in-house checks, voided checks, or sick/disability payments to employees by a third party.

### **If you report any additional 2020 payroll entries after the deadline,**

we will collect and deposit any additional liability that may be required for federal withholding, federal unemployment (FUTA), and state unemployment insurance (SUI); however, Paychex will not be responsible for any penalties or interest assessed by tax agencies as a result of a late payment.

### **If you report any voided 2020 payroll entries made after the deadline date,**

we will prepare your federal tax return (Form 941/944) showing the overpayment and request a refund. Paychex will also prepare any required state quarterly returns or annual reconciliations showing the overpayment and will either request a refund or apply the overpayment to the next state tax deposit, based on the state's requirements.

### **Report any tax deposits related to bonus payrolls.**

We will automatically make tax deposit(s) related to your bonus payroll. To avoid an overpayment through duplicate deposits, let your payroll contact know if you have already made or intend to make the tax deposit for a bonus payroll. Agencies refund overpayments directly to employers; Paychex cannot refund a duplicate payment.

## Quarter-End Collections

Paychex provides Taxpay clients with an Outstanding Tax Liabilities (OTL) Report in each quarter-end tax package. This report lists the dates that your quarterly taxes will be remitted to the appropriate tax agencies by Paychex and indicates whether additional taxes will be credited to or debited from your account. The OTL Report contains two sections:



### 1. Outstanding Tax Liabilities for Quarter-end.

This section provides advance notification of any collections Paychex will make from your account. The tax amounts shown in this section will be debited from your bank account on **Wednesday, Jan. 20, 2021**. Tax rate changes or state FUTA credit reductions are the most common reasons we may need to make an adjustment to your account. Please ensure that sufficient funds are available in your account before **Jan. 20, 2021**, so Paychex can remit your tax payment on time.

### 2. Tax Deposits made by Paychex for you.

This section lists any tax amounts that were previously collected by Paychex throughout the quarter and the date Paychex will remit them to the corresponding tax agency.

## Non-Taxpay Clients

**Check to see if you have any items to report.** Report any fourth quarter payroll changes before the year-end deadline. If you have not already done so, report in-house checks, voided checks, any tax deposits that were due but not remitted, tax deposits paid for an amount other than the amount reflected on the deposit notice, and sick/disability payments to employees by a third party.

## Holiday Hours

**Our local offices will be closed on Friday, Dec. 25, 2020, and Friday, Jan. 1, 2021.** For specific holiday processing schedules for your local Paychex branch, please talk to your payroll contact.

## Employee W-2 Wages

Let your employees know that as long as you don't make any adjustments after the end of the year, their last check stubs will have the information that will be included on their Forms W-2.

## Earnings Records and Quarter-To-Date/Year-To-Date Reports

You can safely access Employee Earnings Records for each employee at your convenience using a customized date range through our free Paychex Online Reports Service. This report provides a wealth of information, including:

- Individual employee wage rate and salary history
- Employment verification to help employees substantiate earnings within a period of time for mortgages and loans
- Details about adjustments and amount information to reconcile deductions such as health insurance or retirement plan contributions
- Wage information for completing workers' compensation, disability, and unemployment claims To sign up for online access to this report, or if you want to receive printed copies, notify your payroll contact.

**Note:** Preview® clients can access this information by running the report Rept0020 from the standard report queue.

## Employee Access Online

You can offer your employees online access to view their Forms W-2, check stubs, retirement balances, health insurance information, and personal and payroll information from any browser or from free apps for smartphones or tablets. Convenient 24/7 online access reduces reliance on you for timely information about their payroll and W-2 information.

## Direct Deposit/Readychex®

If you use our Direct Deposit/Readychex service, you should report payroll information during the holidays at least two banking days prior to the payroll check date to ensure availability of funds. Please talk to your payroll contact if you need to change your payroll reporting date.

## Payroll Delivery by Mail

We cannot guarantee timely U.S. Postal Service delivery during the holiday season. We can deliver your payroll by courier for a nominal charge, or we can hold your payroll for pickup at our office. If you would prefer to use one of these options, inform your payroll contact when you report your payroll.

## Account Balance

Please take a moment to review your billing statement. If it is not current, pay your account before the end of Dec.; this will allow us to process your fourth quarter 2020 and year-end 2020 tax returns without delay.



## Preview® Clients - Your First Payroll of 2021

When you “Begin New Pay Period” for your first payroll with a 2021 check date, your Preview system will prompt you to perform a few steps to prepare for the new year:

Start your PC workstation with the year set to 2020. You will notice that your system automatically changes the working year menu reference to 2021. After the year updates, the system is ready to accept your first payroll for 2021.

If you attempt to download a 2021 pay file without completing “**Begin New Pay Period,**” the following error message will display:

Software	Error Message
Preview Payroll	Your transmission was unsuccessful

If you receive this message, contact a payroll representative, who can send a new download to you. After this is complete, you can receive your first set of files for the year 2021 by following these steps:

1. Verify that your workstation is set to the year 2020.
2. “Begin New Pay Period” with a 2021 check date.
3. Retrieve the 2021 pay file download.

**Note for Multi-User Clients:** Only one user needs to begin the new pay period in 2020. Other users should use the CHANGE YEAR <F5> function to change their system year to 2021 after the initial user begins the first 2021 payroll.

**Note:** All of your 2020 payroll data will be preserved in the system.



# Fringe Benefits



The value of personal use of company cars, or any other taxable cash or non-cash benefit, must be included on Form W-2. Report these benefits before your last payroll for the year. Reporting taxable benefits with cash wages allows the appropriate withholding taxes to be deducted from an employee’s check. If these amounts are processed without wages, you may be required to pay the employee’s portion of social security and Medicare taxes.

The following is specific information about several types of benefits:

Any taxable cash or non-cash benefit you give to your employees must be included on their Forms W-2

## Group-Term Life Insurance

- Report the value of group-term life insurance in excess of \$50,000.00 before your last payroll for this year. The value is based on an IRS-published table that assigns a value for each \$1,000.00 of excess coverage per month based on the employee’s age. If you do not know how to determine the value of the coverage, please contact your tax advisor.
- The value of group-term life insurance in excess of \$50,000.00 that is included in total wages is FICA taxable, even if the insurance was provided through a cafeteria plan. As an employer, you are liable for employee FICA if you decide not to withhold it from employees’ pay. If you need to report group-term life insurance information for a terminated or retired individual, please contact your payroll representative to discuss your options.

## Employer Contributions to Retirement Plans

Employer contributions to retirement plans may be taxable in your state. Please consult your plan administrator for further taxability information.

If you are not already reporting these contributions with your payroll, please report them before your final payroll for the year. We need this information to ensure Box 13 of Form W-2 is correctly marked and reported to the IRS and SSA.

## Deferred Compensation Plans

In general, amounts deferred to Section 457 plans and non-qualified deferred compensation plans with a substantial risk of forfeiture become taxable for FICA and FUTA when the employee becomes vested (the employee's substantial risk of forfeiture lapses). This is not necessarily in the same year that the wages were earned.

When an employee becomes vested, provide your payroll contact with the following information:

- the date the employee became vested
- the amount of employee and employer current year contributions before vested date
- the total amount of employee and employer contributions for prior years
- the amount of employee FICA you collected on the employee and employer contributions

When a vested employee receives a distribution, please report the following information:

- the distribution amount
- whether this is a partial or full distribution
- the amount of federal tax withheld on the distribution
- the amount of employee FICA you collected on the employee and employer contributions

## Flexible Spending Accounts (FSA)

Contributions to a medical FSA are made pretax and are used to pay eligible out-of-pocket health and dental costs such as co-payments, deductibles, eye care expenses, contact lenses and solutions, braces, prescription drugs, certain over-the-counter items, and hospital care.

Salary reduction contributions to a Health Care FSA are limited to \$2,750 for 2020; 2021 limits have not been announced.

**Now** is the time to help your employees sign up for an FSA for next year. If you want to set up an FSA, inform your payroll contact.

## Dependent Care Assistance

On Form W-2, Box 10 (Dependent Care Benefits), employers are required to report the total amount of dependent care benefits paid or incurred for the employee, including any amount in excess of the \$5,000.00 exclusion. If you provided dependent care services to employees under an employer-sponsored program before your last payroll for the year, please report the benefits paid or furnished.

## Health and Accident Insurance Premiums Paid by an S Corporation

When an S corporation pays health and accident insurance premiums on behalf of 2% shareholder/employees, the IRS rules specify two tax treatments:

### Non-discriminatory Plan:

If the premiums are paid under a plan for employees and dependents in general, or for a class of employees and dependents, the following will occur:

- The premiums are exempt for FICA and FUTA tax
- The premiums are included in the shareholder/employee's federal gross income.
- The premiums are reported on Form W-2 in Box 1 (Wages, Tips, Other Comp.).

### Discriminatory Plan:

If the premiums are not paid under a specific plan for employees and dependents, the following will occur:

- The premiums are treated like normal compensation and as such are subject to FICA and FUTA.
- The premiums are included in the shareholder/employee's gross income.
- The premiums are reported on Form W-2 in the following boxes:
  - Box 1, Wages, Tips, Other Comp.
  - Box 3, Social Security Wage
  - Box 5, Medicare Wages and Tips

**If you paid these premiums for any shareholder/employees, please report the amounts and type of plan to your payroll contact before the last payroll of the year.**

## Educational Assistance Program

The exclusion for employer-provided educational assistance under a qualified Section 127 plan for 2020 is:

- Non-job related undergraduate and graduate courses are exempt up to \$5,250
- **All job-related education assistance reimbursements are exempt from withholding and employer taxes if they qualify as a working condition fringe benefit.**

**If you have not already reported these reimbursements with your payroll, please report them before your final payroll for the year.**

## Qualified Equity Grants

IRC Sec. 83(i) has been added due to the Tax Cuts and Jobs Act; this allows Qualified Employers to offer an option to Qualified Employees to defer income from Qualified Equity Grants.

Qualified employers who offer Restricted Stock Units (RSUs) now have the options to allow their employees to elect to defer federal income tax.

Typically, these plans would be administered by a third party company, who will issue the payments to the employee and withhold the applicable taxes. Those taxes would be forwarded to the employer and collected by Paychex when we process the entries.

### There are 3 stages where these amounts need to be reported:

**1.** Qualified Equity Grant deferred under IRC Sec. 83(i) for current calendar year.

- FIT exempt
- FICA taxable
- FUTA taxable

**2.** Aggregate Deferrals under IRC Sec 83(i) elections – You must provide these aggregate amounts

- FIT exempt
- FICA exempt
- FUTA exempt
- W2 box 12 = Code HH

**3.** Taxable Income from Qualified Equity Grants under IRC Sec. 83(i)

- FIT taxable (at supplemental rate, currently 37%) - You must report the tax to Paychex
- FICA exempt
- FUTA exempt
- W2 box 12 = Code GG

### Example:

Madeline receives a job offer. The company thinks Madeline's skill set is valuable and hopes she remains a long-term employee, so the company offers her 1,000 RSUs as part of her compensation, in addition to a salary and benefits. The company's stock is worth \$10 per share, making the RSUs potentially worth an additional \$10,000. To give Madeline an incentive to stay with the company and receive the 1,000 shares, it puts the RSUs on a five-year vesting schedule.

After one year of employment, Madeline receives 200 shares; after two years, she receives another 200, and so on until she acquires all 1,000 shares at the end of the vesting period.

Depending on how the company's stock performs, Madeline may receive more or less than \$10,000.

After one year of employment Madeline receives 200 shares of stock. We need to process the value of the 200 shares (\$2000) and tax it for FICA and FUTA. She defers federal income tax (FIT).



## Year 1

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- Process **\$2,000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$2,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 3

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- Process **\$2000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$6,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 5

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- Process **\$2000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$10,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 2

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- Process **\$2,000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$4,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 4

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- Process **\$2000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$8,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 6-10

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- Process 0 (#1)
- Process 0 (#2)
- Process **\$2,000**. Box 12 Code GG. No net pay, just add to income for tax. The tax should have been withheld by the third-party provider at the supplemental rate (currently 37%); however, Paychex won't calculate the tax, we just enter what was withheld. You must report what was withheld to Paychex (#3)



## Additional Reporting Requirements

### Reporting Taxable Adjustments for Separated Employees

Taxable adjustments (for example, personal use of a company car, imputed value of group-term life insurance) should be reported with regular payroll whenever possible. Regular reporting of these adjustments allows required employee taxes to be withheld from wages. If taxable adjustments are reported without wages, the employer may be liable for the employee portion of taxes.

- When employees leave the company voluntarily or involuntarily, you should report taxable adjustments with the employees' last checks; otherwise, the employer may be liable for the employee portion of taxes.

If you pay any part of an employee's income tax or FICA withholding, the amount paid must be reported as additional taxable wages for the employee. Additional employment taxes, both employee and employer portions, must be withheld on this added income.

- If you cannot report taxable adjustments on an employee's last check, discuss it with your payroll contact. We can help you calculate the additional amount needed to cover the employee portion of FICA.

### Example of Tax Adjustments for Separated Employees

**Scenario:** You need to report \$100.00 as the imputed value of group-term life insurance in excess of \$50,000.

- If you report the \$100.00 with the employee's last paycheck, \$7.65 in employee FICA tax is withheld from the employee's wages. You are liable only for the employer's share of FICA. **Your total cost is \$7.65.**
- If you report the \$100.00 after the employee's last paycheck is issued, employee FICA cannot be withheld because no wages are being paid. You will be liable for the employee portion of FICA, plus the employer portion of FICA. You must report \$8.28 as wages to cover employee FICA. You will also have to pay \$8.28 for employer FICA. **Your total cost is \$16.56.**

The IRS formula for calculating the additional wages is:

$$\text{Total amount (gross)} = \frac{\text{taxable adjustment}}{1 - (\text{Sum of all employee tax percentages})}$$

Only FICA tax is required in this example:

**Step 1:** Total amount (gross) =  $\frac{\$100}{1 - .0765}$  =  $\frac{\$100}{.9235}$  = \$108.28

**Step 2:** Total amount – taxable adjustment = additional wages = (\$108.28 - \$100) = \$8.28



## Report Cost of Coverage Under Employer-Sponsored Health Plan

The IRS requires that employers who issued 250 or more Forms W-2 in the previous year report the cost of coverage under an employer-sponsored group health plan on their employees' Forms W-2. For Paychex to report these amounts on your Forms W-2 for 2020, you must provide them to your payroll contact before the year-end reporting deadline.

**Note:** All Vermont employers who issue Forms W-2 are required to report the cost of coverage under an employer-sponsored group health plan on their employees' Forms W-2

# Important Tax Agency Notices

## Internal Revenue Service (IRS) Federal Deposit Frequency

Use the Form 941 lookback period to determine your 2020 deposit frequency. Refer to IRS Notice 931, at [www.irs.gov/pub/irs-pdf/n931.pdf](http://www.irs.gov/pub/irs-pdf/n931.pdf), for additional information about Deposit Rules and Lookback Period.

If you do not subscribe to our Taxpay service, we will calculate your deposit frequency using your previous payroll liability and instruct you to make deposits based on this frequency. Your Jan. tax deposit notice will state your 2020 federal deposit frequency.

## State Deposit and Electronic Funds Transfer (EFT) Requirement Notice

If you receive a state deposit frequency notice or state notification of EFT requirements, send us a copy of the document with your client number noted.

## State Unemployment Insurance (SUI) Rate Update

You should receive notification of your state unemployment insurance (SUI) tax rate for 2021 either by mail from the agency, or you may need to obtain it online if the state has notified you that SUI rates are only available electronically. We need this rate to calculate your SUI tax and return correctly; please fax or email us a copy of the document (or print it from the internet and fax it) with your client number noted.

## IRS Electronic Federal Tax Payment System (EFTPS) Mandate

*If you are not on our Taxpay service, you will need to register your business and make payments electronically on [www.eftps.gov](http://www.eftps.gov).*

The only exception to this rule is that taxpayers who file Form 941 can send a check with the return if their liability is \$2,500.00 or less for the quarter. Similarly, if the taxpayer is a Form 944 filer, they can remit taxes due with the return if their liability is \$2,500.00 or less annually.

## Electronic Federal Tax Payment System (EFTPS) Enrollment

Enroll with the Internal Revenue Service (IRS) on your own using Form 9779, or visit [www.eftps.gov](http://www.eftps.gov); this will allow you to make a payment, if necessary, and verify that payments are being posted properly to your account. It is ultimately the taxpayer's responsibility to ensure that all taxes are being remitted on time to the IRS; using a payroll service does not absolve the employer of this responsibility.

The IRS requires us to notify our Taxpay® clients that although Paychex is designated as the Reporting Agent on Form 8655 (Reporting Agent Authorization), this does not relieve you from liability if tax payments and/or returns are not remitted by the due date. The IRS recommends that clients enroll in and use EFTPS to ascertain whether an agent has made all required deposits on time. Most state agencies provide ways for you to verify tax payments as well; contact your state agency for this information. Please be assured that Paychex makes every effort to remit your tax payments and returns on time. If any issues do arise, we work with you and the agency to resolve the situation.

## FUTA Threshold

For 2020, employers are required to make a quarterly deposit for FUTA if accumulated tax exceeds \$500.00 in the quarter. Expect that some states will require additional tax due to the FUTA credit reduction. The effective FUTA tax rate is 0.6%.



## Forms W-2/Forms 1099

The IRS requires employers with 250 or more Forms W-2 to file electronically. Any employer who is required to file electronically and fails to do so may incur a penalty.

Paychex will electronically file employer federal Forms W-2 and W-3 to the Social Security Administration (SSA) for all clients. You will still receive paper copies of employee Forms W-2 to distribute to your employees so they can file them with their individual tax returns. We will include a Form W-3 facsimile in your Jan. tax package.

We will **not** be able to file Forms W-2/W-3 electronically if:

- we do not have a valid federal employer identification number (FEIN), **or**
- you have more than ten employees and a substantial percentage of the social security numbers (SSN) are missing or invalid, **or**
- you have fewer than 250 employees and leave our service before Dec. 31, 2019.

## Important Form W-2 Information

### Employee Name

If you would like to receive an Employee Address List to assist you in verifying employee names, addresses, and social security numbers, please let your payroll contact know. The employee's name shown on the Employee Address List should be the same name that appears on the employee's social security card. If a suffix to the employee's name (Jr., Sr., etc.) appears on the employee's social security card, it may appear on the Form W-2; however, the SSA still prefers that a suffix does not appear on Form W-2.

- Titles should not appear on Form W-2. Titles or academic degrees (Dr., RN, etc.) make it difficult for the SSA to determine the employee's registered name.
- If an employee's name has changed, continue to use the old name until the employee has obtained a social security card with the new name. Employees can report name changes to the SSA by calling 800-772-1213. Notifying the employer is not enough; the employee must notify the SSA to update the permanent record.

For clients using Preview, this information is available by running the report Rept0039 from your standard report queue. Verify employee names, addresses, social security numbers (SSNs), and pension information. Update Preview before you process your last payroll of 2020.



## Employee Address

Verify the address for each employee.

## Employee SSN

Paychex can provide a list of missing or invalid SSNs upon request. The SSA may impose a penalty for missing or incorrect SSNs. An SSN is invalid if:

- It is all ones (11111111) or all threes (33333333).
- It is 123456789.
- The first three digits are 000, 666, 900-999; the middle two digits are 00; or the last four digits are 0000.

If an invalid SSN is identified, ask the employee to provide the social security card for verification. If the number is invalid, instruct the employee to contact the local SSA office. For more information about invalid social security numbers, go to <http://www.socialsecurity.gov/employer/verifySSN.htm>.

**Reminder:** The IRS may charge employers a penalty of up to \$270.00 for each return or Form W-2 that has a missing or incorrect SSN or federal identification number.

## SSA Note

The SSA has cautioned payroll service providers about duplicate Form W-2 reporting. We will prepare and file Forms W-2 for tax year 2020 for all clients who are on our service at the end of the year.

**Note:** We will not prepare or file Forms W-2 for any clients who leave our service prior to year-end, unless specifically requested.

## Federal Forms 1099/1096

### New Return for 2020 – Form 1099 NEC, Nonemployee Compensation

In 2020, the IRS is requiring employers to use [Form 1099-NEC](#) to report nonemployee compensation. In previous years, this information was reported in Box 7 of Form 1099-MISC.

The return must be remitted to the IRS and furnished to payees by February 1, 2021 (because January 31 is a Sunday in 2021).

The 1099-MISC is still valid and will be used for Rents/Royalties/Other, but will not include nonemployee compensation. The 1099-MISC will be due March 1, 2021. States need to determine if they will follow these new federal requirements.

Paychex will produce the appropriate return based on where the information was reported last year and what type of compensation it is.

### Filing Forms 1099/1096 Electronically

The IRS requires payers with 250 or more Forms 1099 to file electronically. A payer who is required to file electronically and fails to do so may incur a penalty.

Paychex will electronically file payer federal Forms 1099- and 1096 for all clients. You will still receive paper copies of your payer reference copy and payee Forms 1099 to distribute to your payees. We will include a Form 1096 facsimile in your Jan. tax package.

We will not be able to file Forms 1099 electronically if:

- we do not have a valid EIN for your company, or
- you have fewer than 250 employees, and you leave our service before December 31, 2020.

## The Affordable Care Act (ACA) Update

There has been no repeal and replacement of the Affordable Care Act (ACA). If you're an applicable large employer (ALE)\* employer there are still coverage guidelines to meet to avoid potential assessment. ALEs must file the associated information returns accurately and in a timely manner to avoid significant penalties.

\*In general, ALEs are employers who average 50 or more full-time employees, including full-time equivalent employees, in the previous year.

ALE employers should be mindful that the IRS has been enforcing information reporting requirements by issuing proposed penalty notices for late filing, paper filing returns over 250, and incorrect Taxpayer Identification Numbers.

### The 2020 deadlines for ACA tax reporting are:

#### March 2, 2021

Furnish employees with Form 1095-C. The furnishing date has been extended by the IRS for 2021.

#### Feb. 28, 2021

File copies of Forms 1094-C and 1095-C (if filing on paper)

#### March 31, 2021

File copies of Forms 1094-C and 1095-C (if filing electronically)



### Federal Form 8027/8027T for Restaurant Clients

Paychex will file Forms 8027 and 8027T to report tip allocations on behalf of clients with our TEFRA service.

State and Local Updates will be provided in an addendum published at the end of November

The information in these materials should not be considered legal or accounting advice, and it should not substitute for legal, accounting, and other professional advice where the facts and circumstances warrant. It is provided for informational purposes only. If you require legal or accounting advice, or need other professional assistance, you should always consult your attorney, accountant, or other professional advisor to discuss your particular facts, circumstances, and business needs.

# Declining Electronic/Magnetic Media Filings

If you would prefer to file employer Forms W-2, Forms 1099-NEC, or 1099-MISC on you own, please complete the following information and fax the form to our office.

**Note: Clients who use the Taxpay service through Dec. 31, 2020, cannot decline electronic/magnetic media filing.**

Employers who meet the following requirements must file electronically or on magnetic media:

**Federal:**

- You have 250 or more Forms W-2.
- You have 250 or more Forms 1099-MISC or

**State and Local** - You meet state requirements for filing information on magnetic media as outlined in the state and local addendum (published at the end of Nov.)

**No**, I do not want Paychex to electronically/magnetically file, and I take responsibility for remitting the following returns for **tax year 2020**:

- Federal Form W-2 with the Social Security Administration
- State Forms W-2 with any state withholding tax agency
- Local Forms W-2 with any local withholding tax agency

**No**, I do not want Paychex to electronically/magnetically file my payer Form 1099-MISC or 1099-NEC, and I take responsibility for remitting the required returns for **tax year 2020**:

By declining electronic/magnetic media filing, I understand that I am responsible for filing this information with the appropriate agencies. I also understand that an employer who is required to file electronically or on magnetic media and fails to do so may incur a penalty, and will be held responsible for resolution and/or payment of the penalty.

Authorized Signature \_\_\_\_\_ Date \_\_\_\_\_

Client Number \_\_\_\_\_ Client Name \_\_\_\_\_



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