Payroll 201 – More than the Basics
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Payroll Management
- It’s a big puzzle
- Many pieces all fitting together

Payroll 101
Payroll is the reason people come to work!
HR is the reason they stay!
Payroll Management

• Getting it to all fit together can be tough!

Payroll 201

• AGENDA
  - Fringe Benefits Taxation Rules
  - Prizes and Awards
  - Supplemental Wages
  - Garnishment Overview

Fringe Benefits Taxation

• What are Fringe Benefits?
  - Items of value given/offered to employees that have a fair market value to them
  - FMV = the price the employee would pay on his/her own for that benefit
  - “arms length transactions” – terminology from IRS
Fringe Benefits Taxable/Nontaxable

- Deductions:
  - Section 125
  - Health/ Cafeteria Plans
  - Retirement Plans
  - Other voluntary deductions (supplemental life etc)

- Additions to pay:
  - Relocation
  - Reimbursement for education
  - Travel expenses
  - Parking-transportation
  - Meals
  - Co Car /Plane?


H&W Benefits – Qualified Plans

- Health insurance
  - Pre-tax for Fed, State and OASDI
  - Section 125 of the IRC
  - Legal dependents – Federal definition and State definitions may vary.
  - SCOTUS Decision on DOMA
    - Tax laws
    - Spouse – not civil union or domestic partner
    - Taxation of Civil Union and Domestic Partners

Retirement

- Non taxable if payroll deducted
  - Taxable for OASDI and Medicare

- Employer must have written plan

- Watch for plan document rules
  - What is the definition of compensation
  - How often can employee change deferrals
Relocation

- Relocation
  - Initial Test
    - Time, Distance
  - Deductibility Test

- Two distinct non-taxable, qualified reimbursements
  - Moving of oneself and family
  - Moving of household goods and personal items

Relocation Rules

Tuition/Educational Assistance (Sect 127)

- Educational Assistance Plan (Section 127) Tuition Reimbursement
  - Written plan document
  - Not favor highly compensated
  - Must be tested each year

- IRS allowed maximum for a calendar year
  - $5,250
  - Books, tuition, fees
  - NOT parking, transportation, housing or tangible items required
Transportation Benefits (Section 132)

- **Exclusion from wages** -
  - $130 per month for combined commuter highway vehicle transportation and transit passes.
  - $250 per month for qualified parking
  - For a calendar year, $20 multiplied by the number of qualified bicycle commuting months during that year for qualified bicycle commuting reimbursement of expenses incurred during the year.
  - Must have plan document
  - Not favor highly compensated
  - (*note – these numbers are always subject to change)

Group Term Life Insurance

- Life insurance provided by the employer in amounts over $50K have an imputed income value.
- The amounts over the 50K divided by units of 1K each are then multiplied by an amount determined by the age of the person provided the benefit

<table>
<thead>
<tr>
<th>Age</th>
<th>Cost per unit per month</th>
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<tr>
<td>Under 25</td>
<td>$.05</td>
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<tr>
<td>through 29</td>
<td>$.06</td>
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<td>30 through 34</td>
<td>$.08</td>
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<td>35 through 39</td>
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<td>40 through 44</td>
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<tr>
<td>65 through 69</td>
<td>$.87</td>
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<td>70 and older</td>
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Calculating taxable imputed income

- **Imputed income for amounts over $50,000**
  - Take value of insurance $120,000
  - Less allowed amount $50,000
  - Amt to calculate imputed inc $70,000
  - Divide by 1000 (70 units)
  - Find employees age and amount (using age 45)
  - Amount is .15 per unit x 70 units **$10.50**
  - That is taxable amount for each MONTH
### Cars, Trucks & Planes

- **Use of personal car** being reimbursed by company
  - Companies can choose to reimburse any amount they want
  - The amount set by the IRS is the amount allowed to be reimbursed on a non-taxable basis
    - Current (changes yearly and sometimes midyear) 56 cents per mile
- **Car Allowances**
  - Non accountable plan - taxable

### Business Expenses

- Non taxable if under an **accountable plan**
  - Accountable Plan
    - Must be in writing
    - Show a business connection
  - Travel/work related expenses for employees
    - Must have receipts or return of excess amounts (if advanced)
    - Mileage reimbursement up to 56 cents per mile

### Other

- **No-Additional-Cost Services**
  - Generally, no-additional-cost services are excess capacity services, such as airline, bus, or train tickets; hotel rooms; or telephone services provided free or at a reduced price to employees working in those lines of business.
- **Working Condition Fringe Benefits**
  - This exclusion applies to property and services you provide to an employee so that the employee can perform his or her job.
  - Examples - work gloves, goggles, ear plugs
Prizes/Awards/Bonus

- Prizes – or “thank you’s”
  - A t-shirt to everyone in a dept. for hitting a goal
  - A thank you lunch paid for by the employer (de minimus)
  - A holiday “turkey”

- What about a gift certificate to a restaurant for a job well done?

- Discounts on Employer goods
  - Non taxable UNLESS the product is sold at less than cost – the difference is taxable

- Cash prizes and Cash Equivalents
  - ALWAYS taxable

Achievement Awards

- Tangible property (not cash) that is awarded in recognition of a worker’s length of service or safety accomplishments. (5 year increments)

- The annual dollar limit on qualified plan awards to an individual employee is $1,600 per year.

- A lower limit of $400 per year applies to awards made under a program that is not qualified.

*See Publication 535 – Business Expenses

Supplemental Wage Taxation

- **Flat Rate**
  - Federal 25%
  - If over 1 million dollars in supplemental wages the rates change to 39.6%
- **Your State Rate** – VT 24% of Fed (6%)
- **Aggregate Method**

**Supplemental Wages**
- bonuses
- prizes and awards
- commissions
- sick pay awards
- retroactive pay
- severance or dismissal pay
- payments for unused annual leave
- tips
- payments for working during vacation
- reimbursements for nonqualified moving expenses
- reimbursements for business expenses under a non-accountable plan.
The “rules”

- If wages are combined in one check and NOT clearly indicated – then withhold at W4 exemption.
- If wages are combined in one check and ARE clearly indicated OR paid in a separate check you have two choices:
  - the flat rate of 25% for the portion of pay that is supplemental wages
  - Aggregate method – combine payments – calculate withholding as one payment, subtract the tax on the regular wages and deduct remainder from supplemental wages

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Example: Joe - $1000 pay - $500 bonus claiming M 1 – pd biweekly

- **ONE Check** at W4 rate (Aggregate)
  - $1500 taxable
  - M1 = $120 federal taxes
- **One Check** – (flat rate method)
  - $1,000 reg = $53
  - $500 X 25% = $125
  - Total = $178 federal taxes
- **TWO checks** – W4 rate (Aggregate)
  - Total Taxable at $1500 = $120
  - 1st check would have $53
  - 2nd check would have $67
- Two Checks flat rate method
  - Same as one check

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Special rules

- If there is no withholding on regular pay (due to W4 exemptions) then you must use the aggregate method.
- If employee claims EXEMPT – they are exempt from all taxes
Remember!

- **Things to think about:**
  - This is the Employer’s choice! Not the employee’s
  - Be consistent – do not make exceptions to your policies
  - Setting up the earning code to always tax at the flat rate on supplemental wages has its own problems (ie: exempt or too many withholdings)

Garnishments

- **Different Types of Garnishments**
- **Consumer Credit Protection Act**
  - (CCPA)

Types of Garnishments and Priorities

- Bankruptcy (unless levy served first)
- Child Support Order (unless received prior to the bankruptcy)
- IRS Levy
- Federal Student Loan - Federal Non-Tax Debt
- State Tax Levy - State Student Loan
- Local Tax Levy
- Creditor – Called Wage Garnishments or Court Garnishments
The CCPA governs three things in working with garnishments:

1. Set limits on child supports, creditors and student loans. Does not cover limits for tax levies or bankruptcies.
2. Set the priority of which garnishments to administer when multiple garnishments are presented.
3. Defines disposable earnings as earnings after deductions required by law.

Example of Disposable Earnings

- Mary's gross pay is $1,250.00
- Her fed taxes $126.00
- Her state taxes $62.00
- OASDI/Medicare $95.50
- Her 401k $125.00
- Her Health Insurance (ACA?) $78.00
- Her Net Pay $763.50
- Her Disposable Pay: $966.50

CCPA – states that the maximum amount that can be garnished is:
- 25% of the disposable earnings for the week OR…
- the amount by which the disposable earnings EXCEEDED 30 X the federal min. wage then in effect. (Federal min wage = $7.25) whichever is LESS
- This is the maximum amount if multiple garnishments for ALL garnishments received that fall under the CCPA (child support & student loans also)
Employee X’s disposable earnings are $410 per week.

You receive a garnishment order to withhold $175.00.

What is the maximum amount you can withhold?

- $410 \times 25\% = $102.50
- $410 - $217.50 (30 \times \text{min wage}) = 192.50

Example

Child Support & Student Loans

- **Child Support**
  - Maximum allowed
    - 50\% of disposable earnings if supporting another spouse and/or children
    - 60\% of disposable earnings if NOT supporting another spouse and/or children
    - OR if 12 weeks or more in arrears add another 5\% to the above numbers

- **Federal Agency garnishments (student loans)**
  - Lesser of:
    - 15\% of disposable earnings
    - The amount which the employee’s pay exceeds 30\times \text{federal minimum wage}
  - State Student loans:
    - 10\% of disposable earnings
    - The amount which the employee’s pay exceeds 30\times \text{federal minimum wage}

So….. What if…..?

- **Creditor garnishment** is taking a total of 25\% of disposable pay and then you receive a federal student loan asking for 15\%?

  - Fed Agency takes 15\%
  - You only have 10\% left to send to creditor
### So..... What if.....?

- **Creditor garnishment** is taking a total of 25% of disposable pay and then you receive a Child Support Order asking for 50%  
- Child Support gets 50%  
- You have 0% left to send to creditor

### CCPA

- **The federal limitations** apply no matter how many garnishments are received for an employee.  
- If more than the maximum is withheld and the employee receives less than the guaranteed exempt amount, the employer may be subject to penalties for violating the Fair Labor Standards Act.  
- Once a Child Support Order is taking 25 percent or more of disposable earnings, no other garnishment may be honored with the exception of possibly another Family Support Order, a Federal Tax Levy or Bankruptcy Order.

### Bankruptcy & IRS Levies

- **Bankruptcy** has no limits – can take up to 100%
- **IRS Levies** – be very careful!  
  - Publication 1494
Types of Garnishments and Priorities

- Bankruptcy (unless levy served first)
- Child Support Order (unless received prior to the bankruptcy)
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