

Year End Information - 2011

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Remember, Year-End Happens All Year Long!

1. Key Dates

NOW:

Complete Year End Planning:

Look at lessons learned from 2010 and incorporate as needed

Complete an internal calendar that shows cutoffs for the following:

- Address changes (W-2's print correctly) (periodically ask employees to verify during the year)

- Any documents that affect gross pay
- Account coding changes if applicable
- Cash allowances to be paid through payroll
- Commute Trip Allowance Requests
- Health/Life/LTD insurance changes

- Leave (all types) – including Leave without pay
- Miscellaneous deduction changes
- Overtime/Standby/Callback/Shift Differential hours
- Part-time employee hours
- Salary rate changes if applicable
- Travel – taxable issues
- Work location changes
- Moving Expenses
- Non-cash/taxable fringe benefits reporting

- New hires
- Settlement Issues
- Terminations
- Anything else as identified by the agency

Communicate with the following groups:

- Agency Human Resources Office
- Accounts Payable
- Executive Office
- Employees
- Department managers
- Travel desk
- Commute Trip Reduction Coordinator
- Other offices having payroll related business

Plan adequate staffing availability during the holidays

- Ensure proper staffing levels for December 9 - January 10

Key Dates (Continued)

Obtain, review, and have ready procedures for manual transactions. What can you do to prevent these from occurring?

- Emergency payroll payments
- Manual ACH/warrant cancellations
- Manual tax deposits

Run Forms 941 and W-3 in HRMS each payday and:

- Reconcile deposits
- Balance 941 to W-2
- Prior to filing Form 941, check for a balance due on Line 14 or an overpayment (refund) on Line 15. Additional research may be needed.
- This is not only a year end activity! **Do this throughout the year!**

Remind employees to submit amended Forms W-4 (if applicable) and review beneficiaries:

- Per the IRS, remind employees to file an amended W-4 if their filing status, allowances, or exempt status has changed since the last time they filed a W-4. Do this by December 1.
- Be sure to tell employees that if there are no changes, there is no requirement to file a new W-4.
- Year-end is a great time for employees to review their beneficiaries for life insurance, retirement, and deferred comp.

Remind employees who have a qualified/WA State registered domestic partner to review IRS Section 152 eligibility (this should take place throughout the year):

- For complete instructions, including forms, go to the following Public Employee Benefits Board (PEBB) site:
<http://www.pebb.hca.wa.gov/documents/forms/2012/50-704.pdf>. Employees who want to add a Washington-State registered domestic partner or the children of a domestic partner would also go to this site.
- The Rates page on the PersPay site have been updated with the 2012 Tax Issues Related to PEBB Domestic Partners Insurance Information:
http://www.perspay.hca.wa.gov/documents/rates/TaxIssuesDoc_2012.pdf
- Q&A can be found here:
<http://www.fuzeqna.com/pebb/consumer/kbdetail.asp?kbid=703>

Verify that Accounts Payable has all Form 1099-MISC data needed for amounts paid to the claimant of deceased employee's estates

Final Off Cycle Workbench for 12/23/11: Watch for HRMS communication!

December 23, 2011: PAYDAY!

Key Dates (Continued)

End 2011 and Beginning 2012: Be aware of employee health insurance premium collections between years (cannot be pretax, unless agency administrative error). *Be sure to communicate with affected employees!*

Prior to sending out 4th quarter 2011 IRS Form 941: Ensure that Forms 941, 941-X, W-2, and W-2c are in balance. Doing so will help avoid penalties from the IRS, SSA, or both. *Note: Once DES has processed Forms W-2, this means a W-2c.*

- **DON'T wait until the end of January to complete the 2011 reconciliation process!**
- **DO wait until the 941 filing deadline to file!** Why? Avoids a 941-X if you find a correction that needs to be made to Form 941.

Items to be postmarked by January 31, 2012:

- IRS Fourth Quarter, 2011 Form 941 (Employer's Federal Quarterly Tax Return). Note: Per IRS Publication 15 (<http://www.irs.gov/pub/irs-pdf/p15.pdf>), extra 10 days if you don't owe money.
- Forms W-2 to employees

February 15, 2012: Exempt Forms W-4 expire.

- Per IRS Publication 15, any Form W-4 previously given to you claiming exemption from withholding has expired.
- Begin withholding for any employee who previously claimed exemption from withholding, but has not given you a new Form W-4 for the current year.
 - If the employee does not give you a new Form W-4, withhold tax as if he or she is single, with zero withholding allowances.
 - If you have an earlier Form W-4 for this employee that is valid, withhold based on the earlier Form W-4.
- After Day 4 for the 12/9 payroll, you can run **HRMS report ZHR_RPTY661** "Tax Exempt Status Report" to find out which employees are claiming exempt.

After Completing the Year-End Process

- Schedule a Year-End debriefing meeting to review successes and failures.
- Document lessons learned in 2011 in preparation for the next Year-End.
- Go over the 2012 payroll calendar: Be aware of deadlines and paydates!
- Placeholder for your 2012 year-end communication to employees: Total cost of employer provided health coverage on the W-2 (see #8).

Throughout the year, watch "effective dating" on Form W-4 changes

- If you use a date that does not include a time period in the employees' tenure in your agency, you may affect another agency's payroll revolving account (035), causing an out of balance condition for both agencies.

2. Internal Revenue Service

Taxable Fringe Benefits:

The IRS guide to Taxable Fringe Benefits can be viewed at the following web address: <http://www.irs.ustreas.gov/pub/irs-pdf/p15b.pdf>

In addition, the Taxable Fringe Benefits Guide, which is used in the IRS Taxable Fringe Benefit training class, can be viewed at:
http://www.irs.gov/pub/irs-tege/fringe_benefit_fslg.pdf

Items of note:

- Taxable travel – work with Accounts Payable
- Commute Trip Reduction payments
- Allowance payments
- QDP – rate changes (automatically updated)
- Special Accounting Rule for benefits provided in November/December (or a shorter period)

IRS Contact Information for Government Agencies:

- 1-877-829-5500
- <http://www.irs.gov/govt/fslg/index.html>
- Washington's Federal, State, and Local Government contact
 - Clark Fletcher
 - Clark.M.Fletcher@irs.gov
 - (425) 489-4042 – however email is best

Deceased Employees – reporting rules

- IRS requirements:
 - **All payroll payments** made to a deceased employee (in the calendar year of death as well as future calendar years) are **not subject to federal income tax.**
 - With the **exception of sick leave buyouts**, all wage payments (pay, overtime, comp time, annual leave, etc.) to a deceased employee are **subject to social security and Medicare taxes in the calendar year of death, but not in subsequent years** (Excluding payments to employees who have reached their respective maximums). The earning period being processed is not relevant – only the actual pay date.
 - **Sick leave buyouts** made to deceased employees' survivors are **exempt from social security and Medicare taxes.**
 - The **claimant** of payouts made to the deceased employee receives a Form **1099-MISC**. Per Clark Fletcher from the IRS, **Gross Pay** less deferrals are reported.

Internal Revenue Service (Continued)

Forms and Instructions:

- Form **W-2** (Wage and Tax Statement), Form **W-3** (Transmittal of Wage and Tax Statements) and instructions

Forms **W-2c** (Corrected Wage and Tax Statement), Form **W-3c** (Transmittal of Corrected Wage and Tax Statements), (multiple copies) and instructions – Can register with the SSA and **submit on line:**
<http://www.ssa.gov/employer/>

Electronic Forms W-2c are strongly recommended. Note: Per Tim Beard (SSA), if submitting for 2011 in the first quarter of 2012, print, but do not submit, until the SSA has processed the electronic file sent by DES in January. Go to the above website or call Tim for verification.

- Form **941-X** (Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund)

The following website can be used to research any of the above mentioned forms and instructions as well as all other forms and instructions provided by the IRS: <http://www.irs.ustreas.gov/formspubs/index.html>

Overpayments Collected for Prior Years:

Per the IRS, wages repaid for prior years do not reduce the actual wages paid to an employee in the current tax year. The employee may claim the repayment on Form 1040.

The example below relates to Form W-2 Box 1 (Wages, Tips, and Other Compensation) only:

- Employee paid \$11,000 in 2011, \$1,000 of which was an overpayment
 - Employee pays back the \$1,000 in 2012
 - Employee paid \$15,000 in 2012
 - Therefore:
 - 2011 Box 1 is \$11,000
 - 2012 Box 1 is \$15,000
 - Employee may take a deduction for \$1,000 in 2012 on their 1040.
 - Employer DOES NOT reduce 2012 wages to \$14,000
-

For further information, see IRS Publication 15 "Wage Repayments:"
<http://www.irs.ustreas.gov/pub/irs-pdf/p15.pdf>

3. Social Security Administration

The Social Security Administration (SSA) has updated its "Critical Links" document, which provides guidance to employers on correctly reporting names and social security numbers on Forms W-2 so that SSA can match each W-2 to the employee's lifelong earnings history. The "Critical Links" document can be found at: <http://www.ssa.gov/employer/critical.htm>

The SSA encourages:

- Employers to verify an employee's name and social security number (SSN) on the employee's W-4 form as part of the hiring process for tax withholding and reporting purposes.
- Employers to use the Social Security Number Verification Service (SSNVS) to verify social security numbers on-line. More information is available at <http://www.ssa.gov/employer/ssnv.htm>.
- Workers NOT to carry their SSN or social security card on them because of identity theft.

The social security card *cannot be a required* document for purposes of proving the employee's authorization to work in the U.S. under the immigration law (I-9).

Knowing what social security numbers have been allocated will help you determine if a social security number is valid. The SSA has two guides that will help you make this determination (note: Effective June 25, 2011, social security numbers are assigned using the randomization method):

- Social Security Number Allocations – How SSN's were assigned and a list of number areas by state (<http://www.ssa.gov/employer/stateweb.htm>).
- High Group List – : <http://www.ssa.gov/employer/ssnvhighgroup.htm>
- **Note: The above sites are no longer being updated – they are for historical and informational purposes only.**
- Social Security Number Randomization: <http://www.ssa.gov/employer/randomization.html>

IRS Penalties: If Form W-2 does not contain the employee's correct name or social security number, under the Internal Revenue Code, the employer "may be" penalized up to \$100.00 for each incorrect Form W-2 (maximums apply – see the IRS Forms W-2/W-3 Instructions at <http://www.irs.gov/pub/irs-pdf/iw2w3.pdf>).

Helpful Hint: If an employee has only one name, such as "Cher" or "Madonna" it would be considered the last name for W-2 reporting purposes.

4. Other State Withholding Tax (as provided by Social Security Administration)

The state and local tax data needs to be reported on the employee's copy of the W-2 so that they can file state or local tax returns. However, the W-2 file that the state sends to the SSA does not need to contain that information. The SSA does not read state and local tax data nor pass it on to anyone.

Depending upon the locality involved, agencies may need to send state or local W-2 data to that entity.

- For example, Idaho requires employers to send W-2 data to the State Tax Commission while Oregon does not ask for W-2s, only W-3 like summary information. Each state is slightly different so you need to check with those in which you have employees.

As far as the mechanics of getting the state and local tax data to the employee, agencies have many choices.

- You could pull, or suppress, the automated W-2 and provide one that includes all of the Boxes for other state taxes (see below).
- The automated system could provide the data automatically.
- The SSA does not recommend that you use the W-2-c route as it may create more confusion for the employee or their tax preparer.
- The volume of these items will dictate how you handle them.

No matter how you choose to give the state and local tax data to the employee, do not send that information to SSA.

Further instructions for 2011 W-2 & W-3 forms can be found at the following IRS web address: <http://www.irs.gov/pub/irs-pdf/iw2w3.pdf>

Tim Beard, Employer Services Liaison Officer
Social Security Administration-Seattle
(206) 615-2125
Tim.Beard@ssa.gov

If the other state wage and tax amounts are not included on the system generated Form W-2, you will need to reissue a Form W-2 to the employee (be careful –all previously completed boxes should match the reissued Form W-2!).

Agencies using HRMS can include other state wage and tax information by performing a year-to-date adjustment and reprinting the W-2.

Agencies not using HRMS can include other state wage and tax information by updating (but not sending) the Form W-2 found on SSA's Business Services Online website at <http://www.ssa.gov/employer/>.

OFM will no longer be providing duplicate forms W-2.

5. EFTPS Payments Not Made Through HRMS

Journal vouchers to be sent to the Office of the State Treasurer (OST) for IRS payments (EFTPS) are due by **NOON** in order to process for next day settlement. In the event you require same-day tax transmission, please call the OST as soon as possible.

6. Office of Financial Management

Manual Processing Tasks

The following manual processing tasks can be found on OFM's website in the Accounting page under "Find Administrative & Accounting Resources" (Payroll): <http://www.ofm.wa.gov/resources/payroll.asp>

If you are unable to find what you need at this website, contact Steve Nielson.

- Manual warrant cancellations
- Emergency payroll payments
- Federal tax Reconciliations
- Year-end reconciliations

Other items of interest in the Payroll Resources Site:

- Calendar year-end information
- Deceased employees
- State paydates, federal holidays, IRS \$100,000 next day deposit dates
- ACH authorization form
- Payroll card information
- Reconciliation
- Overpayments
- Settlement payments attributable to wages
- Comp time cash-out for terminating employees
- PPA Website
- IRS Class Materials

There are many other items in this site as well. Check it out!

Other sites:

OFM Home Page: <http://www.ofm.wa.gov>

State Administrative and Accounting Manual (SAAM) - Payroll = Chapter 25
<http://www.ofm.wa.gov/policy/default.asp>

7. Rates/Limits for 2012

Social Security Wage Base:

- \$106,800 in 2011 and
- **\$110,100 for 2012**

The Employee tax rate reverts back to **6.2%** with the January 10, 2012 payroll.

Medicare Tax Rate remains **1.45%**. There is no maximum wage base for Medicare taxes.

Note: In 2013, the employee rate increases to 2.35% for wages earned over \$200,000 for single filers and \$250,000 for joint filers (\$125,000 for married filing separately).

Election Worker exclusion threshold for applicable states:

- \$1,500 in 2011 and
- **\$1,500 for 2012 (unchanged since 2009)**

POV Mileage Rate:

- \$0.50 per mile in 2010 and
- **\$0.51 per mile as of January 1, 2011 (lower than IRS rate effective October 1, 2011)**

Qualified Transportation Fringe Benefit Limits:

- Qualified parking provided by an employer to an employee:
 - \$230/mo in 2011 and
 - **\$240/mo in 2012**
- Combined Commuter Highway Vehicle Transportation, Transit Passes and Vanpool Privileges:
 - \$230/mo in 2011 and
 - **\$125/mo in 2012 (temporary increase expired)**

Limitations on Exclusions for Elective Deferrals Under:

- IRS Section 403(b); Non-Profit Employers and Public Schools and IRS Section 457 (State and Local Governments and Tax Exempts)
 - \$16,500 in 2011 and
 - **\$17,000 for 2012**

Rates/Limits for 2011 (continued)

Flexible Spending Accounts:

- \$3,600/yr. maximum in 2011 and
- **\$3,600 in 2012 (\$240 minimum) (unchanged since 2009)**
- **Remember, use or lose!**

Health Savings Accounts (new for 2012):

- **Individual: \$3,100/yr. maximum in 2012**
- **Family** (Employee + one or more family members enrolled in the Consumer Directed Health Plan (CDHP)): **\$6,250/yr. maximum in 2012**
- **Note:** The above limits include the employer's annual contributions (\$700 for an individual, \$1,400 for a family)
- Members ages 55 and older may contribute up to \$1,000 more annually (in addition to the limits above)

Compensation Limits for Retirement Contributions:

- \$245,000 in 2011 and
- **\$250,000 for 2012**

Retiree Return to Work Hour Limits:

2011 legislation changes retiree return to work hour limits and eligibility effective January 1, 2012. To inform those who may be affected, DRS mailed letters to **PERS Plan 1 and TRS Plan 1 retirees who will see their limit drop from 1,500 hours to 867 hours.**

Retirees from all systems and plans can learn more about the new law by reading <http://www.drs.wa.gov/news-announcements/retireenews.htm>, posted on the DRS website.

If you have any questions, please contact Employer Support Services at 360-664-7200, option 2, or 800-547-6657, option 6, option 2.

The rates and limits listed above are based on information supplied by the American Payroll Association, the Health Care Authority, DRS, and OFM. The IRS and SSA are the final authority on rates and limits.

8. W-2 Reporting of Cost of Employer Provided Health Coverage

The federal Patient Protection and Affordable Care Act (PPACA) requires employers to report the total cost of employer provided health coverage on employees' Forms W-2.

- Effective for 2012 Forms W-2 (reported in 2013)
- Reported in Box 12 using code DD
- Provides information to the employee
- HCA and DES are working together to comply with this new requirement

9. Contact Information – OFM, OST, and DES

When You Need Help

OFM - Office of Financial Management

Contact us for any accounting-related concern or problem, plus anything where help is needed in regard to a payroll issue other than HRMS system concerns or OST-related issues. OFM will try to assist agencies on whatever issues that come up.

Steve Nielson: (360) 725-0226 steve.nielson@ofm.wa.gov
Fax: (360) 586-0053

OST - Office of State Treasurer

Tax payments not made through HRMS/OFM

Cindy Doughty: (360) 902-8908 EFTJV@tre.wa.gov
Michael Zehner: (360) 902-8909 EFTJV@tre.wa.gov
Fax: (360) 704-5155

Payroll direct deposit:

Lesa Williams: (360) 902-8911 EFTJV@tre.wa.gov
Michael Zehner: (360) 902-8909 EFTJV@tre.wa.gov
Ryan Pitroff (360) 902-8917 EFTJV@tre.wa.gov
Cindy Doughty (360) 902-8908 EFTJV@tre.wa.gov
Fax: (360) 902-8945

Payroll warrants:

Warrant Division (360) 902-8994 WarrantInquiry@tre.wa.gov
Mary Ann Johnson: (360) 902-8985 WarrantInquiry@tre.wa.gov
Fax: (360) 664-2292

DES - Dept of Enterprise Services

Processing schedules; HRMS questions:

Service Center: (360) 664-6400 servicecenter@dop.wa.gov

Payroll Vendors (3rd party payments)

Barb Matson (360) 407-8061 barbara.matson@des.wa.gov
Emily Overman (360) 407-8074 emily.overman@des.wa.gov

AFRS Help Line (360) 407-8182 afrshelpdesk@ofm.wa.gov
Fax: (360) 664-3423