Advanced IRS Forms Filing

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December 8, 2011

Agenda

- W2/941 Reconciliation
- Error Avoidance
- Error Resolution
 - 941
 - W2
- Examples

Why Does It Matter?

- Inaccurate Wage And Tax Reporting May Inflate Tax Liability
 - Penalties And Interest
- Employees May Be Subject To Underreporting Enforcement
- Potentially Incorrect SS Benefits
- Negatively Impact Labor Relations
- Loss Of Public Confidence

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Prevention Is the Best Defense

- Reconcile, Reconcile!
 - Each Payroll
 - Monthly
 - Quarterly
 - Year End
- Don't Forget AP
 - Taxable Fringe Benefits
 - "Non-Employees"

How Errors Are Discovered

- Internal Audit
- External Audit
- IRS/SSA Reconciliation
- Employees
 - Social Security Statement*
 - IRS Notices

IRS/SSA Reconciliation

- Compares Totals From W-2s With 941
 - Income Tax Withheld
 - Social Security Wages
 - Social Security Taxes
 - Social Security Tips
 - Medicare Wages And Tips
 - Medicare Taxes

Reconciliation Process

- W-2s Less Than 941: SSA Notice
- W-2s More Than 941: IRS Notice
- SSA Notices Mailed Nov-Feb For Prior TY
- Check Actual Data Sent To SSA & IRS And Reconcile Discrepancies
- Reply To Avoid IRS Penalty
- See "Employer Reconciliation Process" At

www.socialsecurity.gov/employer

Corrective Steps

- 941
- 941X
 - Amends 941
 - Stand Alone Report
- W2s
 - Submit If Employee Omitted
- W2Cs
 - Use If Prior W2 Incorrect
- All May Be Necessary

W2Cs

- Can Correct ID Data Or Money Amounts
- If Money Corrections, Show Original Amount <u>And</u> Correct Figure
- No Deadline
- Electronic Filing Options
 - www.socialsecurity.gov/employer
 - File Upload
 - Fill-in The Form-W2C Online
 - All Open Years
- W3C Required If Use Paper Forms

W2C					
b Employee's correct 66N	OMB No. 1545-0008	d Employer's Federal EIN			
	c Corrected BBN and/or name (if checked, enter incorrect SBN and/or name in box h ans/or box ij				
e Employee's first name and infital	Last name Suff	g Employer's name, address, and ZIP of	ode		
f Employee's address and ZIP code Complete boxes is end/or i only if incorrect on last form filled.	Complete horse h and/or i only h Employee's Incorrect 66N 1 Employee's name (as Incorrectly shown on previous forms				
Note	: Only complete money fields tha	t are being corrected (except MQ	GE).		
Previously reported	Correct information	Previously reported	Correct information		
1 Wages, tips, other compensation	1 Wages, tips, other compensation	2 Pederal Income tax withheld	2 Federal Income tax withheld		
5 Social security wages	5 Bootel security wages	4 Social security tax withheld	4 Social security tax withheld		
5 Medicare wages and tips	5 Medicare wages and tips	6 Medicare tax withheld	6 Medicare tax withheld		
7 Godel security tips	7 Godial security tips	8 Allocated tips	8 Allocated tips		
9 Advance EIC payment	9 Advance EIC payment	10 Dependent care benefits	10 Dependent care benefits		
11 Nonqualified plane	11 Nonqualified plans	12a See instructions for box 12	12a Gee instructions for box 12		
13 Statutory Retirement Third-party amployee plan slok pay	13 Statutory Retirement Third-party sink pay	12b	12b		
14 Other (see instructions)	14 Other (see Instructions)	12c	12c		

- Form 941 Corrections Are Required When Wage Overpayments/Underpayments Are Detected
- Form 941 Corrections Are Required When Improper Amounts Are Reported on Forms W-2

Form 941 Corrections

Federal Income Tax Limitations

- Can NOT be adjusted for any prior pay period UNLESS of an administrative error (i.e., transposition error)
- Amounts are credited in the <u>Year Of</u> <u>Receipt</u>

<u>Federal Insurance Contribution Act</u> (FICA) Wages And Taxes

- Amounts are subject to adjustments within the three year statute of limitations period (4/15/20xx)
- Amounts are credited in <u>year of earnings</u>

Form 941 Corrections

Form 941-X Effective January 1, 2009 For All Prior Tax Periods

Stand-alone Processing Form

Only Process Available For Making Adjustments And Claiming Refunds (Overpayments)

Form 941 Corrections

PROCEES CHANGES

Corrections Will Be Made To Both The Prior Tax Period Wages And Liability Current Period Liability will not be Affected

Forms 843 And 941-C are Obsolete Certifications Specific to 1) Adjustment Process or 2) Claims Process

<u>Treasury Decision 9405 – </u>

Amends The Regulations Under Sections 6205, 6402, 6413, and 6414 to Provide Process for Adjustments Or Claims and Changes Interest Due Dates

Form 941 Corrections

<u>Corrections Of Underpayments</u>
Not subject to Interest if:

- 1. Current Form 941 Is Timely Filed;
- 2. Liability Is Paid When Form 941-X Is Filed
- 3. Entry Of Date When Error Was Discovered; And
- 4. Provides Detailed Information To Support Correction

Form 941 Corrections

<u>Corrections Of Underpayments</u>
Underpayment Is Due When Form 941-X Is
Filed

- EFTPS
- Check Or Money Order
- Credit Card (For Most Forms)

Timely Payment Will Satisfy The Deposit Obligations With Respect To The Adjustment

Exceptions To Interest-Free Treatment

- Prior Audit
- Knowingly Underreported
- Notice And Demand (Final Demand letter)
- Notice Of Determination Of Worker Classification (Letter 3523)

Form 941 Corrections

Misclassified Employees

- Employer failed to file a tax return for a Return Period solely because the Employer failed to treat <u>any</u> individuals as employees
- Employer can make an interest-free adjustment to report the tax due with respect to the reclassified workers.

Form 941 Corrections

<u>Misclassified Employees – Form 941</u> <u>not filed</u>

- 1. Prepare Form 941 w/zero amounts
- 2. Write "Misclassified Workers" across the top of the form
- 3. Prepare Form 941-X w/reportable amounts
- 4. Make EFTPS to correct quarter
- 5. File Form 941 w/Form 941-X attached

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<u>Corrections Of Overpayments</u> Employer choice to file:

- 1. an adjusted current quarter Form 941*; or
- 2. Claim for refund or adjusted employment tax return on Form 941-X, depending on when the original Forms 941 were filed.

(*Note: Method#1 Is For Errors Discovered In A Prior Payroll Period Within The Same Tax Quarter)

Form 941 Corrections

<u>Corrections of Overpayments</u> Refund Claims Subject To 90-day Rule

- "Presumptive" due date For Forms 941 4/15/XXXX\
- Period Of Limitation 3 years after return was filed OR 2 years after tax was paid
- Claim MUST be filed on, or after, January 15th

Form 941 Corrections

Example – Claim for Refund:

On 1/10/2011, a wage overpayment Is discovered on 4th quarter of 2008 and the employees are notified.

On 1/31/2011, the employees submit written certifications and receive their overpaid FICA taxes and W-2Cs.

Form 941-X must be filed as a Claim for Refund and can not be used as an offset to the 4th quarter of 2010 Form 941's Liabilities.

	Type of arrors plot are correcting	Form 9	41-X: Which proc	ess should you use?
Corrections of	Gredorregeorland amounts CMLY	. Check the last to	el procesa le pareut underepato e line 1. pos pee hore line 17 eten you lije	
Overpayments And Underpayments For Same Period	Overreported annuals CALY	OKS	If you are filing Form 346.X MONE TOALS to GRO, before the period of deptication or aft or refuel by Form 344 or Form 341.3, Repres	Occose without process to connect the connect that connect manuals. Occose the process if you want to the process in the other process in the process
Use Process	BOTH underreported and assemptorted amounts	The process you use depends on when you the forms dat it.	Wyo's an traing from SM X. WITHIN SQ Jays of the enjaration of the period of introduced and artifactures and the Form SM 1-53. If you are Sting Form SM 1-53 and SM 1-54. If you are SM 1-54. If	This most use the date process to correct the overrepointed streams. Clarks the box on the 2. Crosses either the adjustment process or both the adjustment process or both was adjustment process or both was desirable process and the clarks process and such a pair contact both watersported and soursepointed amounts process of conditions; one of the adjustment process of the adjustment p
Chart On Page 4 Of Form 941-X				creals that you wont applied to From B41, Force B41 dB, Force B41, or Force B42 dB. • File one From B41-X, and • Check the box on len 1 and follow the posturations on line 17. OR Choose both the adjustment process and the claim process 7 you want the overageous amount of the process of the second of the amount of the process of the process of the amount of the process of
				File two segments forms. 5. For the adjustment priceses, the one Form BC1-X to conset the underraported encounts. Check the box on the 1. Pay the amount you are from the ST when you the Form S41-X.
				 For the claim process, like a second Form \$41-X to cornect the commiscated emounts. Check the box on time 2.

Employee Certifications

- Written statements patterned on language found in Box "a" of Line 4 (Part 2) on Form 941-X.
- Should be retained 3 years from date of signature
- W-2C and overpayment should be issued upon receipt of signed certifications

Form 941 Corrections

Non-receipt Of Employee Certifications

- Claim employer's portion of FICA taxes
- Mark appropriate box on Line 4 or Line 5 of Form 941-X
- File and issue W-2Cs, showing wage adjustments only, to allow employees to file for refund of overpaid FICA taxes.

Form 941 Corrections Example 1 (Wage Overpayments) On December 24, 2010, a wage overpayment error is discovered on the October 25, 2010 payroll. Remedy? **Form 941 Corrections** Example 1 (Wage Overpayments) Remedy: Upon repayment of wages in the same tax quarter, adjust current payroll wages to report the correct amounts of tax (internal adjustment). W2: No affect Form 941 Corrections Example 2 (Wage Overpayments) On October 24, 2011, a wage overpayment error is discovered on the March 25, 2011 pay period. Remedy?

Example 2 (Wage Overpayments)

Remedy: Upon repayment of the wages in <u>same tax year</u>, prepare Form 941-X to reflect the correct wages and taxes paid in the prior tax quarter.

W2: No affect

Form 941 Corrections

Example 3 (Wage Overpayments)

On February 1, 2012, a wage overpayment was discovered in the December 24, 2011 pay period

Remedy?

Form 941 Corrections

Example 3 (Wage Overpayments)

Remedy: Upon repayment of the wages in subsequent tax year, prepare Form 941-X to reflect the correct FICA* wages and taxes for each prior tax quarter

*Because employee had use of the money in a prior tax year, the FITW wages and taxes are NOT corrected. The employee can claim repaid wages on the Forms 1040.

Example 3 (Wage Overpayments)

W2: Only FICA wage and tax adjustments are permitted as a prior tax year adjustments

- Reconcile amounts on Forms W-2C, W-3C, and 941-X
- Issue and file Forms W-2C, W-3C, and 941-X

Form 941 Corrections – No Certificates

Example 4 (Wage Overpayments)

W2: Adjust FICA wages but do not adjust employee's FICA taxes

- Reconcile wage amounts on Forms W-2C, W-3C, and 941-X
- Issue and file Forms W-2C and W-3C
- File 941-X to recover employer's FICA taxes only

Form 941 Corrections

Wage Overpayments Summary

Corrections completed and reported in the <u>same tax quarter</u> or <u>same tax</u> <u>year</u> should not affect any of the amounts reported on Forms W-2

Why?

1	2

Wage Overpayments Summary

Current Tax Quarter

Internal Adjustment: all wages and taxes

Prior Tax Period

- Same Tax year: 941-X, all wages and taxes
- Prior Tax Year: 941-X, W2-C, and W-3 FICA Wage and tax adjustments

Form 941 Corrections

Wage Underpayments

Wages are subject to Federal Income
Tax Withholding when made
available to the employee,
immaterial of the year in which the
services were performed by the
employee upon which the wages
were based.

Form 941 Corrections

Wage Underpayments
Wages are subject to <u>FICA Taxes</u> when made available to the employee,
Immaterial of the year in which the services were performed by the employee upon which the wages were based *BUT*

Special SSA reporting rules for <u>Back</u>
<u>Pay Under Statute</u>.

Wage Underpayments

Back pay

- Statutory Settled under a statute* to enforce worker's protection laws (i.e., FLSA, NLRA, ADEA, ADA, Etc.)
- Non-statutory Settled under any other basis
- *statutes may arise from state or federal legislation

Form 941 Corrections

Wage Underpayments Non-statutory Back Pay

- Treat as supplemental wages for Federal Income Tax and FICA tax purposes
- Include in current quarter's Form 941 wages
- Issue and file W-2/W-3 or W-2C/W-3C (even if no longer employed)

Form 941 Corrections

Wage Underpayments

<u>Back Pay Under A Statute</u>

- SSA Credits Contributions When Earned
- · IRS Credits Income When Received

Back Pay Under A Statute

SSA Special Reporting Rules

- Detail Of payments earned by employee(s) in the prior year
- Individual or consolidated report
- SSA-131
- IRS Pub. 957

Form 941 Corrections

Wage Underpayments
Back Pay Under Statute

- Treat As supplemental wages for Federal Income Tax and FICA Tax purposes
- Include in current quarter's Form 941 wages
- Issue and file W2

Form 941 Corrections

Wage Repayments

Treat As Wage Overpayments

Exercise:

A class-action lawsuit was filed by a labor union on 3/31/2009 on behalf of its older employees claiming age discrimination.
On 1/31/2011, the Agency settled the lawsuit for \$60,000 and, in the spirit of goodwill, settled a long-standing grievance for \$10,000 for lost overtime pay in 2008.

What are the reporting requirements?

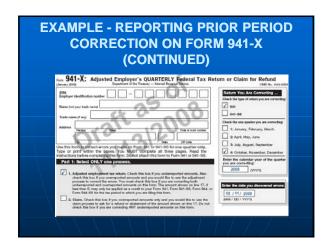
Form 941 Corrections

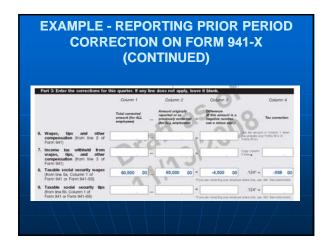
Answer:

- Treat As Wages On Current Quarter's Form 941
- File special report with SSA for employees subject to the age discrimination settlement

EXAMPLE - REPORTING PRIOR PERIOD CORRECTION ON FORM 941-X

- Employer <u>over-reported Social Security</u> <u>wages</u> by \$4,500 on Form 941 for the 4th Quarter 2008, due to a transposition error.
- Error discovered on 2/11/2009
- Employer checks the Box In Part 1 Line 1 of Form 941-X For "Adjusted Employment Tax Return".
- Employer wants to claim the \$558 as a credit for the 1st Quarter 2009.





EXAMPLE - REPORTING PRIOR PERIOD CORRECTION ON FORM 941-X (CONTINUED)

- Reduce the Federal Tax Deposit amount by the amount of the credit
- If the wage account is in error, then prepare, issue and file W-2C/W-3C for the affected employee
- If Form 941 entry error occurred, then W-2 not required

SUMMARY

Form 941-X is a stand-alone form used to:

- Claim a credit on the current quarter's Form 941 for an overpayment of wages in a prior tax period;
- 2. File a claim for a refund of an overpayment of wages in a prior tax period; or
- 3. Report taxes on under-reported wages in a prior tax period

Form 941 Corrections

SUMMARY

Corrections spanning one tax year or more usually require the issuance of amended Forms W-2 because of changes to the employee's social security earnings

Form 941 Corrections

Example 1:

On January 10, 2011, an arbitrator awards back pay to employees brought under an union contact provision that spans the past three years.

How is the back pay reported? Is Form 941-X required?

Form 941 Corrections Example 2: On December 1, 2010, a state agency settled a complaint brought under the American Disabilities Act and

paid an employee back wages for a denied promotion in the prior year.

How is the back pay reported? Is Form 941-X required?

Form 941 Corrections

Example 3:

During a state audit, an over-reporting of wages for the 2009 was discovered on September 1, 2010. The employee agreed to repay the wages in installments via a payroll deduction agreement.

What actions are required?

Resources

IRS

- Federal, State And Local Government
 - www.irs.gov/govt/fslg
- Tax-Exempt/Government Entities Hotline
 - 1-877-829-5500
- Martinsburg Computing Center
 - www.mccirp@irs.gov
 - 1-866-455-7438
- Publications And Forms
 - www.irs.gov
 - 1-800-829-3676

Resources SSA • State And Local Government Employers • www.socialsecurity.gov.slge • www.socialsecurity.gov/employer • Employer Reporting Service Center • 800 772-6270