

2014 Payroll Checklist

**A step-by-step compliance guide
to each pay period, month and
calendar quarter of the year**

BusinessManagement
DAILY

HRSpecialist

Year-end for Payroll and Accounts Payable doesn't just begin in the third quarter, ramp up in the fourth quarter and wind down at the end of the first quarter of the next year.

It's often said that the ultimate goal is an uneventful year-end. One key way of achieving that goal is to understand that year-end is, really, a year-long process. Best advice: You can never overcheck for accuracy.

Here's a checklist you can use to help guide you through each pay period, month and calendar quarter. Since year-end is a long and arduous process, you should jot down your year-end procedures as you complete them, and add them to this checklist. That will make your next year-end a snap.

For each independent contractor:

- Review vendor contracts for vendors' Taxpayer Identification Numbers (TINs). Begin backup withholding for vendors who didn't provide their TINs prior to payment. Solicit TINs by sending them Form W-9.
- Track amounts paid to independent contractors; Form 1099-MISC reporting is necessary for vendors who receive cash payments of \$600 or more during the calendar year.
- Track vendors who accept credit card, debit card or other electronic payments; Form 1099-MISC reporting isn't required for those vendors.

After every payday:

- List each earning and deduction category and tie those figures to Form 941, Line 2.
- Map and reconcile each payroll earning and deduction category to the general ledger.
- Post employees' benefit/payroll adjustment data. *Include:* third-party paid sick pay and manual and void checks.
- Run payroll adjustments for year-to-date corrections.

- Get input from other department (e.g., Accounts Payable, Finance, HR and Benefits) to track taxable payments to employees that aren't made through the Payroll department. Tax and post adjustments, as necessary. Payments include:
 - Benefits that exceed monetary thresholds—dependent care assistance in excess of \$5,000, group-term life insurance in excess of \$50,000, educational assistance in excess of \$5,250; monitor for these thresholds
 - Business expense reimbursements that employees don't substantiate within 60 days, or, if the IRS' safe harbor is used, within 120 days of your quarterly statement to employees
 - Expense reimbursements or payments made to third-parties for nonqualified moving expenses—meal expenses employees incurred while traveling; expenses related to house-hunting trips; and out-of-pocket expenses, including carpet cleaning, drapery installation, cable-TV and Internet hookups and drivers license and vehicle registration fees
 - The fair market value of individual gym memberships, even if the company obtains a corporate discount
 - The fair market value of health benefits provided to employees' domestic partners or civil union partners of either gender
 - Dependent group-term life insurance, if the policy exceeds \$2,000
 - Group-term life insurance in excess of \$50,000 provided to retirees
 - The amount of forgiven loans
 - Employee recognition awards that are more than *de minimis* benefits (e.g., all-expense-paid trips, gift certificates)
 - Employee prizes, referral bonuses and suggestion awards
 - The fair market value of gift certificates
 - The value of personal miles driven on a company-provided gas card
 - Employees' personal use of company vehicles. *Note:* For company cars only, income tax withholding is optional. If you choose not to withhold, notify employees that you haven't withheld (see December), and include 100% of the value of their business and personal use in the appropriate boxes on their Forms W-2
 - Unsubstantiated mileage allowances provided to employees who drive their own cars on business.

- Break out taxable executive benefits and get input from the appropriate departments (e.g., Executive Compensation Committee) to track taxable payments to executives. Tax and post adjustments, as necessary. Payments include:
 - Distributions from nonqualified deferred compensation plans
 - The fair market value of annual physicals
 - The fair market value of meals regularly provided in an executive dining room
 - The fair market value of sky boxes other private luxury boxes leased for more than one event; catering is valued separately
 - Country club dues
 - Reimbursements for spousal travel
 - Medical expense reimbursements provided under a discriminatory self-insured plan
 - Health plan premium payments for 2% S corp shareholders
 - The imputed interest from compensation-related loans exceeding \$10,000 with below-market interest.

After every month:

- Reconcile your tax register and bank accounts.
- Research outstanding checks that are older than 30 days; post unclaimed checks to an unclaimed earnings escrow account.
- Document gross-to-net calculations for manual checks; ensure that manual checks and voids are entered properly; review the general ledger accounts.

After every quarter:

- For income tax withholding, create a worksheet to reconcile taxable wages, from Form 941, Line 2 to taxable wages, as recorded in a wage summary report; also, reconcile the tax amount, from Form 941, Line 3 to taxable wages, as recorded in a wage summary report.

- Create a worksheet to reconcile your state tax liability to state taxable wages, as shown in a wage summary report; also, reconcile state taxes withheld to state taxes deposited.
- Tie federal income tax withholding totals to state income tax withholding totals.
- For Social Security tax withholding, create a worksheet to reconcile taxable wages, from Form 941, Line 5a to taxable wages, as recorded in a wage summary report; also, reconcile the tax amount, from Form 941, Line 5a to the taxable amount, as recorded in a wage summary report.
- For Medicare tax withholding, create a worksheet to reconcile taxable wages, from Form 941, Lines 5c and 5d to taxable wages, as recorded in a wage summary report; also, reconcile the tax amount, from Form 941, Lines 5c and 5d to the taxable amount, as recorded in a wage summary report.
- Create a worksheet to reconcile FUTA tax liability to FUTA taxable wages, as recorded in a wage summary report; also, reconcile FUTA tax amounts to FUTA tax calculations.
- Create a worksheet to reconcile SUTA tax liability to SUTA taxable wages, as recorded in a wage summary report; also, reconcile SUTA tax liability to SUTA tax amounts.
- Tie FUTA totals to SUTA totals.
- Create a worksheet that reconciles the Form 941 totals and wage summary totals to Forms W-2/W-3.
- Balance quarterly reports and Forms 941 to the general ledger.
- After filing Form 941 for the quarter, make interest-free adjustments of underreporting errors by filing Form 941-X by the due date of Form 941 for the quarter during which the error is discovered, and pay any tax due. Also, file Forms W-2c/W-3c, as appropriate.

January

- Notify the mailroom of the date your Forms W-2 will be mailed. Remind mailroom personnel to have sufficient postage in the postage machine.
- Send memos to employees explaining that Form W-2 Box 1, 3 and 5 entries may differ due to pretax deductions.
- Prior to processing your Forms W-2 and fourth-quarter Form 941, verify that the general ledger accounts balance. *What to look for:* employer/employee tax withholding accounts. Be prepared to make correcting journal entries for out-of-balance situations caused by year-end adjustments.
- Complete your fourth-quarter Form 941 first, then do a final balance of the Forms 941 and W-2 totals. *What must balance:* federal income tax withheld, Social Security and Medicare wages and Social Security and Medicare taxes withheld.
- Do a preliminary run of your Forms W-2 on plain paper. Verify your Forms W-2/941 totals against an annual reconciliation worksheet. Track any missing adjustments so you won't have to issue a Form W-2c later on.
- Renew third-party designee status on annual Forms 940, 944 and 945.
- Use the Social Security Administration's (SSA) free Accuwage software to check balances before distributing Forms W-2. Accuwage is available at www.ssa.gov/employer/accuwage.
- If you need an extension of time to file Forms W-2 or 1099, file Form 8809 with the IRS.
- By **January 31** (or the next business day, if January 31 is a nonbusiness day), give employees their Forms W-2; give retirees their Forms 1099-R; give Form 1099-MISC forms to independent contractors. File Form 941 for the fourth quarter and Forms 940 and 945 for the previous year.

February

- Check that employees' requests for duplicate or corrected Forms W-2 are signed by employees and that signatures are legitimate. This ensures that ex-spouses haven't slipped one by employees.
- For corrected Forms W-2 issued to employees prior to filing, check the Void Box on Copy A, and insert "Corrected" at the top of Copies B, C and 2.

- By **February 10** (or the next business day, if February 10 is a nonbusiness day), file Form 941 for the fourth quarter. This due date applies only if you deposited the taxes for the quarter in full and on time. File Forms 940 and 945. This due date applies only if you deposited the taxes for the year in full and on time.
- **By February 28** (or the next business day, if February 28 is a nonbusiness day), file Copy A of all paper Forms W-2 and Form W-3 with the SSA; file Copy A of all paper Forms 1099 and Form 1096 with the IRS.
- For leap years *only*, By **February 29** (or the next business day, if February 29 is a nonbusiness day), file Copy A of all paper Forms W-2 and Form W-3 with the SSA.

March

- When logging onto the SSA's business services online, check your user ID characters. For example, a capital "O" could be mistaken for a zero, or a lowercase "l" could be mistaken for a one. Try the other choice if your first choice doesn't work.
- Send Forms W-2c to the SSA as soon as Form W-2 errors are discovered.
- Reply promptly to any SSA notice that Form W-2 totals for a year disagree with the IRS' Form 941 totals.
- Respond in a timely fashion to the SSA's request for corrections to Form W-2 identity data.
- E-filers who format files to the SSA's EFW2 specifications should take these steps.
 - Make sure that data files are in text format
 - Enter the correct tax year in the Employer Record (Record RE)
 - Scan files for viruses before submitting them to the SSA
 - Configure anti-spam e-mail software so that e-mail from the SSA isn't tagged as spam
 - Ensure that the user ID that's assigned to the employee who is attesting to the accuracy of the W-2 data is included in the Submitter Record (Record RA). Also, include this employee's phone number and e-mail address; failure to do so may lead the SSA to reject the submission
 - Make sure each data field is complete (Record RA through Record RF)
 - Don't create a file that contains data after the Final Record (Record RF)
 - Before transmitting data to the SSA, randomly sample from the beginning, middle and end of an employee record. *What should match:* the employee's name, address, Social Security number, wages and taxes.
- **By March 31** (or the next business day, if March 31 is a nonbusiness day) file Copy A of all Forms W-2 with the SSA, and Forms 1099 with the IRS. This due date applies only if you file electronically.

April:

- By **April 30** (or the next business day, if April 30 is a nonbusiness day), file Form 941 for the first quarter with the IRS.

May

- By **May 10** (or the next business day, if May 10 is a nonbusiness day), file Form 941 for the first quarter with the IRS. This due date applies only if you deposited the tax for the quarter in full and on time.

July

- Ensure that all monthly, quarterly and annual balances are accumulating properly; pay attention to adjustments.
- Visit the SSA's website **www.ssa.gov** and download and review changes to the Form W-2 e-filing specifications—*Electronic Filing of W-2s* (EFW2). First-time e-filers can take an SSA-provided tutorial; all e-filers can use the SSA's Accuwage program to test files for errors.
- **By July 31** (or the next business day, if July 31 is a nonbusiness day), file Form 941 for the second quarter with the IRS.

August

- By **August 10** (or the next business day, if August 10 is a nonbusiness day), file Form 941 for the second quarter with the IRS. This due date applies only if you deposited the tax for the quarter in full and on time.
- Alert Finance as employees max out on the Social Security taxable wage base and state unemployment/disability wage bases.
- Review year-to-date salary figures for high earners. Begin withholding Medicare taxes at the 2.35% rate for employees when their wages exceed \$200,000.
- Begin gathering employees' consents for electronic delivery of their Forms W-2.
- Sweep your payroll system clean of Individual Taxpayer Identification Numbers (ITINs). The IRS provides ITINs to aliens for tax purposes unrelated to work; employees always have SSNs.
- Scan undeliverable Forms W-2 and the postmarked envelopes, and shred the paper copies. *Note:* Be sure IRS auditors can read the scanned forms.

- Have your IT department test the payroll system for employees' names/Social Security Numbers, Forms W-4 and withholding on taxable fringe benefits.
- Purge the master file of terminated employees.
- Review your list of taxable fringes and decide how they will be recorded in the general ledger.

September

- Plan holiday pay schedules by reminding managers of the deadlines for submitting time sheets.
- Send current year Forms W-4 to employees. Use these forms to fulfill your solicitation duties, if you receive a notice from the IRS that an employee's name/Social Security Number doesn't match.
- Ensure that executives who participate in nonqualified deferred compensation plans have the proper amounts withheld from distributions.
- Health flexible spending accounts without grace periods should inform employees that they will forfeit amounts left in their accounts at the end of the plan year. *Option:* Employees can accelerate expenses for prescription drugs into the current year.
- Health flexible spending accounts that use the calendar year as the plan year should inform employees of the maximum pretax deferral amount for the coming year.

October

- Set up a year-end committee, assign tasks and completion dates. *Include:* Accounting, Finance, HR, Benefits, Mailroom and IT. Create an online log so everyone can see the progress of all participants.
- Confirm employees' addresses and update your computer-generated mailing labels, as necessary.
- Ask employees to confirm their Social Security numbers; if your payroll system masks Social Security numbers, unmask them so employees can confirm them.
- Confirm that employees' names and Social Security Numbers match by using the SSA's Social Security Number Verification Service. Go to www.ssa.gov/employer/ssnv.htm.
- Review the holiday processing schedule.

- Confirm year-end payroll deadlines and final federal/state deposit dates.
- Inquire whether other departments will need year-end reports from Payroll, and send memos to other departments thanking them for their timely input last year and reminding them that their cooperation will again be needed for this year.
Examples: HR and Accounts Payable.
- If personnel changes occurred in other departments, identify new people with whom you'll be working. Prepare a memo detailing the information they must provide to you.
- Identify new outsiders, such as third-party administrators and third-party payers of sick pay, with whom you'll be working.
- Find out when your software provider will publish tax updates for the upcoming tax year.
- Review posting descriptions on nonrecurring journal entries. Delegate this task to yourself if support staffs' notations aren't adequate.
- Check deduction codes for employees making charitable donations through payroll deductions. If you choose, you can report those amounts in Box 14 of their Forms W-2.
- Review facsimile signatures for Forms 941, 940, 945 and 944, and authorization letters from upper management.
- Update employees' consents for electronic Forms W-2; also, check your e-delivery system.
- Order Forms W-2 and W-3 from the IRS for the current tax year.
- Electronic Forms W-2 filers must register with the SSA for a PIN; go to www.ssa.gov/bso/bsowelcome.htm#wage and click on Registration.
- By **October 31** (or the next business day, if October 31 is a nonbusiness day), file Form 941 for the third quarter with the IRS.

November

- Mark **November 1**, or any later date, as the cut-off date, if you use the special accounting rule for noncash fringe benefits.

- By **November 10** (or the next business day, if November 10 is a nonbusiness day), file Form 941 for the third quarter with the IRS. This due date applies only if you deposited the tax for the quarter in full and on time.
- Once your third-quarter Form 941 is filed, check your records against the totals on all three forms. Identify any over-or under-reporting of income or wages, and adjust tax overpayments or underpayments on your fourth-quarter Form 941.
- Test computer programs for Forms W-2 that are due next year.
- If you print your own substitute Forms W-2, review the specifications in IRS Pub. 1141 and update your software. Run samples on plain paper to test for the current year and to ensure that all data appear in the correct boxes; shred samples before disposing of them. *Rule of thumb:* Have 125% of the forms you'll actually need. The extra will account for forms used in tests, forms with mistakes, and duplicate forms your employees ask you to provide. Order envelopes for Forms W-2.
- Submit laser-printed substitute Forms W-2 (Copy A) and W-3 to the SSA for approval; e-mail the SSA at copy.a.forms@ssa.gov.
- Check the IRS's website www.irs.gov/app/picklist/list/formsPublications.html to ensure that you have the most recent Forms 941, 940, 944 and 945.
- Note the next year's Social Security taxable wage base, withholding allowances and income tax withholding tables.
- Schedule special year-end reports to/from other departments.
- Send memos to employees showing the next year's paydays, the new Social Security taxable wage base, 401(k) pretax limit and state unemployment/disability wage bases, if applicable.
- Make new folders for the next year.
- Check your SSA-issued website password; passwords expire every 90 days, so you may need to create a new one.
- Ask your bank to prepare an early cut-off statement for December.
- Head off last year's problems for this year. *Consider:* Was the mailroom notified of the volume of out-going mail when Forms W-2 were mailed? Was there enough postage in the postage machine?

December

- Schedule bonus payrolls.
- Notify employees if you're not withholding on their personal use of company cars or are using the special accounting rule to value noncash fringe benefits.
- Double check employees' pretax deductions, coding for Form W-2, Box 12 and year-to-date figures.
- Confirm final calculations of the taxable cost of group-term life insurance over \$50,000 and employees' personal use of company cars; finalize calculations for imputed interest for loans with below market interest rates.
- If vacation isn't allocated on a calendar-year basis, check that employees' vacation balances aren't re-set to zero with the first payroll of the new year.
- Distribute the next year's Forms W-4 to employees. Employees whose family status changed, or those who claimed an exemption from income tax withholding in the current year, *must* file new forms; everyone else *may* refile.
- Cut manual checks for employees fired in between the last payroll of the current year and the first payroll of the next year.
- Conduct a final review of the general ledger for "hidden" wages, notably noncash fringes.
- Let all interested parties (HR, MIS and Accounting) know the cut-off date for the previous year's payroll and the first payroll for the new year.
- Before processing the first payroll of the new year, make sure the new Social Security wage base, state unemployment and disability wage bases (if applicable), federal and state withholding allowances, federal and state tax rates and employees' benefits data are input into the system.
- Back up your system before processing the first payroll of the new year.
- Inform your service bureau of your Forms W-2 schedule, and any changes for the coming year, including employees' benefits deductions and new Forms W-4.