



**YEAR-END FRINGE BENEFIT
& PAYROLL REPORTING**

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Business Resource Group

David Piscorik dpiscorik@stancilcpa.com
Tammy Carter tcarter@stancilcpa.com
Janet McCaskill jmccaskill@stancilcpa.com
Julie Miller jmiller@stancilcpa.com
Trish Meade tmeade@stancilcpa.com
Elana Jones ejones@stancilcpa.com

CERTIFIED PUBLIC ACCOUNTANTS

4909 Windy Hill Drive, Raleigh, North Carolina 27609
Tel 919-872-1260 Fax 919-872-6182 www.stancilcpa.com



YEAR-END FRINGE BENEFIT & PAYROLL REPORTING

- **PERSONAL USE OF COMPANY CAR (PUCC)**
- **REIMBURSEMENT OF EMPLOYEE EXPENSES**
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PERSONAL USE OF COMPANY CAR (PUCC)

General Rules

If an employee or owner drives a company vehicle for personal use, including commuting back and forth to work, you must include the value of the personal use in their income. This can be done each pay period, monthly, annually, or whenever you choose. This is subject to all Federal and State taxes, but you are only required to withhold Social Security and Medicare.

You will need to report and pay the taxes on this within the same time frame as your normal requirements (monthly, semi-weekly, etc.).

There are 3 ways to figure personal use of a vehicle.

1) Commuting Use Method

Each employee covered includes \$1.50 one-way commute in gross income, regardless of distance driven and the number of employees sharing the commute.

This method should only be applied if the employee's use of the company car has been limited to business use and commuting back and forth to work and the employer requires the employee to commute in the company vehicle for bona fide business reasons.

This method can NOT be used for an owner or highly compensated employee.

The amount included in gross income (\$1.50 one-way) includes employer-provided gasoline, insurance, maintenance, etc. If an employee pays for some or all of these expenses, the amount is NOT reduced.

If an employer provides a vehicle that seats at least 6 adults (excluding the driver) and it is generally expected that at least 80% of the vehicle mileage will be used to transport at least 3 employees to and from work, then this personal use of a company vehicle is a NON-taxable benefit.

See example on next page.

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PERSONAL USE OF COMPANY CAR (PUCC)

(continued)

Example of Commuting Use Method:

| | | |
|---|------------|---------------|
| Employee works 5 days/week, 50 weeks/year | Days | 250 |
| | One-Way | x \$ 1.50 |
| | Round-Trip | <u>x 2</u> |
| | Year | <u>\$ 750</u> |

If your company has payroll twice a month, the amount included in each payroll would be \$750/24 or \$31.25 per pay period as additional compensation.

2) Cents Per Mile Method

This method may only be used on vehicles that are not considered luxury automobiles. Also, the vehicle must be driven by employees at least 10,000 miles during the year or must be used regularly in the employer's business. The standard mileage rate is as follows:

| | |
|------|---------------------|
| 2013 | 56.5 cents per mile |
| 2014 | 56 cents per mile |

If the employee provides the gas for the personal use, the mileage rate drops by 5.5 cents per mile.

Once the Cents Per Mile Method is adopted for a particular vehicle, it must continue to be used in all subsequent years that the vehicle qualifies for use of the rule.

3) Annual Lease Value Method (ALV)

This method is the most widely used to determine the value of the personal use of company vehicles.

The fair market value of the vehicle is determined when the vehicle is first made available to the principal driver. The fair market value is re-determined at the beginning of the fifth year, or if the principal driver has changed.

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PERSONAL USE OF COMPANY CAR (PUCC)

(continued)

Annual Lease Value Table is an IRS Table and has not been revised for some time.

When determining mileage for the year, commuting miles are considered to be personal miles, not business miles.

The employee should maintain some written record of their mileage, which is provided to their employer at least annually for use in determining personal usage.

In order to determine annual PUCC, cut-off should be made no earlier than 2 months before the end of the year. If a vehicle is sold or traded during the year, mileage information to-date should be provided at that time.

See example on the following page.

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PERSONAL USE OF COMPANY CAR (PUCC)

(continued)

Example of Annual Lease Value Method:

Employee: John Doe Date: 11/30/2014

Odometer Reading: 20,770

Date Vehicle Valued: 09/30/2012

Fair Market Value of Vehicle: \$ 26,793

Annual Lease Value (See Annual Lease Value Table) (A) \$ 7,250

No. of Days Available to Employee 365 (B) X 100%

Total No. of Days in Year **365**

Annual Lease Value for Year (A) X (B) = (C) \$ 7,250

Personal Use %

Business Miles 15,500

Personal Miles – Commuting 5,000

Other 3,500 8,500

Total Miles **24,000** **(D)**

X **35%**

Personal Annual Lease Value for Year (C) X (D) = (E) \$ 2,568

If employer pays for fuel, multiply number of personal miles driven by 5.5 cents per mile.

Total Personal Miles

8,500
X \$0.055 (F) \$ 468.00

Net Employee Taxable Income for PUCC (G) \$ 3,035.00*

Note: PUCC is subject to Federal and State income taxes and Social Security and Medicare taxes. PUCC is also subject to FUTA and SUTA taxation.

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PERSONAL USE OF COMPANY CAR (PUCC)

(continued)

Annual Lease Value Method (ALV)

Employee: _____ Date: _____

Odometer Reading: _____

Date Vehicle Valued: _____

Fair Market Value of Vehicle: \$ _____

Annual Lease Value (See Annual Lease Value Table) (A) \$ _____

No. of Days Available to Employee 365 (B) X _____ %

Total No. of Days in Year **365**

Annual Lease Value for Year (A) X (B) = (C) \$ _____

Personal Use %

Business Miles _____

Personal Miles – Commuting _____

Other _____

Total Miles _____ **(D)**

X _____

Personal Annual Lease Value for Year (C) X (D) = (E) \$ _____

If employer pays for fuel, multiply number of personal miles driven by 5.5 cents per mile.

Total Personal Miles _____

X \$0.055 (F) \$ _____

Net Employee Taxable Income for PUCC (G) \$ _____*

Note: PUCC is subject to Federal and State income taxes and Social Security and Medicare taxes. PUCC is also subject to FUTA and SUTA taxation.

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PERSONAL USE OF COMPANY CAR (PUCC)

(continued)

Grossing Up Compensation:

If the taxable fringe benefit is included in the normal payroll as additional compensation and properly coded, the software should handle the withholding properly. The problem comes when the taxable fringe benefit is entered into the payroll system separately and not as part of the normal payroll process.

A method to “gross-up” compensation for payroll taxes is to divide the net compensation by 92.35% (100% less 7.65%) for an employee who has not reached the Social Security base for the year.

Example: \$3,035.00 in PUCC (Example of ALV Method)

$$3035/.9235 = \$3,286.41$$

To be sure of amount, check the calculation as follows:

| | |
|------------------------|--------------------|
| Gross Compensation | \$ 3,286.41 |
| Social Security @ 6.2% | (203.76) |
| Medicare @ 1.45% | (47.65) |
| Net PUCC | <u>\$ 3,035.00</u> |

If employee has reached social security tax base and is only subject to Medicare, then divide the net compensation by 98.55% (100% less 1.45%).

Example: \$3,035.00 in PUCC (Example of ALV Method)

$$3035/.9855 = \$3,079.65$$

To be sure of amount, check the calculation as follows:

| | |
|------------------------|--------------------|
| Gross Compensation | \$ 3,079.65 |
| Social Security @ 6.2% | (-) |
| Medicare @ 1.45% | (44.65) |
| Net PUCC | <u>\$ 3,035.00</u> |

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REIMBURSEMENT OF EMPLOYEE EXPENSES

Auto Expenses – Cents Per Mile (CPM)

Reimbursement of employee business mileage using the standard mileage rate is not includable as taxable compensation to employees who substantiate the business usage to their employer. Such substantiation must contain the date, mileage, destination, and business purpose of the trip. If reimbursement is for more than the standard mileage rate, the amount in excess of the standard mileage rate is includable as additional compensation.

Example of excess mileage rate reimbursement:

| | |
|-----------------------------------|-----------------|
| Reimburse 300 miles @ \$0.60/mile | \$ 180.00 |
| Allowed 300 miles @ \$0.56/mile | <u>168.00</u> |
| Additional Taxable Compensation | <u>\$ 12.00</u> |

If the excess mileage rate is paid, it is reported as income subject to income taxes and payroll taxes on Form W-2. The nontaxable portion reported in Box 12 with Code L.

Auto Allowance

If an employer pays the employee auto allowance and does not require the employee to substantiate the use of the allowance and does not require the employee to repay the unsubstantiated balance, then the full amount of the auto allowance is includable as additional compensation and no amount is reported in Box 12 on the Form W-2.

Other Reimbursed Expenses or Allowances

If an employer reimburses its employees for other business expenses (travel, meals & entertainment, supplies, etc.) and does not require the employee to substantiate these expenses, then the amount not substantiated is includable as additional compensation. Reimbursement of business expenses that are substantiated with the employer are nontaxable and are not reported on Form W-2.

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RETIREMENT PLANS

Elective Deferrals to 401(k), 403(b), Simple IRA or Simple 401(k) IRA Plans

Elective deferrals to retirement plans, whether deferred into a 401(k) plan, a 403(b) Salary Reduction Agreement, a SIMPLE IRA or a SIMPLE 401(k) IRA plan, are not subject to either Federal or State income taxes. They are, however, subject to payroll taxes (Social Security and Medicare) as well as Federal and State unemployment taxes (FUTA and SUTA).

In addition to being reported on Form W-2 as wages subject to Social Security tax (if applicable) and Medicare tax, elective deferrals are also required to be reported in Box 12 with the proper code letter.

Make sure that you know what the limits are on each type of plan, including the additional amount allowed for age 50 and above. Do not depend on your software or your payroll service.

Employer Contributions

Employer contributions to qualified retirement plans, whether mandatory under the plan provisions or discretionary, are not subject to any income or payroll taxes. They are not required to be reported on the Form W-2; however, if reporting employer contributions is desired, they may be included in Box 14, "Other".

Form W-2, Box 13

All employees deferring contributions in a retirement plan should have the "Retirement Plan" block in Box 13 checked. Also, all employees who have received an employer contribution to a qualified plan (money purchase pension plan, profit sharing plan, stock bonus plan, SEP) should have this block checked. Contact your plan administrator to determine this information.

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INSURANCE

Group-Term Life Insurance

The first \$50,000 of group-term life insurance provided for employees is not taxable. Coverage in excess of \$50,000 is taxable and based on the age of the employee on the last day of a company's tax year, using the IRS Table presented below.

Example: Company provides \$70,000 of group-term life insurance on employee. Employee is 51 years old as of 12/31/13.
The taxable income to the employee is calculated as follows:

| | |
|--------------------------|-------------------|
| Total Insurance Coverage | \$ 70,000 |
| “Tax-Free” Insurance | (<u>50,000</u>) |
| Excess Insurance | <u>\$ 20,000</u> |
| | |
| Cost @ Age 51 | \$ 0.23 |
| # Months Premium Paid | <u>X 12 mo.</u> |
| | 2.76 |
| | <u>X 20</u> |
| Taxable Income | <u>\$ 55.20</u> |

Taxable group-term life insurance is reportable on Form W-2 and is subject to Federal and State income taxes as well as payroll taxes (Social Security and Medicare). An employer is not required to withhold income taxes for taxable group-term life insurance; however, it is required to withhold payroll taxes. Also, taxable group-term life insurance should be reported in Box 12 of the employee's Form W-2 with a Code C. There are special W-2 reporting requirements if a former employee has current year taxable group-term life insurance.

IRS Table – Cost per \$1,000 of Insurance Coverage for One-Month Period

| <u>Age</u> | <u>Cost</u> |
|------------------------|-----------------------|
| <i>Under 25</i> | <i>5 cents</i> |
| 25 through 29 | 6 cents |
| 30 through 34 | 8 cents |
| 35 through 39 | 9 cents |
| 40 through 44 | 10 cents |
| 45 through 49 | 15 cents |
| 50 through 54 | 23 cents |
| 55 through 59 | 43 cents |
| 60 through 64 | 66 cents |
| 65 through 69 | \$1.27 |
| 70 and above | \$2.06 |

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SECTION 125 CAFETERIA PLANS **FLEXIBLE SPENDING ACCOUNTS**

Elective deferrals into a Section 125 Cafeteria plan, or Flexible Spending Account (FSA) plan, are generally not subject to Federal or State income taxes, payroll taxes, or unemployment taxes. Before completing Form W-2 for 2014, the plan administrator should be contacted to determine if deferrals made by highly-compensated employees are taxable due to plan discrimination violations.

Partners of partnerships, members of LLCs, and more than 2% shareholders in S Corporations may not participate in Section 125 Cafeteria Plans or Flexible Spending Accounts.

For the year 2014, the annual limitation on the amount that can be contributed to an FSA is \$2,500.

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HEALTH SAVINGS ACCOUNTS

Health Savings Accounts (HSA) are used in conjunction with qualified high-deductible health plans (HDHP). For 2014, high-deductible health plans are those that have deductibles of at least \$1,250 for individual coverage and \$2,500 for family coverage. Check with your insurance professional regarding other requirements of a qualified HDHP.

Employer Contributions

Employer contributions to an employee's Health Savings Account (HSA) are not subject to Federal or State income tax withholding, Social Security, Medicare, FUTA or SUTA as long as it is reasonable for the employer to believe at the time of the contribution that the contribution will be excludable from the employee's income.

If it is not reasonable to believe this, then the employer's contribution is subject to all these taxes and should be included in Boxes 1, 3, 5 and 16 of the employee's Form W-2 and included as wages subject to FUTA and SUTA taxation.

All employer contributions to an HSA must be reported in Box 12 of the Form W-2 with Code W.

Employee Contributions

An employee's contribution to an HSA through payroll deduction is fully includible as wages and is subject to Federal and State income tax withholding, Social Security and Medicare taxes, unless it is part of a Section 125 Cafeteria Plan. It is not required to be separately reported on the employee's Form W-2, but may be reported in Box 14 as additional information. It is then deducted on the employee's personal tax return up to the limits.

Partners and more than 2% shareholders of an S Corporation are not eligible for pre-tax contributions to an HSA and their employer contributions are treated as distributions or guaranteed payments. Note that contributions to an HSA for partners and more than 2% S Corporation shareholders may be deducted on the individual's 1040.

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REPORTING OF HEALTH INSURANCE ON W-2

The Affordable Care Act requires employers to report the cost of Health Insurance Coverage from a group plan on an employee's W-2. This is for information purposes only and is not taxable. It is to be reported in Box 12 with Code DD. If you have less than 250 employees, you are not required to do this for 2014 W-2s.

For shareholders in S Corporations whose ownership is greater than 2%, the amount of employer-paid health insurance premiums is included as wages subject to Federal and State income taxes, but NOT Social Security, Medicare, or Federal or State unemployment taxes. This must be included in the shareholder's Form W-2 in order for the shareholder to take a deduction on his/her 1040.

The Affordable Care Act does not permit companies to reimburse employees for their individual health insurance premiums. For individual health insurance costs paid by the employer, please consult your tax advisor regarding proper reporting on the employees W-2.

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CHANGES IN QUARTERLY PAYROLL FORMS

Form 941

For 2014 & 2015 the tax rate for Social Security is 6.2% and for Medicare is 1.45%. These are the tax rates for both the employer and employee.

As part of the Affordable Care Act, employers will be required to withhold an additional 0.9% of Medicare tax on wages exceeding \$200,000. Employers will continue to pay 1.45% on all wages and will not be required to match the additional rate. This is reported on Line 5d of the Form 941.

Form 941-X

This is a stand-alone form that is required to be filed on the date the error is discovered. You should no longer wait until the next quarter to file the correction with a Form 941.

Form 944

This is an *annual* form that allows certain small businesses to file Form 944, Employer's Annual Federal Tax Return, instead of filing Form 941 quarterly. Those businesses with an *annual* liability of Social Security, Medicare, and Federal withholding of \$1,000 or less will receive notification from the IRS regarding their change in filing status. Employers who wish to continue filing Form 941 can submit a written request electing to continue to file quarterly. After your request has been received, they will send you a written notice of acceptance and that your filing requirement has been changed.

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CHANGES IN QUARTERLY PAYROLL FORMS

(Continued)

Form 940

The Form 940 was changed several years ago and with that, the liability payment requirements also changed. During a calendar quarter, if your FUTA liability is \$500 or more, you must pay this liability payment by the last day of the following month. However, if your liability is less than \$500, you can carry this liability forward to the next quarter and payment is due when the total liability reaches \$500 or more. Please see the example below:

| | |
|---------------------------------|---|
| Quarter 1 – Liability due \$645 | Pay this by April 30th |
| Quarter 2 – Liability due \$200 | No payment necessary |
| Quarter 3 – Liability due \$350 | Pay \$550 by September 30 th |

Third Party Designee

On Forms 940, 941, and 944, there is a section for a third party designee. This will allow the person specified to speak to the IRS on your behalf. If you complete this section with our information listed below, the IRS will allow us to speak on your behalf regarding that specific quarter.

Designee's Name: Tammy Carter
Phone Number: 919-872-1260
PIN: 27609
Be sure to check the box YES.

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ADDITIONAL TAX LIMITS AND RATES

Social Security Limits

The Social Security wage limit for 2015 is \$118,500, up from \$117,000 for 2014.

Federal Unemployment Tax Rate

The FUTA tax rate remains at 6.0% for 2015.

For 2014, North Carolina is again a credit reduction state. When a state's unemployment fund experiences financial difficulties, they are allowed to accept advances or loans from the federal unemployment fund to pay unemployment benefits. If this loan has not been repaid by the end of the following year, the state is deemed a "Credit Reduction State". Therefore, each employer in the state must pay an additional percentage per employee to the federal unemployment fund. This year each North Carolina employer will pay an additional 1.2% per employee. This additional tax will be reported on Form 940 Schedule A.

North Carolina State Unemployment Limits

The taxable wage base for 2015 is \$21,400, up from \$20,900 from 2014.

ADDITIONAL PAYMENT OPTIONS AND WEBSITES

Federal Payments Made Through EFTPS

Federal tax payments must be processed electronically using Electronic Federal Tax Payment System (EFTPS). EFTPS is a secure portal to file your Federal tax payments online, 24 hours a day, 7 days a week. To enroll, visit their website at - <https://www.eftps.com/eftps/>. Once you are at this site, click on the Enrollment tab to begin application. After enrollment, you will receive a PIN which will allow you to make all your federal tax payments online. For example: 940, 941, corporate tax due, and pension withholding payments.

Beginning in 2014 any employer who reports a total of 25 or more wage items per quarter is required to submit this information online. Please contact the Division of Employment to receive a PIN number for submission.

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ADDITIONAL PAYMENT OPTIONS AND WEBSITES

(continued)

State Withholding Payments

State payments can be made on the North Carolina Department of Revenue's website at <http://www.dor.state.nc.us> . Inside the business section, please click on the link to their electronic services. There you will sign in to their e-Business Center which is a secure system with User ID and password. You can file Forms NC-5, Withholding Return, and NC-5P, Withholding Payment Voucher, for semi-weekly filers. However, at this time you cannot file the NC-5Q, Quarterly Income Tax Withholding Return, and the NC-3, the Annual Withholding Reconciliation Return, through on-line filing services.

Division of Employment Security (State Unemployment)

State Unemployment information can be accessed at the website – www.desncc.com. Click on Business Services. You will need to call 919-707-1150 to get your PIN to log in. This will allow you to access your rate, payment history, file your Quarterly Tax and Wage Report and make payments.

New for 2014 - companies with 25 or more employees are required to file Form NCUI 101 – Quarterly Tax and Wage Report electronically with the Division of Employment Security.

ADDITIONAL YEAR-END INFORMATION

Form NC-3

Please do not forget to complete your NC-3, the Annual Withholding Reconciliation Return, if you are a quarterly or semi-weekly filer. Complete a NC-3M if you are a monthly filer.

RAS - Remote Accounting Solutions

We now have a secure portal for transferring your accounting file to us electronically. The software we use is Remote Accounting Solutions (RAS). An icon is set up on your desktop and you are given a user name and password. There are two types of files that can be sent. A review copy is a snapshot of your accounting software program and will allow us to generate reports needed. A working copy will allow us to input journal entries, complete bank reconciliations, and enter other transactions. Please keep in mind that you are not able to access your software while we have your working copy. Before this type of file is sent, please contact the person who will be completing the work to coordinate schedules!

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ADDITIONAL YEAR-END INFORMATION

(continued)

Forms W-2 and W-3

Forms W-2 and W-3: If you are required to file 250 or more W-2s, you must file electronically. These forms no longer have to be printed on the IRS preprinted red copies. You are now able to use software generated reports. However, please make sure the employee copy has instructions attached.

The additional 0.9% of Medicare tax employers are required to withhold on wages exceeding \$200,000 as part of the Affordable Care Act will be included in Box 6 of the W-2.

FORM 1099

Requirements

Each person you have paid at least \$600 or more in rents, services, prizes and awards, or other income payments are required to receive a Form 1099. This does not include those subcontractors that are incorporated. If your subcontractor is an LLC, this does not mean that they are incorporated.

Payments to attorneys are unique. Even though an attorney or practice is incorporated, they should still receive a Form 1099 for amounts paid for legal services in excess of \$600. This amount is reported in Box 7.

Box 14 is used for recording amounts paid to attorneys for items such as settlement agreements.

Reporting

Form 1099 Copy A and Form 1096 must be filed on the red copy from the IRS. Form 1099 Copy 1 must be filed with Form NC-3 and mailed to the North Carolina Department of Revenue.

Electronic Filing

If you are required to file 250 or more, you must file electronically.

Example: An independent contractor is hired to perform specific services for a set fee, plus out-of-pocket expenses. If the contractor provides adequate substantiation for the out-of-pocket expenses, reimbursements for these expenses will not be reported, either as income on Form 1099 or on the contractor's individual income tax return. The contractor is not permitted to deduct the expenses if they are reimbursed by the payer. If the contractor is not reimbursed, adequate substantiation of the expenses should be retained to claim expenses on the contractor's individual income tax return.

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YEAR-END PROCEDURES

Reconcile all bank accounts before sending your file to us. Void any old checks that have not cleared.

Make sure last year's journal entries from us have been entered.

Do not change prior year data after giving us your file.

When your tax return is completed, enter our journal entries, make a final backup, and store it offsite.

Remind any workers who have had life changes such as marriage, divorce, or change in dependents to make changes to their Form W-4 and NC-4.

Reconcile Form W-2 totals with the four Forms 941 for 2014.

Make sure you have Social Security numbers and addresses for all employees. Please ask employees to verify this information before W-2s are printed, if possible.

Verify you have addresses and Social Security or Federal identification numbers for all subcontractors. Obtain Form W-9 for all subcontractors throughout the upcoming year.

Before your first payroll in 2015, please remember to change your ESC rate, if necessary. Also, if your software has payroll updates, run them at this time.

If we assist with quarterly reports, please forward a copy of the Deposit Filing Frequency mailed from the IRS and NCDOR in November.

If a Form NC-4 is furnished by an employee claiming more than 10 allowances or claims "exempt" for withholding and their wages normally exceed \$200 per week, you must submit a copy of the employee's certificate (Form NC-4) to the North Carolina Department of Revenue.