

# SALMON SIMS THOMAS

ACCOUNTANTS & CONSULTANTS

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# JANUARY 2014 WEBINAR

**End of Year – Payroll Compliance  
Reasonable Compensation – T-E Orgs**

# Today's Agenda

Housekeeping Items

Introduction of Speakers

Learning Objectives:

1. Y/E Compliance Requirements
2. Creating a year-end checklist for payroll compliance
3. Record Keeping
4. Tax Calendar
5. Establishing Reasonable Compensation (Rebuttable Presumption)



# Housekeeping

- Webinar will last approximately 55 minutes
- Important for Participants to be “mute” during presentation, to eliminate echo. However at the end we will have “open microphone” for questions/comments
- As we cover the various material, please post your questions in the chat box of our GTM electronic platform and we will answer questions as they come up during the presentation
- Sign in/ Evaluation Form
- 1 Hour CPE Credit - you must answer the questions included in the evaluation form, plus verify your attendance, sign and submit your form in order to receive credit from Ratliff & Associates.
- Any questions?

# Introductions

**Rebecca DaVee,  
CPA**



**SALMON SIMS THOMAS**  
*Accountants and Consultants*



**Management and  
Outsourced Accounting  
Services**

# Employer Responsibilities

According to IRS Publ. 13:

1. New Employee Form W-4's
2. Review vendor data to determine that independent contractors have been properly identified (1099 reporting)
3. Reconcile draft Form 941s with draft Forms W-2/W-3
4. Provide W-2 to employees; provide 1099 to contractors





# Form Review

## Forms

- W-2 - Required for employees with > \$600 wages. Reports wages and tax withholdings.
- W-3 – Summary form of W-2s.
- 1099-MISC – Independent contractors with income > \$600.
- 1096 – Summary form of 1099s
- 941 – Quarterly Returns reporting taxes



# **Question #1**

## *True or False*

For payments made to employees during a year, employers are required to report wages and withholdings on Form 1099 Misc.



True or False



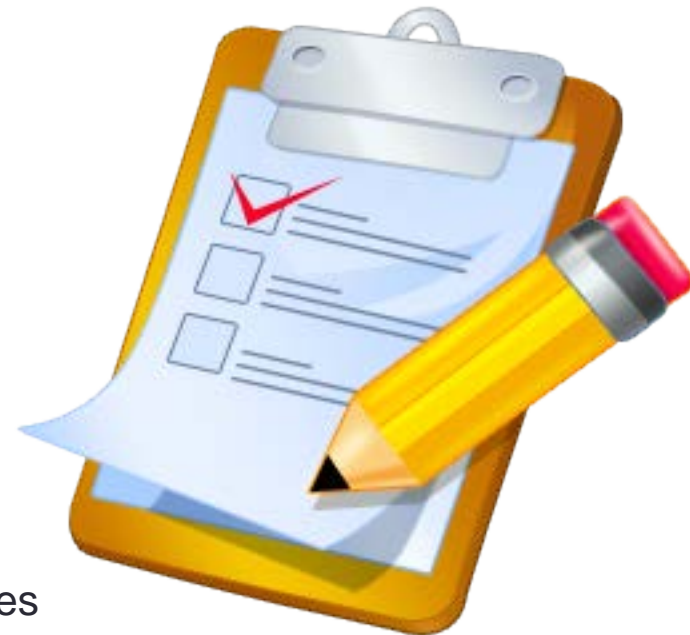
# Year-End Payroll Checklist

1. Nov/Dec - Verify all reporting jurisdictions and filing requirements
2. Nov/Dec – Verify electronic filing requirements
3. Nov/Dec – Verify employee information - W-4 information
4. Dec - Verify that taxable transactions (benefits) have been properly accumulated and reported on W-2
5. Dec – order forms / confirm with 3<sup>rd</sup> party provider



# Year-End Payroll Checklist (Cont'd)

6. Dec - Review A/P for all independent contractors
7. Dec – Review Payroll Bank account for outstanding checks
8. Dec – Reconcile g/l accounts to filed 941s
9. Dec - >250 Forms W-2 – report aggregate cost of employer-provided group health benefits in box 12 (code DD).
10. Dec – Review SY IRS Circular E for reporting changes
11. Dec 31<sup>st</sup>. Jan 1 - Purge employee master file for PY terminations



# Year-End Payroll Checklist (Cont'd)

12. Jan – Revise/update tax rate changes to database
13. Jan – Review employees claiming FT exemptions and obtain 2014 W-4
14. Jan – Verify electronic filings requirements (IRS form 4419)
15. Jan – Update payroll deductions for SY
16. Jan – Returned mail – 2013 W-2



## Recordkeeping

# IRS' Requirements



Keep all records  
of employment  
taxes – at least 4  
years

- Employer identification number (EIN)
- Amounts/Dates of all wage, annuity and pension payments
- Amounts of tips reported to you by your employees

# Retention

Keep all records of  
employment taxes –  
at least 4 years



## Retention

- Employer identification number (EIN)
- Amounts/Dates of all wage, annuity and pension payments
- Amounts of tips reported to you by your employees
- Records of allocated tips
- Fair market value of in-kind wages paid

Keep all records of  
employment taxes –  
at least 4 years



Retention

- Employer identification number (EIN)
- Amounts/Dates of all wage, annuity and pension payments
- Amounts of tips reported to you by your employees
- Records of allocated tips

Keep all records of  
employment taxes –  
at least 4 years



## Retention

- Dates of employment for each employee
- Dates of sick pay/injury payments
- W-4's and W-5's
- Dates and amounts of income tax deposits made by EFTPS (including acknowledgement numbers)
- Copies of returns filed including confirmation #'s
- Records of fringe benefits and expense reimbursements including substantiation



## Question #2

*Fill in the blank...*

It's important to retain  
employment records  
because:

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# Employee Information 3 Years

## **For Non-Exempt Employees – retain the following:**

Name, address, date of birth, gender

Occupation, workweek days, amount of pay

Wage basis, hours worked, straight-time earnings; weekly OT pay

Deductions/additions

Pay periods; pay dates; wages paid by pay period

Retroactive payments

Union agreements and benefit plan documents

# Employee Information 3 Years

**For Exempt (executive, administrative, professional and outside sales employees) – retain the following:**

The wage basis (e.g., \$500/week)

Total remuneration (sum of pay + fringe)



## *Question #3*

### *True or False*

Maintaining accurate employee data protects the organization from fraudulent employee claims.

True or False



# Tax Calendar

## **By January 31<sup>st</sup>:**

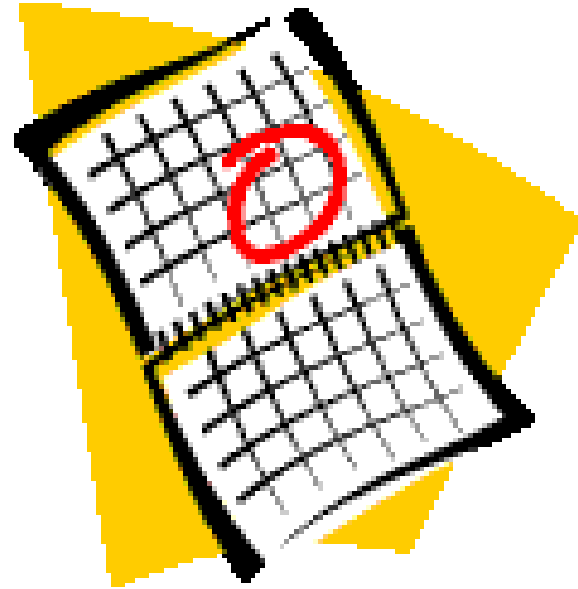
W-2s (to employee)

1099s (to payee)

941 (4<sup>th</sup> Quarter PY)

940 (PY FUTA)

945 (Nonpayroll I/T withheld)



# Tax Calendar (Cont'd)

## **By February 15<sup>th</sup>:**

New W-4 from Exempt EE

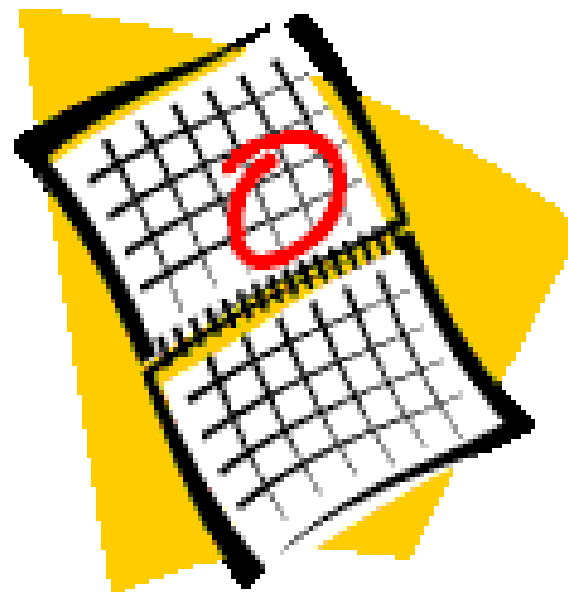
## **February 16<sup>th</sup>:**

PY W-4 claiming exemption expires

## **February 28<sup>th</sup>:**

File 1099/1096 with IRS

File W-2/W-3 with SSA



# Tax Calendar (Cont'd)

## **By March 31<sup>st</sup>:**

File 1099s/W-2 with IRS

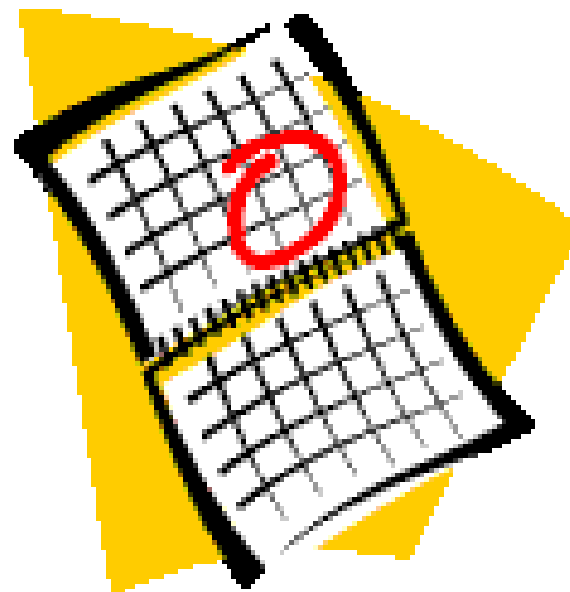
## **April 30<sup>th</sup>:**

Deposit FUTA (> \$500)

File Form 941

## **Before December 1<sup>st</sup>:**

Remind employees to submit new W-4 if marital status/withholding allowances change for the SY



# Reasonable Compensation

Section 501(c)(3) organizations cannot engage in activities that result in inurement to insiders (key employees; board members; officers).

## **Examples of prohibited inurement include**

- a. Unreasonable compensation
- b. Transferring property for less than FMV
- c. Payment of dividends





# Determining Reasonable Compensation

In order to establish reasonable compensation the following 3 activities create a first line of defense with the IRS (rebuttable presumption):

1. Board (i.e., compensation committee) obtains comparable data of peer group
2. Board (compensation committee) adequately and timely documents deliberations and recommendations
3. Board approves compensation prior to payment



# Question #4

Determining reasonable compensation provides/requires:

- a. A best practice for highly compensated employees
- b. Requires using comparable data from peer group
- c. Discussion/vote by governing board prior to payment
- d. Determination prior to payment
- e. All of the above



# Questions/Comments

Next Webinar

2/27/14

Preparing for the Audit/Tax  
Return

# Evaluation/Attendance

PLEASE EMAIL YOUR EVALUATIONS DIRECTLY TO:  
BDAVEE@SSTCPA.COM

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