

PAYROLL COMPLIANCE UPDATE



Presented by
Curtis Leiker
Mize CPAs Inc.
cleiker@mizecpas.com



MIZE
CPAs Inc.



ACA REFRESHER

- You must abide by Affordable Care Act regulations if you have 50 or more full-time equivalent employees in the previous calendar year.
- A full-time employee is an employee who is employed on average, per month, for at least 30 hours of service per week (or at least 130 hours of service in a calendar month).



ACA CHANGES

- The affordability percentage is increasing to 9.83%, from 9.78%.
- The penalty for not offering coverages is increasing to \$2,750, from \$2,700.
- The penalty of offering unaffordable coverage is increasing to \$4,060, from \$3,860.
- The IRS has extended the ACA reporting deadline to March 2, 2021, from February 1, 2021.



NEW STATE-MANDATED SICK LEAVE LAWS

Colorado – Effective 1/1/2021

- All employers, no matter the size
- 1 hour for every 30 hours worked
- Accrual and use maximums are 48 hours per year
- Carryover of up to 48 hours to following year
- Frontloading of 48 hours is allowed each year
- No payout on termination
- Balance is retained for employees rehired within 6 months

COLORADO



COLORADO PAID FMLA

- Employers must now provide 12 weeks paid leave for Colorado employees, plus additional 4 weeks for complications
- Covers all employers, regardless of size
- Funded by a fee of 0.9% on workers' wages, which will be split by the employer and the employee
- Goes into effect January 1, 2023, when employers must start remitting the taxes
- Businesses with less than 10 employees do not have to pay the employer portion
- Paid benefits will go into effect January 1, 2024, with a maximum weekly benefit of \$1,100.



NEW STATE-MANDATED SICK LEAVE LAWS

Maine – Effective 1/1/2021

- 90-day waiting period from date of hire
- 1 hour for every 30 hours worked
- Use is limited to 40 hours per year
- Carryover of up to 40 hours to following year
- Frontloading of 40 hours is allowed each year
- If an established PTO/SICK policy is in place that meets or exceeds, the employer is exempt
- Balances must be reported on pay statements and posters must be displayed
- No payout on termination
- Balance is retained for employees rehired within 12 months
- Successor must retain balance, ONLY if common ownership



NEW STATE-MANDATED SICK LEAVE LAWS

Accrual begins 10/1/20

Use begins 1/1/2021

- 1 hour for every 30 hours worked
 - Annual accrual and use is based on size of company
 - 5-99 employees = 40 hours
 - 100+ employees = 56 hours
- Carryover of unused hours follows the same restriction of accruals based on employer size, as stated above
- Frontloading of hours is permissible, following the same restriction of accruals, as stated above
- No payout upon termination
- No rehire time limit
- Employee may request their balances for current or prior year, and must be provided within 3 business days

A scenic photograph of a Colorado mountain range under a cloudy sky. The word "COLORADO" is overlaid in large white letters on a dark teal horizontal bar.

COLORADO

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NEW STATE-MANDATED SICK LEAVE LAWS

New Annual California Reporting (Similar to EEO-1)

- Required for employers with 100 or more employees.
- Deadline of March 31, 2021.
- Reporting Requirements: Number of employees by race, ethnicity, and sex, whose earnings fall within each of the pay brackets used by the United States Bureau of Labor Statistics that fall under the following job categories:

1. Executive or Senior-level Officials and Managers
2. First or Mid-level Officials and Managers
3. Professionals
4. Technicians

5. Sales Workers
6. Admin Support Workers
7. Craft Workers
8. Operatives
9. Laborers and Helpers
10. Service Workers

YEAR-END REPORTING

- Standard payroll processes
- Additional bonus payouts
- Year-end reporting
 - W-2s
 - 1095s



PREPARING FOR YEAR END

- Manuals/voids
- Bonuses
- Christmas gifts
- Shareholder health and life
- Fringe benefits – vehicle usage and profit sharing

ANNUAL LIMIT ADJUSTMENTS

- **Social Security**
 - Increases to \$142,800
- **401K Contribution**
 - Remains at \$19,500
- **401K Catch-up Contribution**
 - Remains at \$6,500
- **IRA – Roth & Traditional**
 - Remains at \$6,000
- **IRA Catch-up**
 - Remains at \$1,000
- **Simple IRA**
 - Remains at \$13,000
- **Simple IRA Catch-up**
 - Remains at \$3,000
- **HSA – Health Savings Account**
 - Increase to \$3,600 for self-coverage under HDHP
 - Increase to \$7,200 for family-coverage under HDHP
- **HSA Catch-up**
 - Remains at \$1,000
- **FSA – Flex Spending Account**
 - Remains at \$2,750 for self-coverage
 - Remains at \$5,000 for family-coverage
- **Highly Compensated Employee**
 - Increases to \$290,000
- **Mileage Rate**
 - Will not be announced until Mid-December

2021 HOLIDAY SCHEDULE (BANKING)

BE ADVISED PROCESSING AND ACH DEADLINES WILL BE MOVED UP

Standard Federal Reserve Bank Holidays

Information on holiday dates.

Holiday*	2020	2021	2022	2023	2024
New Year's Day	Jan 1	Jan 1	Jan 1*	Jan 1*	Jan 1
Martin Luther King Jr. Day	Jan 20	Jan 18	Jan 17	Jan 16	Jan 15
Presidents Day	Feb 17	Feb 15	Feb 21	Feb 20	Feb 19
Memorial Day	May 25	May 31	May 30	May 29	May 27
Independence Day	Jul 4*	Jul 4*	Jul 4	Jul 4	Jul 4
Labor Day	Sep 7	Sep 6	Sep 5	Sep 4	Sep 2
Columbus Day	Oct 12	Oct 11	Oct 10	Oct 9	Oct 14
Veterans Day	Nov 11	Nov 11	Nov 11	Nov 11*	Nov 11
Thanksgiving Day	Nov 26	Nov 25	Nov 24	Nov 23	Nov 28
Christmas Day	Dec 25	Dec 25*	Dec 25*	Dec 25	Dec 25

*For holidays falling on Saturday, Federal Reserve Banks and Branches will be open the preceding Friday. For holidays falling on Sunday, all Federal Reserve Banks and Branches will be closed the following Monday. An expanded schedule can be found on the [Board of Governors' website \(Off-site\)](#).

YEAR-END CHECK LISTS

2020 MIZE VIRTUAL EMPLOYMENT PRACTICES SUMMIT

If You...	Have You?
Print your own W-2s	Ordered the forms and envelopes? Test print before January!
Submit your own W-2s	Updated your SSA BSO password? You can test your W-2 file using AccuWage with the SSA prior to submission.
Are an Applicable Large Employer (ALE)	Ordered Forms 1095-C, Forms 1094-C and envelopes? Test print before January!
	Registered with the IRS for electronic filing if you have more than 250 forms to be filed (electronic filing required)?
Prepare your own Forms 1099	Ordered the forms and envelopes? Review a current list of payments to verify how many 1099s you will need and add a cushion. Test print before January!
	Updated your Accounts Payable system with current Forms W-9 information for vendors

Before December 31

- ☐ Prepare and review your year-end holiday payroll processing schedule and prepare your 2021 payroll processing calendar for the Processing Dates (with holidays and Direct Deposit considered) and Paycheck dates.
- ☐ Identify potential taxable benefits to add to payroll before 12/31/2020:
 - Personal use of company owned/leased auto
 - Year-end bonuses
 - Holiday bonuses or gifts
 - Group Term Life insurance policies
 - 3rd Party Sick pay
 - Gift Cards/certificates
 - 2% S Corp shareholder benefits
 - Moving reimbursements (now taxable!)
 - Educational benefits
 - Severance or settlement agreement payments
 - Manual checks not already entered to payroll
 - Void checks not already entered to payroll
- ☐ Remind employees to complete a new Form W-4 if their address, withholding allowances, name or SSN needs to be updated. Watch the IRS website for the updated Form W-4 for 2021.
- ☐ Run a list of your W-4 Exempt employees and remind them they must provide a new W-4 for 2021 prior to 2/17/21 (single standard deduction).

YEAR-END CHECK LISTS

2020 MIZE **VIRTUAL** EMPLOYMENT PRACTICES SUMMIT

Before December 31 Continued

- ☐ Ask all employees to verify their SSN and mailing address.
- ☐ Run a preliminary Form W-2 prelist and determine if any employees are missing SSNs or address. Review for any that have a SSN beginning with "9" or something that looks obviously wrong (for example 123-45-6789).
- ☐ Review your vendor payment list to determine if there have been any payments in Accounts Payable that should have run through payroll and need to be reported on a Form W-2.
- ☐ Verify whether you have foreign workers that need special treatment on Form W-2 (J-1 VISA or other types exempt from SS/Medicare).
- ☐ Check the due date of any State reconciliation forms and/or W-2 filings.
- ☐ Reconcile your bank accounts and deal with outstanding paychecks.
 - Unclaimed Property reports are required in all 50 states.
 - "Negative reports" may be required when you do not have any property to report
 - Have never filed unclaimed property? Contact your Mize CPAs staff for assistance.
- ☐ Review your Form 941 tax deposit requirements for 2021. If you have been paying on a monthly basis, check your "lookback period."
 - If you pay semi-weekly, be sure to deposit NEXT DAY if a liability exceeds \$100,000 in your normal deposit period.
 - Review IRS Notice 931 for specific rules.

After January 1

- ☐ Gather employee health insurance premium amounts paid during 2020 to be shown on Form W-2 (Box 12, Code DD) if you filed more than 250 Form W-2s in 2019.
- ☐ Check to see if you have any 3rd Party sick pay to report on W-2s.
- ☐ Plan for disaster recovery! Don't wait until the last day to print your Forms W-2 in case you experience a disaster (water leaks, floods, inability to enter your office for various reasons, no electricity during storms, etc.).
- ☐ Perform a year-end reconciliation.
 - Do 941s & 941-Xs tie to Forms W-2?
 - Check Federal Taxable wages, Social Security & Medicare taxable wages
- ☐ Identify all Exempt items

Questions? Contact Us: 1-800-234-5573

MIZE
CPAs INC.

November 6, 2020

Dear Friends,

As another year draws to a close, it is time to identify information that should be reported on employee W-2s. Please review the items below to determine if any apply to your situation.

Form W-2 and Year-End payroll items

The taxable wage base for Social Security is \$137,700 for 2020 and will increase to \$142,800 for 2021.

- **Group Term Life Insurance** – If you pay group term life insurance premiums for you or your employees and the face amount of the policy is over \$50,000, a portion of the cost of the insurance must be included in the W-2. (For group term life insurance provided to a spouse or dependent, the entire cost must be included if the face amount is over \$2,000). The imputed amount is subject to federal income tax, FICA and state income tax. If you have this benefit and have not previously provided the information for 2020, please contact Mize CPAs to obtain the form.
- **S-Corporation Shareholder Benefits** – Certain fringe benefits (health insurance, disability, long term care and group term or single life insurance premiums) paid on behalf of a more than 2% shareholder must be included on Form W-2. Please tell us about any benefits for your spouse, children, grandchildren or parents, as they may also need to be reported on Form W-2.
- **Life Insurance Other Than Group Term** – If you pay whole life or non-group life insurance premiums for you, your employees, spouses or dependents, and the corporation is neither the policy owner nor the beneficiary, the cost of the premium must be included in the W-2. This amount is subject to all taxes.
- **Christmas Bonuses, Trips, Awards and Prizes** – All gifts of cash, gift certificates, gift cards, stock in a corporation, merchandise, trips, awards and prizes are taxable to the employee and must be included in the W-2. These amounts are subject to federal and state income tax, FICA, FUTA and SUTA taxes.
- **Employer Provided Vehicle** – If you provide a vehicle to an employee, the value of their personal use of the vehicle is taxable income to them. Commuting (to and from home to the workplace) is personal use. The IRS requires mileage logs to prove business use of the vehicle.
- **Health Savings Accounts (HSA)** – Form W-2, box 12, Code W requires reporting of any **employer contributions** (including amounts employee contributed using a section 125 cafeteria plan) to an HSA. Please forward those amounts to Mize CPAs if we are preparing your W-2s. This also includes 2% shareholders of S Corporations if they receive an employer paid HSA contribution
- **Flexible Spending Accounts** - The Affordable Care Act limits the pre-tax deferral of Flexible Spending Accounts to **\$2,750 per plan year for 2020**. This amount **will remain unchanged at \$2,750 for plan year 2021**. Be sure your cafeteria plan document is in compliance with the new Federal limit and has been updated if you've made changes related to the **optional \$550 carry forward of unused dollars**. **The plan cannot offer both a "grace period" and the \$550 carry forward.**



534 S. Kansas Ave, Suite 400
Topeka, KS 66603
785-233-0536 p
785-233-1078 f

7101 College Blvd, Suite 900
Overland Park, KS 66210
913-451-1882 p
913-451-2211 f

www.MizeCPAs.com
info@MizeCPAs.com
800-234-5573

- **Medicare tax rate on higher earners** - The Affordable Care Act increased the Medicare tax rate by 0.9% on employees with taxable Medicare wages over \$200,000. Wages up to and including \$200,000 are taxed at 1.45%. Amounts over \$200,000 are taxed at 2.35%. Employers are not required to match the additional 0.9%.
- **Health Insurance reporting on W-2** - If you offer employer-sponsored health insurance to your employees and filed more than 250 Forms W-2 in **2019**, you are required to report the cost of health insurance provided to each employee on their W-2 **for 2020** in Box 12, Code DD.
- **Dependent Care Assistance Program (Sec. 129)** – An employer may exclude from income the lesser of \$5,000, the employee's earned income for the year, or the earned income of the employee's spouse for the taxable year for a dependent care plan. The benefit is limited to \$2,500 for those employees who are married but filing a separate tax return from their spouse. The total amount (both excluded and taxed) of dependent care benefits must be reported separately on the employee's W-2 in Box 10.
- **Automobile/Car Allowances** – Flat rate auto or expense allowances where the employee does not submit **substantiation for the business purpose of each trip** are considered **taxable to the employee** and must be included on the employee's W-2. (Exception: Per Diem travel allowances that follow the Federal guidelines).
- **Moving Expense Reimbursement** – Moving Expenses reimbursed by an employer are no longer excludable from employee income. The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the exclusion from pay for employer reimbursements of moving expenses until 2025. Moving expenses are still deductible for active duty members of the Armed Forces who move pursuant to a military order, therefore those expenses reimbursed by the employer would be excluded from wages.
- **Interest-Free Loans (Sec. 7872)** – An interest-free loan (or loan below market interest rate) in excess of \$10,000 by an employer to an employee is treated as wages to the employee to the extent of the differences between normal market interest rate and the rate payable by the employee over the term of the loan. (Debt forgiveness is also considered compensation to an employee.)
- **Educational Payments or Reimbursements** – Certain educational assistance benefits that an employer provides to an employee may need to be included in the employee's taxable income and be included on the W-2. The guidelines are specific; please contact our office for assistance to determine if your situation is taxable or non-taxable.
- **Athletic Club and Country Club Dues** – The portion of any dues paid by the employer on behalf of the employee for athletic clubs or country clubs is to be included on the employee's W-2.
- **Deferred Compensation Plans** – Contributions to the following plans must be reported on the employee's W-2:
 - Section 401(k) or any other deferred compensation plan
 - SIMPLE 401(k) arrangement
 - Section 403(b) salary reduction agreement to purchase an annuity contract
 - Section 408(k)(6) SEP (Simplified Employee Plan)
 - Section 408(p) SIMPLE
 - 457 plan for state or local government employees
 - Roth 401(k) or Roth 403(b)

Remember to inform Mize CPAs of company contributions made to an employee retirement plan.

Third-Party Sick Pay – Sick pay provided under a separate plan may be subject to federal income, FICA, FUTA and SUTA taxes. If your Third-party payer does not handle all of the employer reporting and W-2 submission to the Social Security Administration, they are required to provide regular statements to you so timely deposits of Social Security and Medicare tax can be made. They are also required to provide an annual statement of payments, no later than January 15. Please contact us **prior to December 31** if Mize CPAs processes your payroll and you have employees collecting sick pay from a third party so we may gather the appropriate information prior to completing Form W-2.

Remember: **Form 8922 Third Party Sick Pay Recap** must be completed by either the Third-Party Payer or the Employer, depending on the type of arrangement you have with the Third-party payer.

- **Adoption Benefits** – Amounts paid or reimbursed by an employer for qualified adoption expenses need to be reported in Box 12 of Form W-2. Contact us to determine if reimbursements qualify for exclusion from income.
- **Credit Reduction states** - For the year 2020, there are no credit reduction states.
- **Form 940** - All Multi-State employers must complete Form 940 Schedule A with an X in the box of all states they have paid wages in, regardless of whether they owe additional tax on the schedule.
- **Unemployment Rates for 2021** — Send us your unemployment rate notification for 2021 as soon as possible. We will review whether a voluntary contribution may be of benefit to you in 2021. The voluntary contribution is usually due within 30 days of the date of the notice. After 30 days, the voluntary payment will not be accepted by the unemployment division.

OTHER CONSIDERATIONS

- **Changes to Entities, Officers, Directors** – Please let us know when you form a new entity, have changes to your current entity structure, or make changes to officers, board of directors or ownership. These changes can impact your income tax returns and payroll reporting.
- **Deceased Employees or Owners**- There are special considerations on Form W-2, Form 1099 and other tax forms that make it necessary for us to know when you have suffered a loss of an employee or owner in your organization. Please provide an update to your payroll specialist and/or tax preparer as soon as possible after the passing of the individual.
- **Bank Reconciliation** – Bank reconciliations should be completed within 30 days of the end of the month. Check your banking agreement regarding the deadline for reporting fraudulent items. You may want to consider Positive Pay for your checking accounts. This option is offered by many banks to reduce fraudulent activity on your bank account by matching a file you provide to the bank against checks clearing on your account.

Unclaimed payroll items would remain taxable wages to the employee. Verify that all manual and void checks have been recorded properly in the payroll system. All payroll checks dated in the current year must be received by the employee before January 1.

- **Unclaimed Property** – Businesses are required to report unclaimed property to the state annually. Unclaimed property may include (but is not limited to) such items as dormant savings and checking

accounts, **un-cashed payroll checks**, vendor checks (check your state rules), security deposits, refunds, customer/patient overpayments, Accounts receivable credit balances and insurance proceeds.

In Kansas, the reports are due to the Treasurer's office on October 31st of each year. A holder who fails to report, pay or deliver property within the time prescribed by law may be assessed \$100 for each day the report is not presented, not to exceed \$5,000. A person who willfully fails to pay or deliver unclaimed property will be assessed a civil penalty of 25% of the value of the property.

If your company is out of compliance, please contact our office for assistance.

Although it does not remove the filing requirement, the use of direct deposit and/or paycard forms of payment to employees help reduce the amount of unclaimed property subject to reporting. Mailing the paper check to the last known address within 60 days after paycheck date may also reduce unclaimed checks.

- **Kansas Uniform Consumer Credit Code (KSA 16a-201)** – Companies who extend credit to customers are required to file an annual Notification Form. It applies to those who add finance charges to the actual cost of goods or services, as well as those who add a service or carrying charge to an account as a cost of deferring payments. The Annual Notification form, along with the prescribed fee, is due on or before April 30 of each year to the Office of the State Bank Commissioner. The website for more information and forms is www.osbckansas.org. If you would like assistance, please contact our office.
- **Kansas Sales and Use Tax** – Consumer's Compensating Use tax is due when Kansas residents buy goods or merchandise for their use or consumption in Kansas from vendors in other states on which a state and local sales tax rate equal to that of the Kansas buyer has not been paid. How the transaction is accomplished (phone, fax, catalog, Internet) is not a factor.

As a business, you owe Use tax as the final consumer of equipment, fixtures, tools and other taxable non-inventory items purchased from vendors located outside of Kansas that do not collect Kansas sales tax at the time of purchase. Some services, freight and shipping may also be subject to Use tax.

For more information, see Publication KS-1510, Kansas Sales Tax and Compensating Use Tax, at www.ksrevenue.org. **Most other states have similar sales and Use tax laws, please contact us with questions.**

- **W-2 and 1099 Electronic Filing** – Many states require an employer, payer or organization that files statements (W-2s or 1099s) to file the forms electronically, although the specific laws vary. For example, Kansas employers with more than 50 employees or payees must file by electronic means, but in Missouri the threshold is 250. Please contact our office if you need assistance with this process.

Filing Deadline: The due date for filing your Form W-2s with the Social Security Administration and almost every state is February 1st 2021. Form 1099s should also be filed by February 1st 2021.

- **Minimum Wage Increases for 2021** – The Federal minimum wage is \$7.25 per hour. Kansas minimum wage is also \$7.25. **Missouri** minimum wage is \$9.45, with an increase to \$10.30 effective 1/1/2021. **Colorado's** rate is \$12.00/hour for 2020 and \$12.32/hour effective 1/1/2021. Please continue to monitor the rate in the states in which your employees work. Stay current with this link: <https://www.laborlawcenter.com/state-minimum-wage-rates/>.
- **Form W-4** - Remind employees by **December 1st** (as soon as possible) to complete a new 2021 W-4 if their withholding allowance has changed or if they have a change of address. The W-4 should show their legal name as listed on their Social Security card. The IRS will issue a Form W-4 2021 that is very similar to the 2020 version.

Employees claiming total exemption from withholding must complete a new 2021 W-4 by February 16, 2021 or the employer must withhold as Single with no other adjustments until a new W-4 is received.

Kansas, as well as other states, requires a separate Employee Withholding Allowance Certificate (Form K-4). Remind employees to update their state withholding form whenever they make changes to IRS Form W-4.

- **Form 1099** - The IRS has increased penalties for improperly filed or non-filed Forms 1099. Please contact our office if you need help preparing 1099s for independent contractors, medical payments, interest payments, dividends or other payments required to be reported.
- **Supplemental pay withholding for federal income tax** remains the same at 22%.
If annual supplemental wages exceed \$1,000,000, the supplemental rate remain at 37%.

Supplemental wages are defined by the IRS as amounts paid by an employer that are not “regular” wages. Examples of supplemental wages are overtime pay, bonuses, back pay, commissions, noncash fringe benefits and reported tips (not an inclusive listing!).

The Kansas supplemental rate is 5.0%. Missouri’s supplemental rate is 6.0% and Colorado’s is 4.63%. Oklahoma’s supplemental rate is 5.0%. Please contact Mize CPAs if you need the rate for other states.

- **Depreciation Schedule Updates** - Please review your depreciation schedule and send us any disposals of equipment. If we are engaged to prepare your income tax return or personal property tax rendition forms, please send the disposals to us by December 31.

It is important to remember -- in a personal property tax audit, assessors will expect assets on your depreciation schedule to generally match your personal property tax renditions, unless specific exemptions exist. Assets that have been disposed of physically should be removed from your depreciation schedule.

- **Reminder for cash basis companies -**
 - Please notify us of fixed assets placed in service on or before December 31 (whether or not the item has been paid for).
 - Employer FICA expense must be PAID by December 31 in order to claim a current year deduction.
 - Purchases on company credit cards – If you make expenditures for your company using a company credit card prior to December 31, please send copies of receipts to us (if we assist you with depreciation calculations, bonus calculations or financial statement preparation).

Affordable Care Act (ACA) - The Individual Mandate Penalty was repealed as part of the TCJA, effective 1/1/2019. The Employer Mandate to provide health insurance has not changed.

We will continue to update you on any legislation or Executive Branch orders that impact your compliance with the Affordable Care Act. Mize CPAs is committed to assisting our clients wade through the requirements. This includes modifications to our payroll system as well as researching the tough questions for you. Please contact your relationship manager at Mize CPAs if you have questions about ACA.

It is our pleasure to compile and provide this information to our valued clients and friends. Please give us a call if you have questions.

Sincerely,

Mize CPAs Inc.

Certified Public Accountants