# Payroll Processing for

# Townships

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## Introduction

- Session is designed to help elected officials understand and administer payroll
- Overview of payroll tax and withholding filing and payment requirements
- Software Options

# Agenda

- Payroll basics-review of accounting concepts
- Social Security-who is covered and why
- Tax payments
- Required tax forms
  - Pre-Employment
  - Quarterly
  - Annual
- Software Options

# Accounting Concepts

- Gross Pay is the amount that is due to be paid to the individual employee. This can be expressed as an annual, quarterly, or monthly salary, or hourly wages.
- Gross Pay is then reduced for required Federal and State income taxes, and Social Security and Medicare taxes (if applicable).

# Other Withholdings

- Can include voluntary and mandatory pension withholdings, deferred compensation, insurance co-pays, etc.
- Net pay= Gross pay the aforementioned withholdings.

# Accounting for payroll

- Gross Pay should be posted to salary and wage expenditure accounts
- Withholdings are "IOU's" and should be posted to liability accounts
- Net pay as a reduction of cash

Payroll should be charged to line items in accordance with the State Uniform Chart of Accounts

- http://www.michigan.gov/documents/unifor mchart\_24524\_7.PDF
- Or call the department at 517-373-3221.

#### State Uniform Chart of Accounts

- The Michigan chart of accounts uses 9 digits with an option for an additional three numbers for "sub accounts":
- The first three digits indicate the Fund number.
- The next three indicate the department (no departments for balance sheet accounts or revenues).
- The last three digits are line items.

# Chart of Account Examples

101-000-001	General Fund Cash
206-000-001	Fire Fund Cash
101-253-706	Treasurer's Salary
206-336-706	Fire Fund Salaries
101-253-715	Treasurer's Payroll Taxes
101-298-715	<b>Unallocated Payroll Taxes</b>

		Clerk:	Supervisor:
		Sherry Myway	Patrick Pushover
Gross Pay	101-215-701	10,000.00	-
Gross Pay	101-171-701		12,000.00
457 Plan ded.	101-000-231	1,000.00	1,200.00
Med. W/H	101-000-229.001	-	174.00
S.S. W/H	101-000-229.002	-	-
FIT W.H.	101-000-229.003	325.00	-
S.I.T. W/H	101-000-228	230.00	300.00
Net Pay	101-000-101	8,445.00	10,326.00

# | Federal and State Payments

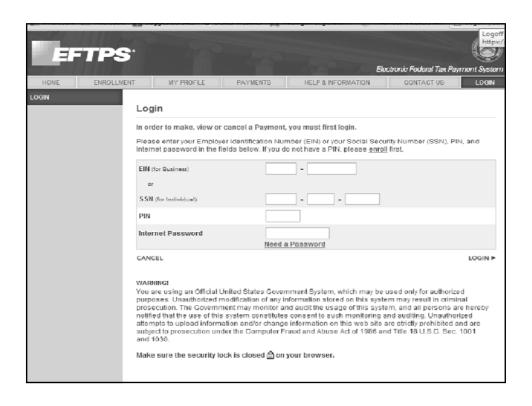
- EFTPS
- Payment with Form 941
- 160 (monthly and quarterly) or 165 (annual) Sales, Use and Withholdings (MICHIGAN)

# | Federal Tax Payments

- On a quarterly basis with IRS Form 941, if the total amount of these taxes is under \$2,500 for the quarter.
- EFTPS-Generally all employers are required to pay taxes electronically unless they meet the exception above. Enroll on line at <a href="https://www.eftps.gov">www.eftps.gov</a> or by phone 1-800-555-4477

# Federal Tax Payments (continued)

Rules for this are outlined on Pages 25-30 of IRS Circular E and are complex. We recommend that you make your deposit on the same day you issue payroll checks to avoid late penalties and interest.

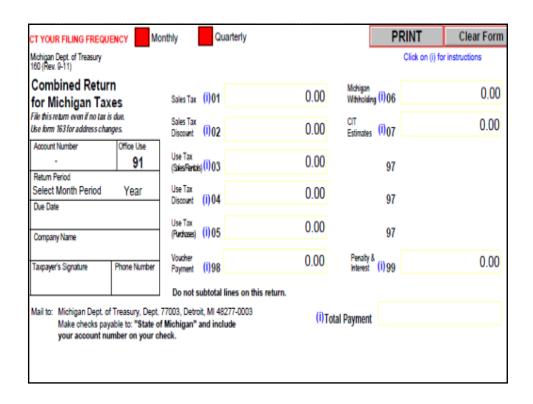


## State Tax Payments

- Purpose: Serves as transmittal for taxes due. Generally for Townships this is limited to Michigan Income Tax withheld from employee pay checks.
- Filing requirements: Determined by the State of Michigan based on their estimate of your annual taxes collected. This information is initially gathered from the registration forms (MI 518) and is updated by actual experience with the Township.

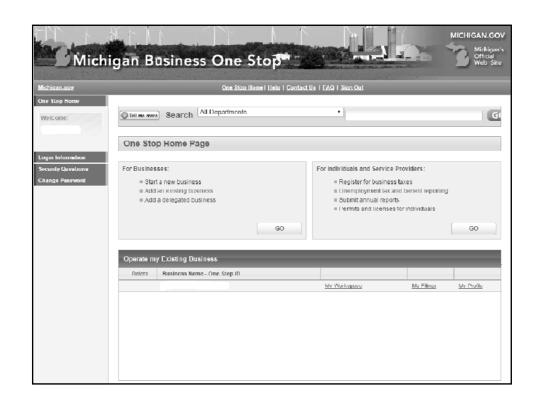
## State Tax Payments

- Update: Starting in 2015, all taxpayers will be required to file a return regardless of whether tax is due
- How to pay: can be made electronically through the "Michigan Treasury Online" system, through Treasury approved software, or paper filed-but you must download the forms from the State's web site, no paper forms will be mailed.

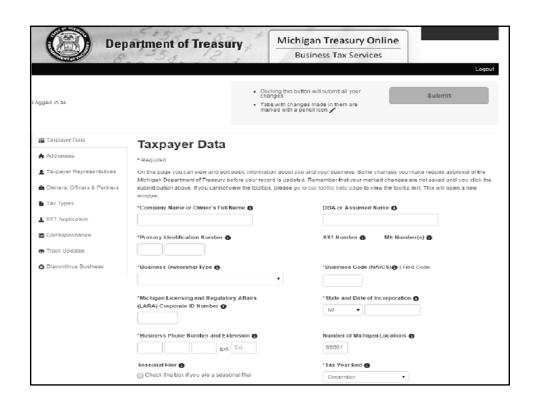


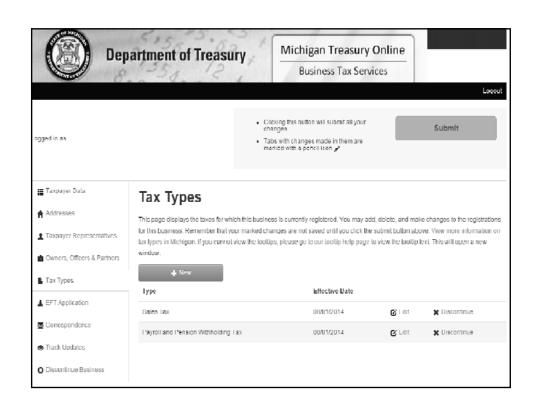
## | Electronic Payments

- Registration needed to access the free "Michigan Treasury Online" system.
  - Michigan One Stop Account
  - Add Task: "Michigan Treasury Online"
  - http://www.michigan.gov/business









# Michigan Tax Due Dates

Most Townships will be on a quarterly or monthly payment system. Payments and return filings are dues as follows:

Monthly Filers – 20th day of the following month.

Example: October Michigan Income Tax is due November 20th.

Quarterly Filers –20th day of the month following close of a calendar quarter.

- Large taxpayers (annual w/h=\$40,000) must pay electronically, under advanced payment guidelines
- NOTE-must file returns even if no tax due.

Why are some of the employees covered by Social Security/Medicare, and others are not?

#### Answer

- Prior to March 31, 1986, Township's participation in the "Social Security System" was voluntary.
- These voluntary arrangements were covered by agreements known as "218 Agreements".
- Federal law made Medicare Tax coverage mandatory for all employees hired after 3-31-86.

## Social Security Coverage

- Budget Act of 1990 required Social Security and Medicare coverage of all township employees with exceptions:
- Exception #1 Employees covered by public retirement system (PRS) may be excluded from the social security portion (6.2%) if they are "covered" by a "public retirement system".
- Exception #2 Payments to "election workers" not exceeding \$1,600 per <u>calendar</u> <u>year</u> are exempt from Social Security and Medicare taxes.

# | Social Security Coverage (continued)

#### To qualify for the "PRS" exception:

■ Defined benefit plan-employees must end up with an accrued benefit comparable to the basic benefit they would have had under social security- Per IRS Revenue Procedure 91-40, the benefits must be at least 1.5% of average compensation received in the last three years of employment multiplied by the number of years of service.

## Social Security Coverage (continued)

- A defined contribution plan (such as a 457 plan). If an allocation of at least 7.5 percent of the employee's compensation is made to their account.
- Contributions by employee and employer count toward this calculation.
- Note: Exception for Election Workers previously noted apply, even if covered by a 218 agreement, effective 1-1-2003 (modification 975)

## FICA Tax Rates

- FICA=Social Security PLUS Medicare Taxes
- Both Funded By Employer and Employee "Contributions"
- Social Security for 2015=6.2% Employer and Employee (12.4%) wages up to \$118,500
- Medicare for 2015=1.45% Employer and Employee (2.9%) on all taxable wages.
- Extra Medicare Taxes for 2015-high earners pay additional .9%(no employer match) on wages over \$200,000)

## Payroll Tax Forms

- Pre Employment
- Quarterly Filings
- Annual Filings

## PRE-EMPLOYMENT

- IRS Form W-4
- Michigan Form W-4
- Homeland Security Form I-9
- State Of Michigan New Hire Form
- SSA 1945

## IRS Form W-4

- Purpose: To document employee's selected number of federal withholding allowances. All taxpayer's are entitled to a certain number of "allowances" which reduce the federal income tax withheld from employee's pay.
- Federal income tax deductions for personal and dependants exemptions
- Large itemized deductions.

# Filing Requirements

■ This form is generally not filed with the IRS (unless requested by the IRS). It should be retained with the employee's payroll or personnel records. All employees should be given the opportunity to review their withholding allowances annually.

rm	W-4 Employe	e's Withholdin	g Allowand	e Certificat	te	OMD No. 1545-0074		
b Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.								
1	Your first name and middle initial	Last name			2 Your social	security number		
	Home address (number and street or rural route		3 Single	Married Marri	ied, but withhold a	at higher Single rate.		
			Note. If married, but	t legally separated, or spo	use is a nonresident :	allen, check the "Single" box.		
City or town, state, and ZIP code 4 If				4 If your last name differs from that shown on your social security card,				
			check here. Y	e. You must call 1-800-772-1213 for a replacement card. 🕨 🗌				
5	Total number of allowances you are clai	ming (from line H above	or from the appl	icable worksheet o	n page 2)	5		
6	Additional amount, if any, you want with	held from each payche	ck			6 \$		
7	I claim exemption from withholding for 2	2014, and I certify that I	meet both of the	following condition	ns for exemptio	n.		
	• Last year I had a right to a refund of a	ll federal income tax wit	hheld because I h	nad no tax liability,	and			
	This year I expect a refund of all feder	al income tax withheld l	because l'expect	to have no tax liab	ility.			
	If you meet both conditions, write "Exer	npt" here		▶	7			
do	r penalties of perjury, I declare that I have ex	amined this certificate an	d, to the best of m	y knowledge and be	lief, it is true, co	prrect, and complete.		
luoi	ovee's signature							
					Date▶			
npl	form is not valid unless you sign it.) ▶							

# Michigan W-4

#### **Purpose**

- Same as IRS W-4. Important to Note: Since Michigan Income Tax does not allow for itemized deductions, and is a flat rate (not graduated), employees should generally only claim exemptions for their exact number of dependency exemptions.
- Filing Requirements-See IRS W-4

UII = U U ZI	OF MICHIGA	/ITHHOLDING EXEMPTION ( IN - DEPARTMENT OF TREA	SURY
rom nonresident to resident. Read instructions below beforessed under P.A. 281 of 1987		▶ 1. Social Security Number	2 Date of Rith
3. Type or Print Your First Name, Middle Initial and Las	Name	4. Driver License Number	
liome Address (No., Street, P.O. Dox or Rural Route) City or Town	State ZIP C	P 5. Are you a new employee?  Yes If Yes, enter date of hir	e
<ul> <li>a.  A Michigan income tax liability is</li> <li>b.  Wages are exempt from withhol</li> </ul>		year.	
c Permanent home (domicile) is k			
c Permanent home (domicile) is to  EMPLOYEE: If you fail or refuse to file this form, your	Under penalty of perju exceed the number to	ing Renaissance Zone:	ons claimed on this certificate does no cholding, I certify that I anticipate that
c Permanent home (domicile) is le	Under penalty of perju exceed the number to	ry, I certify that the number of withholding exemption with aim entitled. It claiming exemption from with an income tax liability for this year.	ons daimed on this certificate does n holding, I certify that I ambopate tha
c Permanent home (domicile) is le  EMPLOYEE: If you fail or refuse to file this form, your employer must withhold Michigan income tax from your wages without allowance for any complore. Recy a copy of this form for your	Under penalty of perju ercsed the number to will not incur a Michiga 9. Employee's Signatur Employer: Complete	ry, I certify that the number of withholding exemption with aim entitled. It claiming exemption from with an income tax liability for this year.	holding, I certify that I anticipate tha

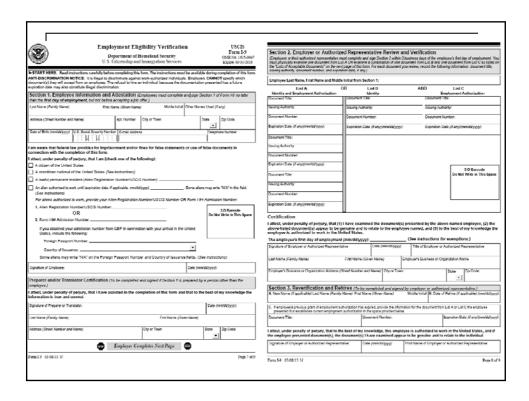
# Homeland Security I-9

#### Purpose:

 Documents pre-employment efforts by employers required by the Federal government relative to legal immigration status.

#### Filing Requirements

- Not filed, should be retained for all employees hired after 11-6-1986 for potential inspection by the Bureau of Immigration. All new employees should be subject to this review.
- "Fillable" forms on line at http://www.uscis.gov/files/form/i-9.pdf



# E-Verify

- Established by US Department of Homeland Security for employers to voluntarily augment the efforts with I-9 to ensure employees are eligible to work
- Enrollment is free, and simple: https://e-verify.uscis.gov/enroll/StartPage.aspx?JS=YES

# State of Michigan New Hire Form

#### **Purpose**

- Assist in locating recipients of public assistance and unemployment benefits who fail to report earnings and parents who owe child support
- Can file on line at
   <a href="http://mi-newhire.com/MI-newhire/instruct.aspx">http://mi-newhire.com/MI-newhire/instruct.aspx</a>

Michigan Department of Treasury 3281 (Rev. 9-12)  State of Michigan New Hire Reporting F Federal law requires public (State and local) and private employers to report all new in Michigan to the State of Michigan 1 This form is recommended for use by all emplo	why hired or rehired employees who are working Phone: (800) 524-9846
A newly hired employee is an individual not previously employed by you, and a rehired employee is an individual who was previously employed by you and a rehired employee is an individual who was previously employed by you but separated from employment for at least 60 consecutive days.     Reports must be submitted width 20 days of hire date (i.e., the date services are first performed for pay).	<ul> <li>Employers who report electronically and have employees working in two or more states may register as a multi-state employer and designate a single state to which new hire reports will be transmitted. Information regarding multi-state registration is available online at </li></ul>

# Filing Requirements

■ The information must be sent to the State within 20 days of an employee's date of hire. The information must be reported for all township employees hired, rehired or returning to work after any break in employment. The number of hours worked or compensation received does not affect this requirement.

# How to get forms

- The "State of Michigan New Hire Reporting Form" *Mail reports to:* Michigan New Hires Operation Center
   P.O. Box 85010
   Lansing, MI 48908-5010
- Fax reports to: (877) 318-1659

## SSA 1945

- Required for all new hires not covered by Social Security, after January 1, 2005
- Employee must sign a statement that they are aware that they are not covered by Social Security
- Employer must forward statement to pension plan administrator
- Available at http://www.socialsecurity.gov/form1945

## Statement Concerning Your Employment in a Job Not Covered by Social Security

Employee Name Employee ID #

Employer Name Employer ID#

Your earnings from this job are not covered under Social Security. When you retire, or if you become disabled, you may receive a pension based on earnings from this job. If you do, and you are also entitled to a benefit from Social Security based on either your own work or the work of your husband or wife, or former husband or wife, your pension may affect the amount of the Social Security benefit you receive. Your Medicare benefits, however, will not be affected. Under the Social Security law, there are two ways your Social Security benefit amount may be affected.

#### Windfall Elimination Provision

Under the Windfall Elimination Provision, your Social Security retirement or disability benefit is figured using a modified formula when you are also entitled to a pension from a job where you did not pay Social Security tax. As a result, you will receive a lower Social Security benefit than if you were not entitled to a pension from this job. For example, if you are age 62 in 2005, the maximum monthly reduction in your Social Security benefit as a result of this provision is \$313.50. This amount is updated annually. This provision reduces, but does not totally eliminate, your Social Security benefit. For additional information, please refer to the Social Security publication

## Quarterly Filings

- UA 1028 (effective 9-25-2012)
- US 941

Question: Any "taxable employers" for Unemployment?

## UA 1028

- Purpose: To report to the UA employees worked in each month of the calendar quarter and the total "non exempt" payroll for the quarter.
- Due quarterly by the 25th day following close of a calendar quarter:

April 25th
July 25th
October 25th
January 25th

## Employees not reported:

- 1. Elected officials.
- 2. Members of legislative bodies.
- 3. Those serving with local units of government on a temporary basis in case of fire, storms, snow, earthquakes, floods or similar emergencies.
- 4. Those who serve in posts, under the laws of Michigan, that are designated as major non-tenured policymaking or advisory positions or in policymaking or advisory posts.

			VEN IF YOU ARE UNABL				
For	details	about completing th	is report see the instruction colle	ons page. Only an ction.	nounts over \$	\$5 may be su	ubject to active
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LIST 33		CENDING ORDER					
SECTI LIST 33 Family Owned Enter	N IN AS	CENDING ORDER  Social Security No.	Employee Last Name	Employee First I	Name M	ployee G iddle nitial	iross Wages Pald This Quarter
Family Owned Enter	N IN A3		Employee Last Name	Employee First I	Name M	iddle	
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Family Owned Enter	N IN A3		Employee Last Nama	Employee First I	Name M	iddle	
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# On Line Filing Requirements-UIA 1028

- All Employers regardless of size will be required to file UIA 1028 on line.
- Phase in of on line filing requirements:
  - □ 25 Employees or more-First Quarter 2013
  - □ 6-24 Employees-First Quarter 2014
  - □ 1-5-First Quarter 2015

## IRS Form 941

- Purpose: This form is completed by the Township and is used by the IRS to determine:
- All federal tax deposits were made in a timely and accurate fashion.
- Method to gather information on amounts paid to employees subject to federal income tax, Medicare tax, and Social Security withholding.

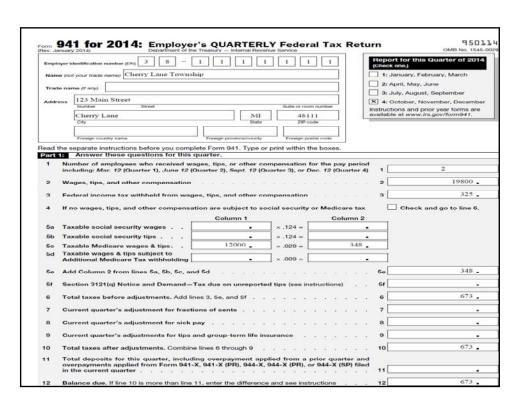
# | Filing Requirements-Form 941

■ The IRS 941 is a quarterly "settlement" with the IRS for taxes withheld and the Township's matching payroll taxes payable for "Medicare" and Social Security taxes, due:

<u>Tax Period</u>	<u>Due Date</u>
First Quarter - (3/31)	April 30
Second Quarter - (6/30)	July 31
Third Quarter - (9/30)	October 31
Fourth Quarter - (12/31)	January 31

# Note on Filing 941's:

- Due dates referred above are filing date not payment due dates. Taxes (both withholding and Township matching) must be paid within time prescribed by IRS in order to avoid penalties.
- For reference please see pages 29-30 of Circular E, Employer's Tax Guide, published by the IRS.
- Larger Townships (annual liability \$50,000) have to file schedule B, along with form 941



# Annual Filings

- IRS/SSA Form W2/W3
- Michigan Annual Return for Sales, Use, and Withholding Taxes

## IRS Form W-2 and W-3

Purpose: To transmit annual calendar information to employees and governmental agencies which shows gross income and withholdings. Governmental copies of the W-2's are distributed as follows:

Copy A – U.S. Social Security Administration.

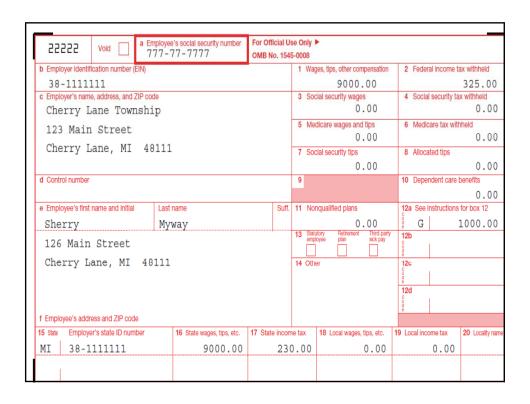
Copy 1 or 2 - State of Michigan Department of Treasury (along with form 165).

Other copies for the employees and the Township's records.

# | Filing Requirements-W2/W3

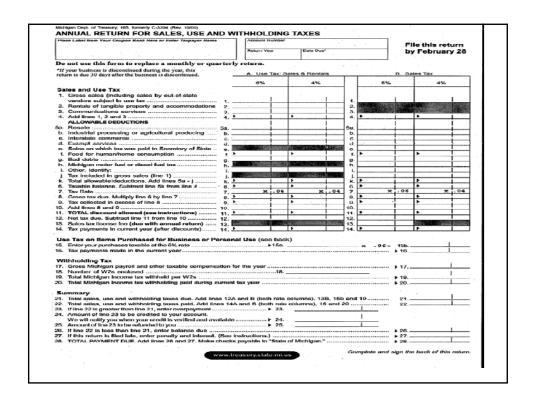
- Form W-2 employee copies Due 1-31
- Copies to Social Security Administration Due February 28
- Copies to State of Michigan (along with annual Sales, Use, Withholdings) - Due February 28

Suggestion - If you manually prepare W-2's, consider filing on line on Social Security Web site <a href="http://www.ssa.gov/employer/#a0=0">http://www.ssa.gov/employer/#a0=0</a>



	22222 Vold										
b Employer identification number (EIN)		1 Wages, tips, other compensation 2 Federal income tax withheld									
38-1111111		10800.00									
c Employer's name, address, and ZIP code	)	3 So	cial security wages	4 Social sec	urity tax withheld						
Cherry Lane Township	9			0.00		0.00					
123 Main Street			5 Me	dicare wages and tips	6 Medicare	ax withheld					
Charma Lana MT 400	111			12000.00	174.00						
Cherry Lane, MI 48	III		7 So	cial security tips	8 Allocated	tips					
				0.00		0.00					
d Control number			9		10 Dependen	t care benefits					
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e Employee's first name and initial	Last name	Suff.	11 No	nqualified plans	12a See instru	ictions for box 12					
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15 State Employer's state ID number	16 State wages, tips, etc.	17 State incom	e tax	18 Local wages, tips, etc.	19 Local income	ax 20 Locality name					
MI 38-1111111	10800.00	300	0.00	0.00	0.	.00					

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nployer's name				5 Medicare wages and tips				6 Medicare tax withheld			
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her EIN used this year				13 For third-party sick pay use only 12b							
mployer's territorial ID number				14 Income tax withheld by payer of third-party sick pay							
				<b>18</b> C	heck the ap	propriate	box				
				Туре	of Form ►	W-2	AS \	W-2CM	V	V-2GU W	-2VI



# Michigan Annual S.U.W. 165

- Purpose: Serves as transmittal for Michigan copies of form W-2, shows total withheld per W-2's and total paid and reconciles any differences.
- Filing requirements-Annual-due 2-28.
- Department will no longer mail paper forms, see previous slide about MTO

# Other Requirements-W-2 Reporting – Affordable Care Act

■ IF your Township pays for health insurance, the act requires you to distribute a summary of benefits and coverage to participants and the obligation to report the cost of an employee's health coverage on the 2014 Forms W-2 issued in January 2015.

## Small Employer Exception

- Note: Employers are exempt if they were required to file fewer than 250 Forms W-2 for the preceding calendar year.
- The IRS reserves the right to eliminate this exemption. If it does so, it will do so only for future years, after the further guidance, if any, is issued.

# Tips for "Fool Proof" Payroll Reporting

- "Balance" employee earnings records to general ledger or cash disbursement totals.
- Recommend that you maintain a "control sheet", where the totals for all employee earnings records are recorded and compared to the general ledger or cash disbursement journal on a quarterly or monthly basis as appropriate.
- Use "control sheet" to prepare payroll tax returns.

# Tips for "Fool Proof" Payroll Reporting

- Reconcile amounts reported on 941 to W-2/W-3 totals prior to filing fourth quarter 941 and W-2/W-3s. We have tool on our web site PSLZ.com
   .....Technical Materials\payroll\Master Payroll recap sheet.xls
- Each employee file should contain:

I-9 (if applicable) New Hire Form (if applicable) W-4, MI-W4 Authorization for other withholdings SSA 1945 (if applicable)

# | Software Options

- Third Party and "On Line" Processor
- In house processing-using "integrated programs" designed specifically for local governments
- In house processing using low end "off the shelf software"

# Third Party Processors-Batch Processing

- Companies can handle payrolls for all types of businesses including government
- Potential Internal Control Improvements
- Cost effective way of managing payroll process- no update fees or forms to buy
- Many processors offer tax filing and payment systems, benefit administration

# One Line Payroll Processing

- Software is "cloud based' doesn't reside on your PC or network
- Most offer general ledger integration-download directly to your software
- Many vendors also offer tax filing and payment systems, benefit administration

# Caution-regarding "outsourcing"

- All companies not created equally-be careful who you partner with!
- Many cases of fraud prosecuted by the FBI/IRS in past few years.
- You are responsible for unpaid taxes, if third party fails to pay on your behalf-See
   December 2011 Financial Forum.

# Integrated Applications

- "Integrated" means that all modules, such as accounts payable, purchasing, payroll, point of sales, etc., post to the general ledger.
- Integrated applications require much higher technical accounting skills to successfully operate. These packages include Fund Balance, BS&A, Versis, Cogitate, and others.

## Integrated Applications

- These applications allow users to post transactions in "real time" to the general ledger.
- Issues: acquisition costs, maintenance costs, technical expertise to run, sometimes outweigh benefits.
- Best for townships with needs for multiple operating funds, utilities and special assessments.

# "Off the Shelf Software"

- Not recommended as a replacement for integrated packages, needs point in that direction.
- Some "Low End" (cheap) off the shelf packages have been successfully used as an intermediate step by townships looking to computerize some of the accounting functions, or those whose budget does not allow for integrated packages.