

PBQ Newsletter

VOLUME II, ISSUE IV

NOVEMBER - 2011

SPECIAL POINTS OF INTEREST:

- What types of benefits need to be added to an employees W-2.
- Specific instructions to allow you to input these additions to your payroll system.
- Information for computing the add on for auto.

INSIDE THIS ISSUE:

Sage Peachtree	2
Sage Business Works	2
QuickBooks	3
Computing the Add-On for Personal Use of Auto	4
About Us	4

Peachtree, Business Works and QuickBooks Software

PBQ Newsletter is an instructional newsletter developed by Gordon J. Maier & Company, LLP, to support users of **P**eachtree, **B**usiness Works and **Q**uickBooks Software.

This issue focuses on the potential employee benefits that may need to be included on your employees W-2's. There are several benefits provided to employees that are not typically included directly on each payroll check, but must be added to the employees wages. These are known as W-2 add-ons. We provide a detailed example in the pages that follow on how to enter an add-on into your payroll system.

This is now our second year offering this newsletter. You may find previous newsletters useful as the year-end approaches. Topics covered in prior issues include:

- Year-end Closing (5/11)
- 1099 reporting (2/11)

Find these and more at www.gjmlp.com

What are W-2 Add-ons?

"W-2 add-on" refers to adding benefits paid by an employer to the W-2 of the employee. The purpose is to include the benefit as taxable income to the employee.

Typical examples of these add-ons include—

- Personal Use of a company vehicle
- PS-58 costs from insurance included in your retirement plan.
- Group term life insurance in excess of \$50,000 per employee
- Health insurance premiums for a more than 2% shareholder of an S-corporation
- Tax prep fees for the employee paid by the employer
- Moving expenses that do not qualify as deductible expenses

Ultimately, we want you to have the tools you need to effectively manage your cash position, gauge your profits and losses, and plan for your income taxes. Each of the software programs included in this newsletter has the capability of allowing you to keep accurate and current financial records when used properly. If you do not feel that you are getting full value from your program, we should talk.

If there are topics that you would like to see in future newsletters or if you have questions about the items discussed in this newsletter, please contact us at (262) 634-7108 or:

Rick Kutch, CPA
Manager of Small Business/
Computer Consultant
rick@gjmlp.com

Mike Slye, CPA/ABV
QuickBooks Proadvisor
mike@gjmlp.com

- Third party sick pay paid to employees
- Personal life insurance plans paid by the employer
- Country Club memberships and dues paid by the employer
- Deferred Compensation Agreements

In most cases, the IRS offers guidance on the calculation of the amount to include on the W-2. In addition, the taxes that the add-ons are subject to may be different from one item to the next.

If you prepare your own payroll, please review these above items to see if any may apply to your Company. If so, you may need to include these items on your employees W-2 and on your other payroll tax reports. For guidance and resources on properly reporting these items please call.



Sage Peachtree
Complete
Accounting 2011



Sage Business
Works 2010

Sage Peachtree - W-2 Add-on for Auto Use.

If you prepare your own W-2's and you have employees that drive a company vehicle, the personal usage of the vehicle is a taxable fringe benefit to the employees. Here are the steps to include the amount in the employee's W-2:

Step 1: Setup the Fringe Benefit: From the **Maintain** menu, select **Default Information** and then Employees from the submenu. Select **Employee Fields** tab. In the first blank line of the **Field Name** column, type the description of the

fringe benefit. Select the **Memo** check box, so it does not affect your general ledger or financial statements. **Do not Click Ok.** Move to step 2.

Step 2: Include the Fringe Benefit Amount in the Adjusted Gross for Tax Calculations: On the **Fed_Income** line, click the adjust button. Go down to the fringe benefit you added and in the **Use** column click on the box. Do the same steps for **Soc_Sec, Medicare, and State.** When complete click on the **OK**

button to save.

Step 3: Assign the Fringe Benefit Field for W-2s: From the **Maintain Menu**, select **Payroll** and then **Payroll Settings.** Click on **Taxes** and then **Assign Tax Fields.** Click the button for **W-2 Fields.** In box 14 arrow down to the fringe benefit, then click OK and then finish.

Step 4: Enter the amount in **Payroll Entry** for the last paycheck for the year for the employee.

For the **Gross-up Method**, please call us.

Sage Business Works - W-2 Add-on for Auto Use.

If you prepare your own W-2's and you have employees that drive a company vehicle, the personal use is a taxable fringe benefit to the employees. Here are the steps you will need to include it on an employee's W-2:

Step 1: Setup the deduction: Click on PR pull down menu.

Step 2: Click Utilities.

Step 3: Maintain Deductions.

Step 4: Enter ID: Auto
Description: Auto Add-on

Method: Variable, enter on time card. Category: Company-Ind Credit and Debit account will be the same. Active: From the last payroll of the year.

Step 5: Click the W-2 box and uncheck none by the box number to use and then enter 14. ID to use: Auto Click OK.

Step 6: Click the disk to save.

Step 7: Processing: Time Card Entry.

Step 8: Earnings: Select Deduction: Auto

Step 9: Gross Pay: Enter the amount of Personal usage of Auto you calculated for the employee. Click the accept button. In the bottom screen you should see one for Auto and the employees regular pay. Then click the save button.

There is another method you can use and that is the gross-up method. This is a little more difficult, so if you would like to know more about this method please call us and we can help. you with this method.

QuickBooks by Intuit - W-2 Add-on for Auto Use

Refer to page 4 for information on computing the amount of auto benefits to be added to an employee's wages.

There are multiple steps to getting W-2 add-ons to flow through to the proper tax forms and reports in QuickBooks. Follow these steps for setting up an Auto Add-on for an employee's personal use of a company vehicle. The following instructions are for entering a separate payroll run for the add-on.

Step 1. Setup the payroll item for including auto in employees earnings

1. With QuickBooks open choose from the Employees Menu "Manage Payroll Items" then choose "New Payroll Item."
2. Select Custom Setup and hit next.
3. Select Company Contribution and hit next.
4. Name the item "Auto."
5. You may leave the agency and identification number blank but you must choose the liability account and expense account. Use the same account for both and use the Auto or Vehicle expense account.
6. Ignore the warning that you are using the same account for both fields.
7. Choose the tax tracking type of "Fringe Benefit"
8. The taxes screen will already have checked the default taxes affected by this item. There is no need to change this, hit next.
9. Choose neither for calculating based on quantity
10. The default rate can be set if it is for a single amount, but if this applies to multiple employees for different amounts leave this line blank. Also leave the limit blank as it does not apply for auto.

You are now ready to use this item.

Step 2. Setup the payroll item to gross up payroll. This will allow you to create a zero check that includes payroll taxes for the additional compensation.

1. With QuickBooks open choose from the Employees Menu "Manage Payroll Items" then choose "New Payroll Item."
2. Select Custom Setup and hit next.
3. Select Wage and hit next.
4. Choose Bonus as the type of wage.
5. Name the item "Auto Gross Up."
6. Use Wages expense or Payroll Expense account for the expense account.

You are now ready to use this item.

To Gross up the Auto compensation to include on employees W-2 you need to calculate the amount of tax to include with the add-on. To add FICA taxes use the following formula:

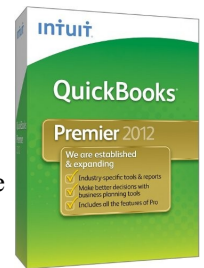
$$\begin{aligned} \text{Gross Auto including FICA} &= \\ &= \text{Amount of Auto} / (1 - \text{FICA rate}) \\ \text{Or Currently Auto} &/ .9435 \end{aligned}$$

An example—An employee has \$750 in taxable use of a vehicle. To gross this amount to include FICA taxes divide this by .9435 for a total of 794.91. Be careful here as the FICA rate may change after 2011. In addition, the rate would be different for an employee that has reached the Social Security limit. This limit is currently \$106,800.

- Step 3.** Use the above items to enter the Auto Compensation
1. From the employees menu select Pay Employees and select unscheduled payroll.
 2. Choose the employee(s) you wish to apply this W-2 add-on.
 3. The check date must be in the year for the W-2's you will be preparing hit continue.
 4. Choose assign check number and use a check number to distinguish the add-on from other checks such as Auto 1
 5. Select open Paycheck Detail.
 6. Clear the Earnings and Other Payroll Item portion of the paycheck.
 7. In the earnings portion enter the Auto Gross Up
 - A. This amount is only for the taxes added for use of the Auto
 8. Choose auto from the "Other Payroll Items" drop down list.
 - A. This amount should be the amount of the auto compensation before the gross up.
 9. In the employee summary enter zero in the Federal and State withholding fields.
 10. Hit ok if a warning pops up regarding overriding your withholding taxes.
 11. Because of rounding issues you may need to adjust the Auto Gross up by a penny up or down to get a zero paycheck.
 12. Complete this process for each employee you need to add the auto add-on to and finish your payroll as you normally would.

This add-on should now flow through to the reports and tax forms prepared in QuickBooks. There will now be a balance due for payroll taxes related to the W-2 add-on. Be sure to pay these by the due date.

You may also combine the add-on with the last payroll of the year. If you would like more information on this method we can provide detailed instructions as needed.



**Intuit QuickBooks
Premier 2012**



Gordon J. Maier & Company, LLP

845 Wisconsin Avenue
Racine, WI 53403

Phone: (262) 634-7108

Fax: (262) 634-5069

Email: CPA@GJMLLP.COM

Web: GJMLLP.COM



Founded in 1935, we are celebrating over 75 years in Racine. Please see our website (gjmlp.com) for a listing of our services.

Our Mission

The mission of Gordon J. Maier & Company, LLP is to provide closely-held companies, associations, governmental bodies and individuals, a comprehensive array of accounting and consulting services which are authoritative, effective and specifically tailored to meet each client's specific requirements.

Computing the Personal Use of a Company Vehicle

Information is provided by the IRS in Publication 15-B. A link to this publication is

<http://www.irs.gov/pub/irs-pdf/p15b.pdf>

This publication outlines what types of vehicle use should be included in wages and the methods to compute the amount to include as wages.

In summary, the publication states that the fair market value of the auto benefit provided for the employees personal use must be included in that employees wages. This is considered the amount an employee would have to pay to lease a similar vehicle from a third party using similar terms. To calculate the fair market value there are several methods available.

Cents-per-Mile Rule- The current 2011 rate is 55.5 (or 51 for mileage through 6/30/11) cents per mile. This can be used if you expect the vehicle to be regularly used for your trade or business and the vehicle is driven at least 10,000 miles in the year. The maximum auto value on the date the vehicle was made available to the employee cannot exceed \$15,300 for passenger vehicles or \$16,200 for a truck or van.

Commuting Rule- This rule calculates the value of the personal use of the vehicle by multiplying each **one-way** commute by \$1.50 for 2011. This is geared towards companies that allow employees to use the vehicle to commute and other minor personal use. This is not for highly compensated or Control employees as defined in the publication.

Lease Value Rule- The annual lease value can be prorated for partial years or a daily lease value can be calculated. This method begins with the fair market value of the vehicle on the date it became available to the employee. This value corresponds to a table provided in the publication that determines the annual lease value for a full year. The amount must then be multiplied by the percentage of personal miles driven to total miles driven in the year to arrive at the personal portion of the vehicle usage to add to the employees wages. Fuel cost must also be added to this amount to determine the full amount of the personal vehicle usage. This can be valued using actual fuel costs or 5.5 cents per personal mile.

The information included above is a summary only to provide you with a general overview of how this add-on is computed. Please refer to the publication or contact our