DENEB2000 ADD 3RD-PARTY SICK PAY
or OTHER TAXABLE BENEFIT INCOME
BEFORE AND AFTER THE CURRENT PAYROLL YEAR IS CLOSED

If you have not closed the Month of December, a separate Hand Check can be input, using the same Reimbursement setups included in this document, and a Deduction setup for the offset of the non-paid net amount [both charged to the same General Ledger Account].

Third-party sick pay refers to disability payments made to an employee by an entity other than the employer, excluding workers' compensation.

This document applies to the circumstance when the employer pays 100% of the premium for disability insurance. (Similar procedures may also be used to account for other types of income that are taxable benefits provided to the employee, but not entered and paid through regular timecard input.)

Due to the constant changing tax laws, you should confirm with your Accountant as to which taxes apply to your entry for the Sick Pay or other Reimbursement. Please use the following listing as a guide to insure the correct reporting & tax payments for these types of Income:

	Taxable yes/no	Conditions:
Social Security	_____	Exempt details _____
Medicare	_____	Exempt details _____
Federal Income Tax	_____	Exempt details _____
Federal Unemployment	_____	Exempt details _____
State Withholding Tax	_____	Exempt details _____
State Unemployment Tax	_____	Exempt details _____
Workers' Comp/ Other	_____	Exempt details _____
Local Withholding Tax	_____	Exempt details _____
County/Other W/H Tax	_____	Exempt details _____

Employer Social Security and Medicare Match Requirement Information:

_____

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Other Notes:

_____

_____

This method is based on manual input/updating and requires manually adding the Income and tax amounts to your last Check Posting (Account Distribution Report) of the tax year.

All setup and adjustments must be made to the correct year. If you have closed the tax year, you will be using the programs:
   Employee Masterfile Maint - W2 Files, and Employee YTD Masterfile Maint - W2 Files

If your current tax year is open, you will use the regular programs on the menu for these adjustments.

After you have the Taxing information confirmed you are ready to set up your system, and make the following entries to for the Third-Party Disability (Sick Pay) Payment or other Taxable Income to be reported:

In Payroll - Utilities - Control File Maintenance - Update Payroll Control Record
 - 3rd Screen for Reimbursements and Deductions:

If the Payment is partially taxable and partially exempt:
        [Note: only one setup is required if the amount is not split (use the same tax flags)]

   1) Set up a **Reimbursement** [example: "3PARTY" for third-party sick pay that is
        taxable for the 1st 6 months. Set the FICA tax flag to No, so the system will not
        calculate FICA on a catch-up basis].

   2) Set up a **Reimbursement** [example: 3PARTX for third-party sick pay that is **exempt**
        from tax for payments received after six months. Set the FICA, FUTA, and
        SUTA tax flags to No.

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To Manually Adjust Employer Taxes to be used for the Company's Tax Payments:

When you are updating the Employee(s) record(s) for Third-Party Sick Pay, or other Taxable Income, make the following manual entries on your paper reports, for the last payroll of the tax year:

1. **Adjust the Company match for Social Security and Medicare taxes.**

    a. Adjust company figures manually on the check posting (account distribution report).

    b. Adjust 941 deposit record using Payroll Utilities/Maintain Tax Deposit Records to match the check posting report. This program may have to be added to your payroll menu.

    c. Add manual journal entries in General Ledger for the Company Social Security and Medicare taxes

2. **Adjust company FUTA and SUTA taxes, if applicable.**

    If the employee's gross pay has not reached the maximum for FUTA and/or SUTA, add manual journal entries (consult with your Accountant) in General Ledger for FUTA and/or SUTA taxes

To Manually Update the Employee(s) record(s):

IMPORTANT:
Adjust income on employee records (before printing OR RE-PRINTING monthly/quarterly/annual reports). If you want to have an audit trail, be sure the 'PRINT AUDIT OF CHANGES' option is set to **Yes on the Payroll Control Record.**

1. Use Payroll/Input & Maintenance/**Employee** Masterfile Maintenance to update the employee(s) record(s). (If you are making changes to a previous year, use Payroll/Year End Processing/Maintain W-2 Employee Masterfile.) Add the amount of third-party sick pay to the CUM column of the reimbursement you set up. Enter it as a positive number. (Note that when you print a copy of the employee file, it will print as a negative number, because reimbursements are treated as negative deductions.)

2. Use Payroll/Input & Maintenance/**Y.T.D.** Masterfile Maintenance to update the employee(s) Wage and Tax records. (If you are making changes to a previous year, use Payroll/Year End Processing/Maintain W-2 Y-T-D File.)

   a. On the 1st screen, add the amount of Third-Party Sick Pay to the appropriate FIT TAXABLE field for the quarter when the disability payment was paid.

   b. On the 2nd screen, add the amount of Third-Party Sick Pay to the appropriate period for STATE EARNINGS, LOCAL EARNINGS, and SUTA EARNINGS.

   c. On the 3rd screen, add the amount of Third-Party Sick Pay to the column of the reimbursement you set up, in the appropriate field for the quarter when the disability payment was made. Enter it as a negative number.

Print month-end/quarter-end/year-end reports:

Before printing reports, change the FICA tax flag to Yes for the reimbursement that you set up for short-term disability on the Payroll Control Record.

If you are at the year-end close, copy the files for W2 processing while the FICA tax flag is set to Yes.

After printing reports, and before running the first payroll in the new period, change the FICA tax flag to No for the reimbursement that you set up for short-term disability on the Payroll Control Record.

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Print W-2s:

If you have adjusted employee earnings for short-term and long-term disability, no action is required to print the correct totals on the W-2 form.

You will need to check the box on the W-2 form to indicate that the employee received Third-Party Sick pay.

If you are adding other taxable income, check with your Accountant to verify the inclusion of it in Box 1 on the W-2, and which taxes apply. Your Accountant will tell you if this amount is required to be printed in Box 14 on the W-2.

Note:

City income tax is usually calculated as taxable income x flat tax rate.

Since you did not withhold city income tax on Third-Party Sick Pay, the amount of city income tax that you report on the W-2 will usually be less than what the employee owes. When you file W-2 forms for cities, you may have to explain this shortfall.

It is incumbent on the employee to pay the balance due for income received from a third party or other Taxable benefits shown on the W-2 .