

## ABOUT W2s

It is imperative that you ...

- Verify SS#
- Verify Addresses
- Verify that names match SS Card

### **Get those names straight:**

<http://www.socialsecurity.gov/employer/ssnv.htm>

**Employee names must be typed as shown on their Social Security Card.**

Watch for nicknames. "Bob" instead of "Robert" may result in a notice and potential penalty. There is a maximum penalty of \$50 per incorrect form that can be assessed.

If an employee's name changes due to a marriage or divorce, you must continue to use their old name until they obtain a new SS card. Witness or obtain a copy for your files.

## KNOW THE RULES What else goes on the W2s?

### **Most Bonuses and Prizes are taxable wages:**

Withhold 7.65% FICA, **25%** Federal and **6%** GA State taxes from all bonuses. Let us know if you extended any benefits or non-cash gifts that may be taxable.

**Gift certificates** over \$25 are also taxable.

### **Employee travel or expense advances:** (Under an accountable plan)

These expenses are not taxable to the employee if the employee receives the advance no more than 30 days before the expense is incurred, documents the amount, time place and business purpose within 60 days and returns any unsubstantiated amounts within 120 days of expenses incurred.

### **Employee allowances, travel or expense advances:** (**Non**-accountable plan)

For example: Monthly travel allowances or allowances for health insurance.

These payments are taxable to your employee and reported on the W2.

In order to deduct taxes, please consider adding these allowances to their payroll on a monthly basis instead of writing separate non-payroll checks. This is much easier than tracking it during the year, adding it to the W2 and then imposing on your employee the burden of paying a year's worth of taxes at once.

## **KNOW THE RULES, cont...**

### **What else goes on the W2s?**

#### **Club Dues are not tax deductible, unless deducted as wages.**

Payments made for dues are considered employee wages:

Companies and individuals may not deduct club dues, even though the club is primarily used for business. This includes all type of clubs - including business, social, athletic, luncheon, and sporting clubs.

You may still deduct 50% of any club-related expenses such as meals or greens fees.

Any club dues paid with a company check will be added to the W-2s and FICA will be deducted. Dues are also taxable for federal and state income taxes.

#### **Federal Per Diems:**

Per diems paid up to the government specified rates are reported in Box 12 with a code "L."

Any payments over the federal rates become taxable wages to the employee and must be added to the W2. These overpayments are reported on the W2 in Boxes 1, 3 & 5

#### **Employer provided dependent care:**

Report 100% of dependent care in Box 10, even if over \$5000.

Also report any excess over \$5000 as taxable wages in Boxes 1, 3 & 5

Remind employees to include Form 2441 with their Federal tax return or they \$5k exclusion will be disallowed

#### **Group Term Life Insurance:**

Group Term Life Insurance premiums for up to \$50,000 worth of insurance is exempt from taxes.

The taxable amount for coverage over \$50,000 is determined by using a IRS Premium table.

This amount prints on the W2 in Box 12 with a code "C" and any uncollected FICA is reported with codes "M" & "N"

#### **Personal use of company vehicles:**

The FMV of the personal use of a company vehicle is taxable for employees and added to the W-2.

You may elect not to withhold federal income taxes but ONLY if you notify the effected employee in writing by January 31st or within 30 days of being provided the auto. A notice on a bulletin board is not sufficient.

**\*\*\* Please consider calculating mileage at 10/31 instead of 12/31 \*\*\***

Using 10/31 as the anniversary date enables you to add the wages to the payroll before year-end in order to deduct FICA taxes. If you add the wages to the W2 after closing the payroll year, the employee will owe you their share of the FICA.

If you elect to report 100% of the vehicle use as wages, you must report both business and personal mileage as taxable. These wages are reported in Box 1, 3 & 5 and in Box 14. The employee may be able to take a deduction for their company use.

## KNOW THE RULES, cont... What else goes on the W2s?

### Qualified nontaxable moving expenses:

You must report reimbursed moving expenses paid to an employee, even if substantiated. These expenses are not taxable, but must be reported. Do not report payments made directly to third parties such as movers. This amount prints in Box 12 with a code of "P"

### Health Insurance Premiums paid for S-Corp 2% or more shareholder employees are wages:

For them, the amount of the premiums is subject to Federal and State but exempt from FICA, unless the insurance is provided only to 2% or more shareholders. Premiums paid are supposed to be added to the W-2 and deducted as wages.

Some CPAs feel that it is acceptable to post the premiums as distributions and add the amount to the stockholder K-1. **THIS IS NOT CORRECT.** We must add any premiums paid to the W2 and reclass them from Insurance expense to wage expense. These premiums are 100% deductible on the employee's personal 1040.

### Health Insurance Premiums paid for self-employed:

Sole Proprietors, Partners and LLC members may deduct 100% of their employee's health insurance on the company return but their health insurance deduction must be taken on the 1040. Post these premiums as draws or distributions.

## What do you do if a mailed W2 comes back marked "No forwarding address"?

If a W2 or 1099 is returned to you as undeliverable you should not open it, but rather retain it in your files in the original envelope for at least four years.

When and if the former employee inquires as to the whereabouts of their W-2, you should **make a copy** of the returned envelope and re-mail it in a larger envelope. **Do not open it** and place the W-2 in another envelope.

Why? By re-mailing the original envelope, you create an audit trail of compliance with IRS regulations requiring that W-2s be postmarked by January 31. If you throw away or fail to Xerox the original envelope, you will have no proof that you actually mailed the W-2 by that date.