

# Information about year-end payroll adjustments

To help you prepare, refer to these guidelines for the terms and settings for year-end payroll adjustments.

## Employer healthcare cost (erhcst)

**Description:** Used for W-2 reporting of the aggregate (employee and employer) cost of applicable employer-sponsored health insurance coverage. The amount reported with code DD is not taxable, and used to provide employees with consumer information for the cost of their healthcare coverage. This reporting is mandated if filing more than 250 W-2 forms in 2016, or if it was mandated (for other employer-specific reasons) in the prior calendar year.

**Affected tax forms:** W-2 box 12, code DD

## Fringe benefit (FRING2)

**Description:** Fringe benefits are included in taxable wages for federal and state reporting, but only Social Security and Medicare (FICA) taxes are withheld. These types of fringes must be submitted with other paid wages to cover the tax amounts. Or the fringe benefit can be submitted as an adjustment to allow FICA taxes to catch up on a current or subsequent live check, in which case it cannot be the last payroll. Usually reported as “live” earnings (included in net pay). Typical fringe benefits include: cars provided by employer, flights provided by employer, free or discounted commercial flights, discounts on property or services, country club membership or social memberships, tickets for entertainment/sporting events, and vacation expenses paid by the employer. To withhold all taxes from the benefit, use code 51 (FRING1).

**Affected tax forms:** W-2 boxes 01, 03, 05, and 14

## Reporting third-party sick payments (3PSICK)

**Description:** Sick pay made on account of personal injury or illness is taxable to the employee to the extent that the employer paid the payments for premiums. A third-party payer (i.e. an insurance company) of sick pay is considered the employer for the purposes of FICA taxation of these payments. Consequently, the third-party payer not only must withhold employee FICA taxes, but also is responsible for paying the employer’s share of FICA, depositing taxes in a timely fashion, and reporting those taxes to the employee and the IRS. In this case, the third-party insurance company would file and provide the employee’s W-2 form. However, the third party can transfer liability for the employer portion of FICA to the actual employer by withholding and depositing the employee tax and notifying the employer on or before the date that the taxable sick pay is required to be deposited.

## Sub S health insurance for shareholders (SUBSHP)

**Description:** S Corporation health insurance premiums paid by the corporation and only for owners with at least 2% ownership in an S Corp where an employee “non-discriminatory” medical plan is offered. This memo deduction is FICA and FUTA exempt, but taxable for federal, state and local income taxes.

**Affected tax forms:** W-2 boxes 01 and 14

## Taxable auto allowance (AUTO\$1)

**Description:** Taxable auto allowance including either 100% value of the employee’s use of the vehicle or only the value of the personal use of the vehicle, depending on the employer’s accounting policy. Taxed same as FRING1, subject to all taxes.

**Affected tax forms:** W-2 boxes 01, 03, 05, and 14

## Taxable group-term life over \$50,000 (INSPRM)

**Description:** Taxable group-term life insurance premiums paid by the employer on coverage in excess of \$50,000 per year. This memo earning is fully taxable, however the taxes (FICA, FUTA and SUI) are withheld only when the adjustment is processed. With this earning, federal, state or local income taxes are not withheld from the employee’s wages, which means the employee resolves any taxes due as part of their personal tax return.

**Affected tax forms:** W-2 boxes 01, 03, 05, and 12 (c)

## Taxable group-term life over \$50,000 (INSPR2)

**Description:** This memo earning is the same as the other taxable group-term life earning code (59), with one exception. When this earning is used, it will withhold federal income tax.

**Affected tax forms:** W-2 Boxes 01, 03, 05, and 12 (c)