

2016 Year-end processing guide

Dear Valued Customer,

This document is your annual payroll year-end reference guide to help you prepare and plan for year-end. Our goal is to provide you with the best customer service and support and to help you navigate the challenges of year-end!

Important! U.S. Congress passed a law requiring employers to file W-2 and 1099 forms with the Social Security Administration and IRS by January 31, 2017. This accelerated deadline reduces the amount of time we have to prepare and file your year-end information, so please review this document carefully to make sure you're prepared.

1. Verify your employees' W-2 form information

You must review and send any 2016 payroll data corrections to your Customer Care Specialist by fax or mail no later than **Friday, December 9, 2016**.

Sage Payroll Online customers: Please use the W-2 Verification report. If you need to change your 2016 payroll data, you must include the adjustments with a scheduled payroll no later than the last scheduled payroll of the year. This is necessary to avoid any additional fees for amended returns. Contact your Customer Care Specialist if you need help.

Important! If the Social Security Administration (SSA) or state rejects any employee W-2 forms for invalid or incomplete information, additional fees may apply.

The SSA and state requirements for W-2 forms include:

- Each employee must have a valid social security number (entered in the payroll system).
- Each employee must have a physical street address (no P.O. boxes).

Tip: If you don't know an employee's address, you can enter the company's address in the employee record. You are still responsible for providing the W-2 form to the employee, but in this case you can provide it in person.

2. Review total earnings, taxes, and deductions

Carefully review each employee's total earnings, taxes, and deductions. Review, and if necessary, enter amounts for fringe benefits, group-term life insurance (GTL), third-party sick pay, taxable auto allowances, and employer cost of health insurance. Also make sure you record all paychecks written manually (or in-house), any paychecks voided in 2016, and any special 1099 additions.

If you need to request an adjustment to your 2016 payroll data, please use the **Year-end Adjustment Form** provided in the online Forms Library: <https://www.sage.com/us/sage-payroll-services/resources>.

Additional information about payroll adjustments:

- **Adjust with payroll.** Whenever possible, enter your taxable adjustments (fringe benefits and group-term life insurance, for example) with payroll. This way the employees' wages from payroll can cover the taxes.
- **Timing for requests.** You must send adjustment requests *before your last scheduled payroll of the year*.
- **Due December 30.** If we receive adjustment requests after Friday, December 30, 2016 (close of business), we will file amended returns and W-2 form corrections at an additional cost to you. This is due to the accelerated filing deadline from the IRS and SSA.
- **Third-Party Sick Pay.** If you have Third-Party Sick Pay amounts to report, first verify with your Third-Party Sick Pay provider if they will process and file the employee W-2 forms for the amounts paid. This information should be reported only once. If they do not file W-2 forms, use the **Third-party Sick Pay Form** provided in the [online Forms Library](#) to send us the payment amounts.

3. Prepare for bonus payrolls

If you need to process a bonus payroll in 2016, please use the **Year-End Bonus Form** provided in the online Forms Library: <https://www.sage.com/us/sage-payroll-services/resources>.

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Best practice is to schedule your bonus payrolls in advance and pay them off-cycle from your scheduled payroll.

When planning your bonus payroll, you must determine the following:

- **Will the bonus be paid as a set net amount (with gross-up taxes)?**
For example, if you want the employees to receive exactly \$500 for their bonuses, the taxes must be calculated up to determine the gross pay.
- **Will the federal tax liability exceed \$100,000?**
If yes, we require you to wire transfer the tax liabilities.
- **Should deductions (health insurance, 401(k), and so on) be taken from bonus pay?**
Typically, these deductions wouldn't apply to a bonus payroll if it's issued separately from your scheduled payrolls.
- **Should bonus pay be direct deposited?**
Some employers prefer to hand out paper check bonuses.
- **Do you want to use the supplemental tax rate?**
Per IRS regulations (and many state regulations), supplemental wages, such as bonus pay, should be taxed at the supplemental tax rate. For wages (under \$1 million) subject to federal income tax, the 2016 federal supplemental rate is 25%.

Tip: If you enter payroll online, you can stop (or disable) deductions and direct deposits for the bonus pay run. Use the Pre-Process Report to verify the accuracy and totals of your bonus payroll before you submit it.

4. Comply with Affordable Care Act (ACA) requirements

If you need to prepare the Affordable Care Act 1095-C and 1094-C forms, you can purchase a subscription to ACA Comply. Contact your Customer Care Specialist for more information.

Note: The 1095-C and 1094-C forms are mandatory for applicable large employers (employers with at least 50 full-time employees, including full-time equivalent employees). The 2016 forms must be prepared, filed, and distributed to employees by January 31, 2017.

5. Complete year-end payroll preparations

Please review and complete the **Year-end readiness checklist** (last page of this document) and review the additional service options we offer. Note that some services are assumed and you must opt out if you don't want them. Once complete, return the checklist to us by fax, mail, or use the link we emailed to you.

6. Prepare for W-2 forms service and delivery

The deadline for employers to distribute W-2 and 1099 forms to employees and contractors remains January 31, 2017. You must distribute W-2 and 1099 forms directly to your employees. Sage does not distribute these forms as part of your payroll service.

If we prepare and print W-2 forms for your company, the forms will be shipped through UPS to your company address the week of January 16, 2017. UPS cannot deliver to a P.O. Box, so please make sure you have a physical address and a representative of your company available to sign for the delivery.

We'll send your Fourth Quarter Package as usual (electronic delivery or online) and it will include the employer W-3 Transmittal and employee W-2 forms. We will also send you an archival CD with your 2016 payroll and year-end information for a fee. If you don't want this CD, please opt out in the checklist (page 4 of this guide).

Note: Your company's W-2 form processing fees will be included in regular payroll invoices in January.

7. Monitor unemployment tax rates and deposit frequencies

Every year, federal and state tax agencies send new tax filing frequencies and unemployment rate changes specific to your company for the following year. When you receive this information, please send it to your Customer Care Specialist or your regional service bureau so we can update your payroll information. Please also send us recently applied for tax ID numbers, if you have them.

Tip: You can verify your company's tax rates and tax IDs on the Tax Liability Report we provide you with each payroll.

Year-end calendar and reminders

December 2016							January 2017						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
27	28	29	30	1	2	3	1	2	3	4	5	6	7
4	5	6	7	8	9	10	8	9	10	11	12	13	14
11	12	13	14	15	16	17	15	16	17	18	19	20	21
18	19	20	21	22	23	24	22	23	24	25	26	27	28
25	26	27	28	29	30	31	29	30	31	1	2	3	4

Sage Payroll Services closed
 Sage Payroll Services open, Federal Banking holiday
 Key dates

November 2016

Typically, federal and state tax agencies send updates to unemployment tax rates and tax filing frequencies.

December 2016

Friday, December 9: Year-end readiness checklist and W-2 form changes due to Sage Payroll Services.

Monday, December 26: Federal Holiday. Sage Payroll Services offices are closed.

Friday, December 30: Last day for 2016 payroll adjustments. Adjustments received after this date will result in amended returns and W-2Cs.

January 2017

Monday, January 2: Federal Holiday. Sage Payroll Services offices are closed.

Monday, January 16: Federal Holiday (Martin Luther King, Jr. Day). Sage Payroll Services offices are open.

Tuesday, January 31: Deadline to distribute W-2 and 1099 forms to employees. Filing deadline for Q4 2016 tax returns. **Filing deadline for W-2 and 1099 forms.** Filing deadline for ACA forms 1095-C and 1094-C.

Sage Payroll Services would like to extend our best for a happy and safe holiday season!

Year-end readiness checklist

Complete this checklist and return to your regional service bureau by Friday, December 9, 2016.

Attention Payroll Specialist: _____ Sage Payroll Office Fax #: _____

Company Name: _____ Customer ID: _____

Payroll Contact Name: _____ Email: _____

PTO balances calculated in payroll

Your current paid time off (PTO) carryover settings **will remain** unless otherwise specified below:

- Vacation Note: _____
- Sick Note: _____
- Personal Note: _____

For details on your current settings or assistance, please contact your Customer Care Specialist.

Terminated employee data retention (applies only to some services)

Your current Data Retention settings **will remain** unless otherwise specified below:

- Retain terminated employees (recommended if cross-year reporting is needed, such as for Workers' Comp audits.)
- Remove terminated employees.

1099-M (miscellaneous) information

Sage Payroll Services **will not plan** for 1099-M information for 2016 unless specified below:

- Our company will send 1099-M information for 2016.

Important! You must send this information before the last payroll of 2016 to avoid additional fees.

2016 Annual Archival CD

Sage Payroll Services **will create and send** your 2016 Annual Archival CD unless otherwise specified below (additional fees apply):

- No, we do not want the Annual Archival CD.

Reminder: As an employer, you are legally required to retain these records for a minimum of 3 years.

The Archival CD includes all 2016 payroll reports, pay stubs, quarterly reports, and W-2 and 1099 forms. The CD comes encrypted and password-protected, eliminates paper storage, provides a simple backup, and allows you to send or reprint any year-end forms at your convenience. Amended files are not included on the CD.

Are you interested in processing payroll online next year?

- Yes, please contact me with more information about online payroll options!

Year-end adjustment guidelines

To help you prepare, here are 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 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

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)

For more information, visit Sage.com or contact us at 866-996-7243