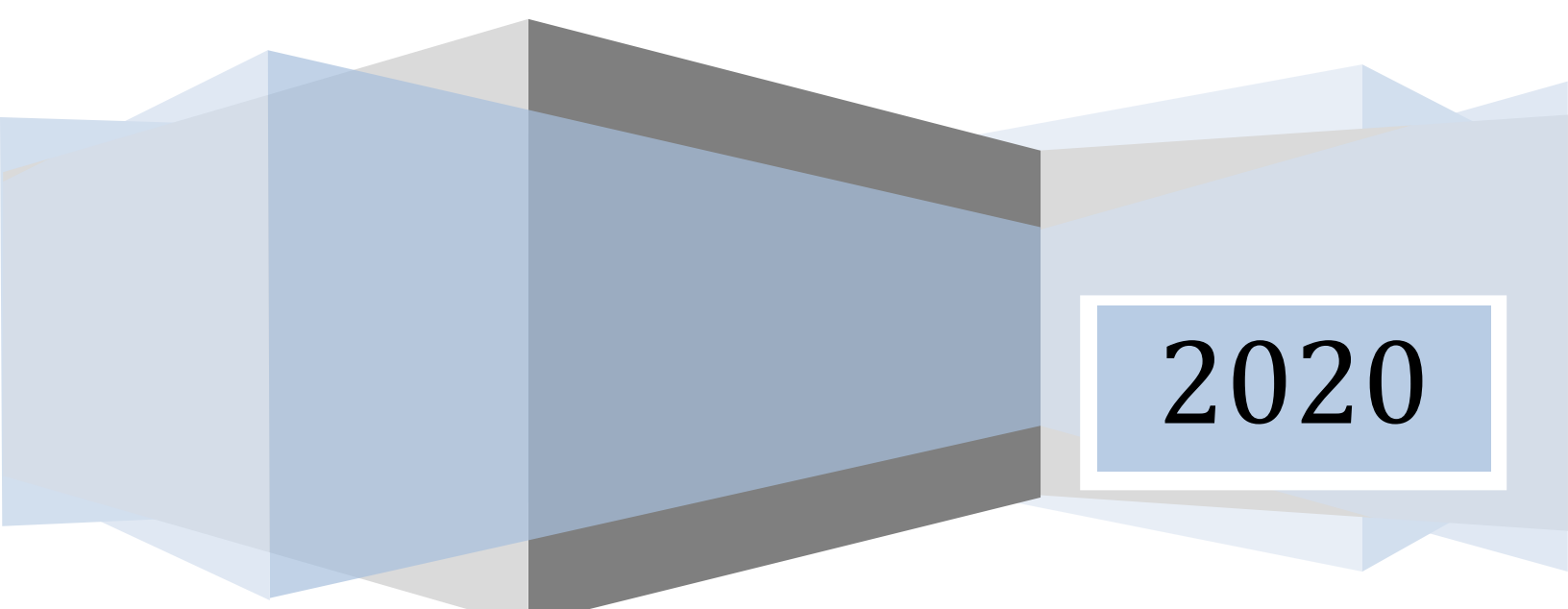


Calendar Year W-2 Employee Wage and Tax Statements

Prepared by:
District Business & Advisory Services



2020

General Information - W-2 Reportable Items

The Internal Revenue Code (IRC) provides that all payments in cash or benefits to an employee by an employer are income to the employee. They are to be reported as part of "wages, tips and other compensation" on the W-2 statements and are subject to deductions for income taxes, Social Security and Medicare taxes if the employee's service is covered. This is a general statement. **Only items specifically excluded by other provisions of the code are not reportable or subject to mandatory tax deductions.**

For example, employer payments of employee health insurance premiums are excluded from employee income by IRC §106. Reimbursements for medical expenses attributable to district-paid health insurance premiums are excluded by IRC §105. State law is generally consistent with Federal tax law for **most** payments or benefits.

Important Deadlines

- Last Payroll Cancellation Run for 2020 December 11 3:00 pm
 - Last processing for warrant cancellations in 2020
- Taxable Fringe Benefit Setup for Payroll December 11 5:00 pm
 - Validation of Employee Wages, Social Security Numbers and United States Addresses
- Group Life Insurance (GLI) December 11 5:00 pm
 - Submit Attachment A to DBAS
- Other than Group Life Insurance (Non-GLI) December 11 5:00 pm
 - Submit Attachment A to DBAS
- December 2020 EOM Payroll Close December 11 5:00 pm

Reportable Income Requiring District Action - Taxable Fringe Benefits

Some types of reportable employee income are **not automatically** included on the QCC W-2's and must be included on W-2's by manually entering balance adjustments into QCC as described in this document.

Your district must detail these fringe benefits by employee. In absence of another Vol Ded for miscellaneous benefits, we ask that you enter all of these other types of Fringe Benefits into the payroll system by using just one Vol Ded 8999, labeled Excess Group Life Insurance (GLI) on the employee's Pay Deduction Screen. We are using this one Vol Ded code only for year-end reporting to keep the districts' work to a minimum and to maintain the integrity of the rest of the payroll data needed for W-2 reporting.

Rules for Determining Fringe Benefit Compensation

Group-Term Life Insurance

If the District pays for life insurance for its employees, it may be excluded from compensation if the face value of such insurance coverage does not exceed \$50,000. If the insurance coverage is in excess of \$50,000, the premium associated with the excess amount of coverage is reportable as compensation.

However, if the employee paid any portion of such premium, that amount must be excluded from the compensation. If you have such a situation, use the attached [IRS Pub 15-B](#) to calculate the reportable amount. Enter the calculated amount in the employee's PD Screen.

Special Group-Term Life Insurance

Employer-paid group term life insurance **for dependents** need not be reported if the policy face value of coverage does not exceed \$2,000. If the value is in excess of \$2,000 and the premiums are paid by the employer, then the cost of the entire policy (no \$2,000 exclusion) is reportable as compensation. Spouses and dependent children under the age of 26 qualify as dependents.

If the age of the dependent is unknown, then the age of the employee is used. Enter the age on the employee's PD Screen.

Mileage, Travel and Related Items

a) Mileage Reimbursements

Mileage reimbursements are those made at a **per mile** rate contingent on submission of claims by employees. Typically a claim shows the destination and distance, purpose or explanation, and a per mile rate of reimbursement. If mileage is reimbursed at a rate greater than the Federal maximum rate per mile, it is considered taxable compensation. The taxable amounts are computed as the reimbursement rate in excess of the Federal maximum. This amount is entered on the employee's PD Screen.

b) Travel Allowances

If employees are given travel allowances without being required to account adequately for those expenses, those payments must be shown as reportable compensation.

If the payments were made using type TRVN, Travel Pay, then no further adjustments are needed. All travel allowances so paid will be included automatically on the 2020 W-2 form.

If you have not used the TRVN pay type stated above, enter those travel payments on the employee's PD Screen.

Other Year End Tax Considerations - Not to be included in Figure A

Membership/Professional Dues

The cost of professional dues paid by an employer, which would be deductible as a business expense on an employee's tax return if paid by the employee, qualifies as a "working condition fringe benefit" and is excluded from (being reported as) income. The cost of memberships, which are primarily of personal benefit, may be reportable. Consult with a tax counsel as is necessary.

Workers' Compensation Benefits

- Workers' compensation benefits are tax free unless an employee receives both workers' compensation and Social Security disability benefits. If employees are receiving Social Security disability, there is one situation where part of the employees' compensation benefits may be taxed: if disability benefits have been offset by the employees' workers compensation benefits.

State Disability Insurance (SDI)

- SDI provides temporary payments to workers who are unable to perform their usual work because of a pregnancy or a non-occupational illness or injury. SDI benefits are taxable only if paid as a substitute for unemployment insurance (UI) benefits. This could occur if a person was receiving UI benefits and then became disabled. When SDI benefits are received as a substitute for UI benefits, the SDI is taxable by the federal government but is not taxable by the State of California.

Exempt W-4 Forms

If an employee claims exempt from withholding on the W-4 form, income tax will not be withheld from the earnings. **The employee may not claim "exempt" unless they did not owe tax in the previous year and do not expect to owe tax in the current year. Students are not automatically exempt from withholding.**

An employee who has claimed "exempt" from withholding as of December 31 **is required to complete a new W-4 form on or before February 15 of the following calendar year.** If the employee does not comply with this requirement, federal income tax must be withheld at the single exemption with no allowances, beginning with wages paid on or after February 16. The district should continue to withhold at this rate until the employee submits a new W-4 form.

Canceled/Manual Warrants

As in previous years **ALL** warrants to be cancelled for the 2020 calendar year must be received by DBAS, at **3:00 p.m. on Friday, December 11, 2020.** Failure to meet this deadline will result in the district preparing W-2C forms for the affected employee(s). Please call Dennis Loo at (408) 453-6617 if you have any concerns regarding the deadline.

Employee Wage Verification

Negative annual wages must be corrected during the last calendar year payroll processing. Run a payroll history report (PAY830) to verify if earnings for the calendar year are negative. If so, determine the rationale and correct the totals if possible.

Employee Social Security Verification

Districts reporting incorrect social security numbers will be rejected when the file is submitted to the Internal Revenue Service. It is the district's responsibility to verify the employee's social security number upon employment.

Employee Address Verification

It is the district's responsibility to verify that all employees have a United States address. Addresses out of the country will be rejected.

W-2 C Form Preparation

Districts may need to prepare manual supplemental W-2C forms if any additional Third Party, Workers Compensation or State Disability statements were received after the year's final payroll processing deadline. Please be advised that the district will be responsible for any penalties or interest incurred for not reporting these wages within the time they were earned. W-2Cs must be printed using the official printed IRS forms that can be ordered from the IRS website (www.irs.gov forms and publications section), or any office supply store. DBAS will not supply additional forms. All W-2C totals in each field must match the consolidated total on the W-3 transmittal.

Please note: The IRS will levy a \$50 penalty per W-2 for failure to file an official printed IRS Form. **Do not use** a form which has been downloaded or photocopied. A W-2C form must be prepared even if all sick pay is nontaxable.

The following distribution must be used for supplemental W-2C form:

- Copy A, copy 1 and a photocopy to DBAS, Mail Code 252, **by February 3, 2021**
- Retain copy D (employer's copy) for the district

Figure A – Instructions for adding Taxable Fringe Benefits

Select *Employee Maintenance* from the QCC main menu

Search for employee (by social security number, name, etc.)


Select employee from the list and open the *Deductions (PD)* screen

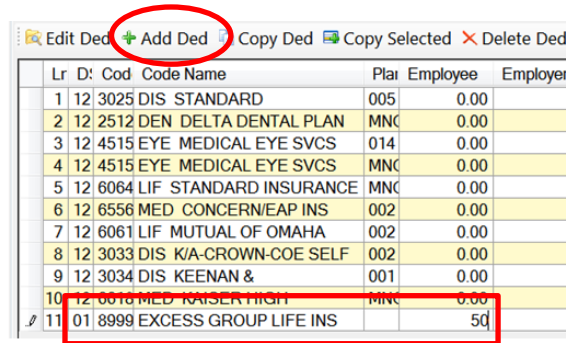
Click  Add Ded to add deduction

Under the deduction schedule (*DS*) field enter the number 1, indicating a one-time deduction

Enter 8999 in the next field, *Code*

Enter the taxable amount of Fringe Benefit Compensation (\$50 is used in the example below) in the *Employee* field. All taxable Fringe Benefit Compensation may be consolidated into one entry or in multiple lines by applicable type.

Finally, save your work by clicking .



Lr	D	Cod	Code Name	Plan	Employee	Employer
1	12	3025	DIS STANDARD		005	0.00
2	12	2512	DEN DELTA DENTAL PLAN	MNC		0.00
3	12	4515	EYE MEDICAL EYE SVCS	014		0.00
4	12	4515	EYE MEDICAL EYE SVCS	MNC		0.00
5	12	6064	LIF STANDARD INSURANCE	MNC		0.00
6	12	6556	MED CONCERN/EAP INS	002		0.00
7	12	6061	LIF MUTUAL OF OMAHA	002		0.00
8	12	3033	DIS K/A-CROWN-COE SELF	002		0.00
9	12	3034	DIS KEENAN &	001		0.00
10	12	6618	MED KAISER HIGH	MNC		0.00
11	01	8999	EXCESS GROUP LIFE INS			50

The system will select which contributions will be taken based on the employee's normal (NML) pay line and Statutory Deduction Profile. For example, if the employee was a teacher subject only to Medicare, according to the employee's Statutory Deduction Profile, then only the Medicare contribution would be taken from the employee's pay. Please note that even if the employee is not subject to both OASDI and Medicare, an entry still needs to be made. This will allow the system to automatically update the Federal and State Taxable Earnings.

Important Reminder: Since you need earnings to deduct taxes, you must process the adjustments on a payroll. If all required input is not completed by the final December payroll, you will be responsible to issue supplemental W-2's or W-2 C forms.

Other Considerations

- It is important to note that voluntary deduction code 8999 should strictly be used for Excess Group Life Insurance and domestic partnership. During the W-2 edit process, DBAS moves Non-GLI amounts to display correctly on W-2 forms.
- Reconcile the Employee Pay History Report (PAY 830) GLI summary amount to the total amount in vol ded 8999. Both amounts should equal.

Effective January 1, 2018:

- Excess GLI must be entered on the PD screen at the time new employees are hired to properly reflect taxes on monthly premiums as they are paid.
- Excess GLI must be reflected on the PD screen for current employees on a monthly basis to properly account for taxes on monthly premiums as they are paid.
- Mileage must be properly recorded on the PR screen as TRV Pay Type to ensure that the proper taxes are reflected as stipends are paid.

Reminder

The December 2020 payroll close deadline is December 11, 2020 at 5:00 p.m. Any adjustments after this time, will require W-2 corrections by districts.