



Issues in Municipal Payroll:

Essential Knowledge for the Town Accountant

Eric Kinsherf, CPA



Introduction

- There are a variety of payroll related issues that are encountered by the Town Accountant
- The Town Accountant's role in the payroll is shared with the Treasurer
- Town Accountant should be aware of all the issues associated with payroll
- There are plenty of resources for both the Town Accountant and Treasurer

Agenda

- Overview
- Payroll Warrants
- Federal and State filing requirements
- Payroll Calculations
- Reconciling Withholding Accounts
- FLSA
- IRS Employee/Contractor Classification
- Other Payroll Issues
- Summarize

Overview

- How many Town Accountant's come across payroll issues?
 - Goal: to address issues and come away with a deeper understanding of the Payroll process



Payroll Warrants

Payroll Methods

In-House using Municipal Software	Outsourced Payroll
Treasurer files required reports	Outsourced vendor files required reports
Treasurer reconciles & produces W2s	Vendor produces W2s
Treasurer prints checks or direct deposits	Vendor prints checks or direct deposits
Treasurer makes withholding payments	Vendor makes withholding payments
Warrant & Journal entries produced from System	Typically, warrant produced in system after importing journal entry from the vendor
Treasurer's payroll position is critical	Some of the Risk are mitigated
Treasurer responsible for Maintenance of Software and Data Security	Outsourced vendor responsible for Maintenance of Software and Data Security

Payroll Warrant Sample Process

Sample process

1. Timesheet submitted by departments with a cover page summarizing accounts to be charged
2. Accountant checks pay rates to ensure conformance to contracts (Should happen)
3. Accountant totals all cover pages to get a total amount to be charged (Should happen)
4. Treasurer or Departments input timesheets into payroll system
5. Treasurer produces a summary report for the Accountant
6. Accountant reconciles the Total and Produces/Signs Payroll Warrant (Gross Payroll)
7. Warrant is countersigned by appropriate person(s) (Mayor, BOS, Town Manager)
8. Treasurer initiates distribution of checks and direct deposits

Payroll Segregation of Duties Reduces Risk of Fraud

Where possible, the following payroll responsibilities should be segregated:

- Setting up New Employees and Terminating Employees
- Authorizing Wage Rates
- Entering or Changing Pay Rates in the Payroll System
- Entering time into the Payroll System
- Processing & Printing checks or making direct deposits
- Distribution of physical check
- Reconciliation of the payroll bank account



Federal and State Forms and Filing Requirements

Federal & State Forms and Filing Requirements

Forms	Description	Deadline
W2s – Employee Wage and Tax Statement	W2 form that an employer must send to an employee and the IRS, SSA, and DOR Reports an employee's annual wages and the amount of taxes withheld	Annual can mail or digital form to employees Due: On or before January 31
W3 – Transmittal of Income & Tax Statements	Shows TOTAL earnings, Social Security wages, Medicare wages and withholding for all employees	Annual along with W2s - mail or e-file to IRS AND SSA Due: On or before January 31
M3 – Reconciliation of Massachusetts Income Taxes Withheld for Employers	Any employer filing 50 or more W-2s for a particular calendar year must submit the W-2 file to DOR in a "machine-readable form." A "machine-readable form" includes files uploaded through MassTaxConnect and electronic data transfers.	Annual along with W2s - mail or e-file to Mass DOR unless greater than 50 W2s. Due: On or before January 31

W3 Form

DO NOT STAPLE

33333	a Control number	For Official Use Only ▶ OMB No. 1545-0008	
b Kind of Payer (Check one)	<input type="checkbox"/> 941	<input type="checkbox"/> Military	<input type="checkbox"/> 943
	<input type="checkbox"/> CT-1	<input type="checkbox"/> Hshld. emp.	<input type="checkbox"/> Medicare govt. emp.
b Kind of Employer (Check one)	<input type="checkbox"/> None apply	<input type="checkbox"/> 501c non-govt.	Third-party sick pay (Check if applicable)
	<input type="checkbox"/> State/local non-501c	<input type="checkbox"/> State/local 501c	
c Total number of Forms W-2	d Establishment number		1 Wages, tips, other compensation
e Employer identification number (EIN)		3 Social security wages	2 Federal income tax withheld
f Employer's name		5 Medicare wages and tips	4 Social security tax withheld
g Employer's address and ZIP code		7 Social security tips	6 Medicare tax withheld
		9	8 Allocated tips
		11 Nonqualified plans	10 Dependent care benefits
h Other EIN used this year		13 For third-party sick pay use only	12a Deferred compensation
15 State	Employer's state ID number	14 Income tax withheld by payer of third-party sick pay	
16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	12b
Employer's contact person		Employer's telephone number	For Official Use Only
Employer's fax number		Employer's email address	

Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶

Title ▶


Date ▶

Form **W-3 Transmittal of Wage and Tax Statements** **2018**

Department of the Treasury
Internal Revenue Service

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration (SSA).
Photocopies are not acceptable. Do not send Form W-3 if you filed electronically with the SSA.

M3 Form



Massachusetts Department of Revenue
Form M-3
Reconciliation of Massachusetts Income Taxes Withheld for Employers

This form, with Forms W-2, Copy 1, must be filed on or before January 31.

Name of business _____ Account ID number _____ Tax filing period (month, year) _____

Street address _____

City/Town _____ State _____ Zip _____ Phone number _____

1 Total number employed during year 1

2 Total number of Forms W-2 enclosed 2

3 Total Massachusetts tax withheld (as shown in Forms W-2) 3

4 Total amount withheld per line 1 of quarterly or monthly returns (from below) 4

5 Total amount remitted (from below) 5

Quarterly. Completed by quarterly filers.

Frequency	Amount withheld from line 1 of return	Amount remitted	Reason for difference (you must file an amended M-941 to report any differences)
Quarter 1	<input type="text"/>	<input type="text"/>	<input type="text"/>
Quarter 2	<input type="text"/>	<input type="text"/>	<input type="text"/>
Quarter 3	<input type="text"/>	<input type="text"/>	<input type="text"/>
Quarter 4	<input type="text"/>	<input type="text"/>	<input type="text"/>

Monthly. Completed by monthly filers.

Frequency	Amount withheld from line 1 of return	Amount remitted	Reason for difference (you must file an amended M-941 to report any differences)
January	<input type="text"/>	<input type="text"/>	<input type="text"/>
February	<input type="text"/>	<input type="text"/>	<input type="text"/>
March	<input type="text"/>	<input type="text"/>	<input type="text"/>
April	<input type="text"/>	<input type="text"/>	<input type="text"/>
May	<input type="text"/>	<input type="text"/>	<input type="text"/>
June	<input type="text"/>	<input type="text"/>	<input type="text"/>
July	<input type="text"/>	<input type="text"/>	<input type="text"/>
August	<input type="text"/>	<input type="text"/>	<input type="text"/>
September	<input type="text"/>	<input type="text"/>	<input type="text"/>
October	<input type="text"/>	<input type="text"/>	<input type="text"/>
November	<input type="text"/>	<input type="text"/>	<input type="text"/>
December	<input type="text"/>	<input type="text"/>	<input type="text"/>

Declaration
The undersigned certifies under the penalties of perjury that all items and statements herein contained are true and accurate in every particular.

Signature _____ Title _____ Date _____

File this return: Massachusetts Department of Revenue, PO Box 7015, Boston, MA 02204.

SSA Verification Service

<https://www.ssa.gov/employer/verifySSN.htm>

- The Social Security Number Verification Service (SSNVS) allows employers to match their record of employee names and Social Security numbers (SSNs) with Social Security records before preparing and submitting Forms W-2. Making sure names and SSNs on the W-2 match.
Note: It is illegal to use the service to verify SSNs of potential new hires or contractors or in the preparation of tax returns.

SSA – Accuwage Online

<https://www.ssa.gov/employer/accuwage/>

Free application from Social Security Administration that enables you to check W-2 and W-2c (Corrected Wage and Tax Statement) Wage reports for correctness before uploading them to Business Services Online (BSO).

AccuWage Online Information

[What is AccuWage Online?](#) | [More Information](#)

AccuWage Online provides a more user-friendly option for testing wage reports in the current EFW2/EFW2C formats. It eliminates the download compatibility issues many users experienced with AccuWage Downloadable, which is no longer available beginning 9/23/17. AccuWage Online is accessed by logging on to Business Services Online and going to the Employer Wage Reporting webpage. You will need to log in with your BSO username and password. AccuWage Online is the fourth tab. Click [here](#) to get started using the AccuWage Online application. For more information, please see the AccuWage Online Help Guide.

Below are helpful tips about AccuWage Online:

- Please remember to upload and submit your Formatted Wage File after testing it through AccuWage Online.
- Your testing experience will take *considerably less time if you zip your file*. SSA *strongly* recommends that all wage reports submitters zip their files before running them through AccuWage Online. For instructions on how to zip your file, please see the [FAQ](#).
- AccuWage Online can test a max file size of 350MB before zipped.

Quick Links

[EFW2 - EFW2C](#)

[AccuWage Online Help Guide](#)

[FAQ](#)

Help and Information

AccuWage General Assistance:
1-800-772-6270

[Contact Employer Services Liaison Officers](#)

[AccuWage Help Mailbox](#)

[Employer W-2 Filing Instructions & Information](#)

Federal & State Forms and Filing Requirements

Forms	Description	Deadline
<p>941 – Employers Quarterly Federal Tax Return</p> <p>944 – Annual Federal Tax Return</p>	<p>Report of wages paid to employees and withholdings made by employers. It also includes information on the employer's share of Medicare and Social Security taxes during the period reported</p> <p>Annual liability for social security, Medicare, and withheld federal income taxes is \$1,000 or less</p>	<p>Quarterly can mail or e-file.</p> <p>Due: April 30, July 31, October 31, and January 31</p> <p>Annual and Due January 31</p>
<p>M941 – Massachusetts State Tax Return or MassTaxConnect.</p>	<p>Every employer who expects to withhold from \$1,201 and \$25,000 in income taxes per year must file Form M-941 on a monthly basis; from \$101 and \$1,200 in income taxes per year on a quarterly basis; or \$100 or less on an annual basis.</p> <p>If greater than \$25,000 than must file using MassTaxConnect.</p>	<p>Monthly basis, return and payment are due on or before the 15th day of the month following the monthly withholding period, except for March, June, September and December; then due the last day of the month following the withholding period.</p> <p>Quarterly – Same as 941 above</p> <p>Annual – Same as 944 above</p>

Federal & State Forms and Filing Requirements


Forms	Description	Deadline
<p>940 - Federal Unemployment Tax Act (FUTA) Return</p>	<p>PAYMENTS BY THE EMPLOYER ONLY NO EMPLOYEE DEDUCTIONS</p> <p>An organization that is exempt from income tax under section 501(c)(3) of the Internal Revenue Code is also exempt from FUTA.</p> <p>Calculate the tax due on each employee's wages until they exceed the \$7,000 threshold. The 2018 rate is 6 percent. Decrease this federal rate by up to 5.4 percent of the rate you pay to your state, sometimes referred to as SUTA tax.</p>	<p>Although Form 940 covers a calendar year, you may have to deposit your FUTA tax before you file your return. If your FUTA tax is more than \$500 for the calendar year, you must deposit at least one quarterly payment. You must determine when to deposit your tax based on the amount of your quarterly tax liability.</p>
<p>Massachusetts Unemployment Tax</p> <p>WR-1 Employers Quarterly Report of Wages Paid.</p>	<p>2 methods – Reimbursable (No payments till Employee Files Claim) or Contributory (Wages until exceed \$15,000 threshold)</p>	<p>Reimbursable – State Bills Monthly for all Costs incurred. Contributory – Quarterly. Assigned a rate not to exceed 4.61%</p> <p>Due 15th after Quarter Month</p>

Federal & State Forms and Filing Requirements

Forms	Description	Deadline
1095-C Employer-Provided Health Insurance Offer and Coverage	Form sent to each Employee to show if enrolled in Employer-Provided Health Insurance.	Generally, you must file 1095-C by February 28 if filing on paper (or March 31 if filing electronically) of the year following the calendar year to which the return relates. For calendar year 2017, 1095-C are required to be filed by February 28, 2018, or April 2, 2018, if filing electronically.
1096 Annual Summary and Transmittal of U.S. Information Returns	Form used when filing certain forms. See the Box to the right.	File Form 1096 as follows. • With Forms 1097, 1098, 1099, 3921, 3922, or W-2G, file by February 28, 2018. Caution: File Form 1099-MISC by January 31, 2018, if you are reporting nonemployee compensation in box 7. Also, check box 7 above. • With Forms 5498, file by May 31, 2018.
1099-MISC (Miscellaneous Income)	General rule - Must issue to each person to whom you have paid at least \$600 in rents, services (including parts and materials), prizes and awards, or other income payments.	Due to Recipient by January 31

1096 Form

DO NOT STAPLE 5767

Form 1096 Department of the Treasury Internal Revenue Service	Annual Summary and Transmittal of U.S. Information Returns		OMB No. 1545-0108 2017											
FILER'S name														
Street address (including room or suite number)														
City or town, state or province, country, and ZIP or foreign postal code														
Name of person to contact			Telephone number											
Email address			Fax number											
			For Official Use Only 											
1 Employer identification number	2 Social security number	3 Total number of forms	4 Federal income tax withheld \$	5 Total amount reported with this Form 1096 \$										
6 Enter an "X" in only one box below to indicate the type of form being filed.			7 Form 1099-MISC with NEC in box 7, check <input type="checkbox"/>											
W-2G 32	1097-BTC 50	1098 81	1098-C 78	1098-E 84	1098-Q 74	1098-T 83	1099-A 80	1099-B 79	1099-C 85	1099-CAP 73	1099-DIV 91	1099-G 86	1099-INT 92	1099-K 10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1099-LTC 93	1099-MISC 95	1099-OID 96	1099-PATR 97	1099-Q 31	1099-QA 1A	1099-R 98	1099-S 75	1099-SA 94	3921 25	3922 26	5498 28	5498-ESA 72	5498-QA 2A	5498-SA 27
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Return this entire page to the Internal Revenue Service. Photocopies are not acceptable.

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶

Title ▶

Date ▶



Payroll Calculations

Payroll Calculation Common Questions

- Salaried Employee with biweekly pay 26, 26.1 or 26.2?
- School Superintendent get paid 1/26th of their salary on July 1 check?
- 27 payrolls in a fiscal or calendar year?

Answer: Refer to the Union or Other Contract.

Annual Pay: Annual Salary \div Working days in Year = Per Diem Rate.

Receive the Exact Annual Salary within the fiscal year

Hourly and weekly: Typically need to budget for an extra day. Not simply weekly pay times 52 weeks.

Payroll Calculations Common Questions

- When does the pay period end?

Answer: Be aware that different groups can have different days the payroll week ends. This is common for Fire, Police School, DPW, and Clerical.



Reconciling Withholding Accounts

Reconciling Withholding Accounts

Understanding the Accounting Entries:

A. Payroll Warrant Processed

Gross Payroll	\$50,000	
<u>Various Withholding Accounts</u>	<u>\$15,000</u>	(SEE BELOW)
Cash (Net Payroll)	\$35,000	

Employee have Various Deductions withheld

Cash	\$15,000
Federal W/H	\$4,000
Medicare	\$ 700
State Income W/H	\$2500
Child Support	\$500
Medical Insurance	\$2700
Dental Insurance	\$1000
Retirement	\$3000
Union Dues	\$ 600
Etc....	

B. When the payments are submitted to the Government or Company
Debit the deduction account (employee portion) and Credit Cash

Reconciling Withholding Accounts

Identify How and When the Payments are Made (Example)

Deductions	How	When
Federal Income Tax	Electronically	Treasurer submits payment right after warrant approved
Medicare	Electronically	Same as above
State	Electronically	Same as above
Child Support	Electronically	Same as above
Medical Insurance	Check	Insurance Company sends an invoice for the following month. Ex) In November sends the Invoice for December Premium.
Dental Insurance	Check	Same as Medical Insurance
Retirement	Check	Treasurer submits payment right after warrant approved
Union Dues	Check	Treasurer reconciles monthly amount deducted by employee and completes voucher to be processed for payment.

Tips for reconciling Withholding Accounts

- Timely!! Ideally at least monthly.
- For Federal and State Withholdings, If submitting weekly payments then should have a zero balance or only the last payroll withholding amount. Identify differences and determine if timing or an error.
- For Insurance and Other withholdings accounts, where the company is paid monthly, ensure the portion of payment charge to the general ledger deduction account matches the employee amount withheld for that period . Identify differences and determine if timing or an error.



FLSA Wage and Hour

FLSA Overtime Final Rule

- December 1, 2016 the final rule updates the salary threshold under which most white-collar workers are entitled to Overtime. The threshold is \$913 a week or \$47,476 for a full year worked.
- Goal is Overtime Protection that leads to better work-life balance and can benefit employers by increasing productivity and decreasing turnover.
- FLSA notes that the new rule - minimal impact State and Local Governments.

FLSA Overtime

- Hours worked over 40 in a workweek at a rate not less than time and one-half their regular rates of pay.
- Different workweeks may be established for different employees or groups of employees.
- Averaging of hours over two or more weeks is not permitted.
- Does not require overtime pay for work on Saturdays, Sundays, holidays, or regular days of rest, unless overtime is worked on such days.
- Does not require Double Time.

What is included in OT Pay?

- Shift Differential
- Non-discretionary bonuses like Attendance Pay
- Longevity Pay
- Any money received by an employee "for work" is part of the employee's regular rate of pay.

Example:

Educational "stipends" such as money paid to employees who have attained a specified degree, and "tuition assistance" programs in which the employer pays all or part of the costs of courses successfully completed by employees.

Educational "Stipend" is "compensation for work," includable in the regular rate. Tuition Reimbursement is not includable.

When is OT paid?

The rule is that FLSA wages must be paid "when due," which normally means at the **next regularly scheduled pay day.** “

Late pay" is generally the same as "no pay" under the FLSA. This can be important because an employer that fails to pay wages when due may be liable for liquidated damages (double damages).

Fire & Law Enforcement Work Periods

- Public-sector (government) Fire or Police departments may establish special "7(k) work periods" for sworn firefighters or Law Enforcement, which can increase the FLSA overtime "thresholds" beyond the normal 40 hour week.
- Work period may be 7 to 28 consecutive days.
- OT is required when hours worked in the work period exceed maximum hours outlined in the formula in the regulations (Police 43 hours/7 days and Fire is 53 hours/per 7 days)
- OT is determined and paid out at the end of a work period.

Example:

Work period = 14 days

Regulation (Police) = After working 86 hours must receive OT.

Regulation (Fire) = After working 106 hours must receive OT.



IRS Employee vs Contractor Classification

Employee vs Independent Contractor

- In any employee-independent contractor determination, all information that provides evidence of the degree of control and the degree of independence must be considered.
- Facts that provide evidence of the degree of control and independence fall into 3 categories:
 1. Behavioral control
 2. Financial control
 3. Type of relationship of parties

If unsure, recommend contacting an attorney or the IRS determine by filing form SS-8.

Source: 2018 IRS Publication 15-A

Employee or Independent Contractor?

Jack contracted with a Town to complete a roof.

Following:

1. Jack is doing business as Plum Roofing
2. Signed Contract with flat rate for service
3. Jack is a Licensed Roofer, carries Workmen's Comp & Liability Insurance
4. Jack hires his own roofers who are treated as employees
5. Jack is responsible for any problems with the roofing work

Employee or Independent Contractor?

Jill accepts a position as a Substitute Teacher at a School

1. Jill is provided instructions on when, where, and how to do the work.
2. Jill is to use the School Equipment and Supplies.
3. Jill is to attend the School training program prior to working at the School.
4. Jill is guaranteed a regular hourly wage amount and provided some employee type benefits such as insurance, vacation and sick pay.
5. Jill receives an annual performance review from the School.



Other Payroll Issues

Other Payroll Issues

- Senior Tax Work-Off Abatement – **IGR Handout**
- Impute Value of Take –home vehicle **(Slide)**
- IRS Accountable/Non Accountable Plans
- IOD, W/C, Disability, 3rd Party Sick Pay (Not Taxable)
- 403B(Tax Sheltered Annuities)/457B (Deferred Comp)
- MA state law allowing for retention of fees
- Election workers – FICA/OBRA Exemption (\$1,800 annual wages)
- Public vs. Redacted **(Slide)**

Fringe Benefit: Personal Use of Municipal Provided Vehicle

IRS Options:

1. Lease Value Rule = Annual Lease Value (IRS Table) * % Personal Use
2. Cents-Per-Mile Rule = IRS Mileage Rate * Personal Mileage
3. Commuting Value Rule = One way Commute (\$1.50) * Number of One Ways

****IRS Publication 15-B for Details**

Payroll System Processing a Year End (Fringe Benefit) Adjustment:

No increase to Net Pay

Taxed as regular wages

Reported on Form W-2 Box 14

Public vs Redacted

- Employee records must be produced as public records in response to a request seeking information regularly kept in a staff directory, payroll database or similar, such as employee names, job classification, salary information, etc.
- **List of Exemptions** from disclosure under MGL, Chapter 4, Section 7(26)(c) if not sure what Exemption to use seek legal counsel.

Exemption (c) – The **Privacy Exemption** is the most frequently invoked exemption. The language of the exemption limits its application to: **personnel and medical files** or information; also any other materials or data relating to a specifically named individual, the disclosure of which may constitute an **unwarranted invasion of personal privacy**.

<https://www.sec.state.ma.us/pre/prepdf/guide.pdf>

Request for Information Fee

- Municipalities with a population of over 20,000 may not assess a fee for the first two hours of time spent searching for, compiling, segregating, redacting and reproducing a requested record.
- Municipalities with a population of 20,000 and under may assess a fee, including the first two hours, for time spent searching for, compiling, segregating, redacting and reproducing a requested record.
- Population data shall be determined by the decennial US. Census and it shall be the burden of the RAO to provide population data information when responding to a request.
- A municipal records access officer may not assess a fee of more than \$25 per hour for the cost to comply with a request for public records unless approved by the Supervisor through a petition process.

Summarize

- There are a variety of payroll related issues that are encountered by the Town Accountant
- The Town Accountant's role in the payroll is shared with the Treasurer
- Town Accountant should be aware of all the issues associated with payroll
- There are plenty of resources for both the Town Accountant and Treasurer