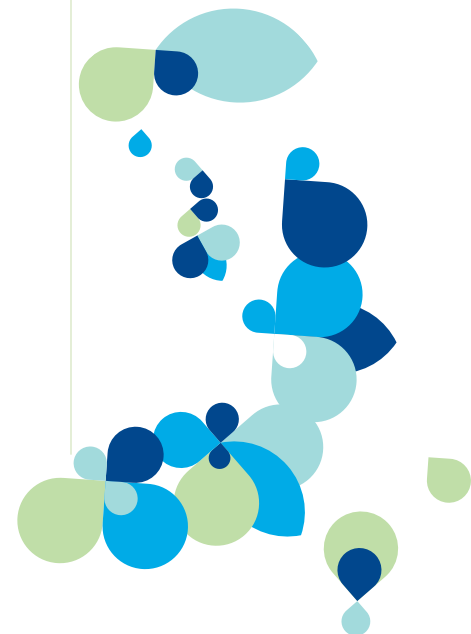




The Payroll Manager's Guide to Year-End

Table of Contents

Introduction.....	1
What's Involved in Payroll Processing and Year-End Compliance.....	1
Checklist for Year-End 2011.....	2-3
Looking Ahead to 2012	4
2012 Federal Payroll Tax Deposit Calendars.....	4-6
2012 Federal Holiday Calendar	6
Additional Resources	6
How Automated Payroll Software Can Help	7



Introduction

Payroll reconciliation, reporting, and tax filing create a lot of work for busy payroll managers at year-end. In addition to regular payroll processing, administrators are closing the current year and setting up for any new rules and compliance changes for the next year. Year-end means long hours plus plenty of pressure—mistakes can result in penalties and interest, as well as more paperwork to correct the errors. It's no wonder payroll administrators tend to dread year-end; many administrators joke that it takes about three months to prepare, three months to process, and another three months to recover from the stress!

Sage Employer Solutions is providing this guide as a resource to help you navigate year-end payroll tasks and prepare to process payroll in the next calendar year. Inside, you'll find:

- Year-end checklist to help you organize and prepare.
- Year-end filing deadlines.
- 2012 payroll deposit calendars.
- 2012 federal holiday calendar.
- Links to IRS forms and publications.

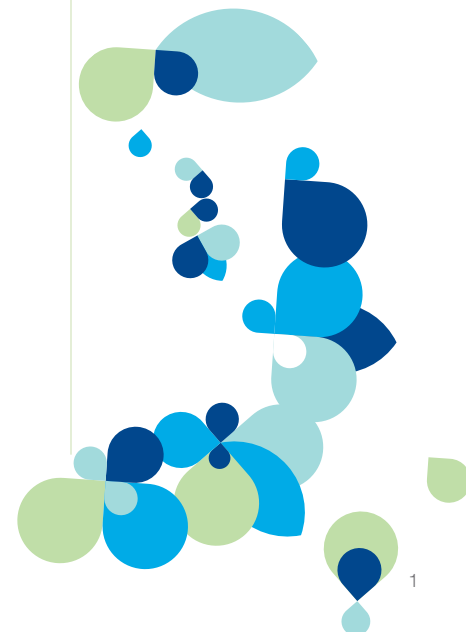
What's Involved in Payroll Processing and Year-End Compliance?

First and foremost, processing payroll requires accurate calculations of compensations, deductions, and taxes to be withheld. Failure to withhold enough can result in penalties and interest charges for the employer and unexpected tax bills for employees. It's essential that tax payments are timely and accurate. Year-end reconciliation involves a careful review of payroll records and tax deposits to ensure that the company is in full compliance with all federal, state, and local revenue codes. Administrators carefully verify that:

- General Ledger entries for the year match the payroll sums for the year.
- The tax returns for the year also reflect accurate payroll sums.
- Tax deposits for the year are in line with the data on the applicable tax return amounts.
- W-2 totals equal the tax returns and payments.

One of the hardest tasks in year-end processing consists of the preparation and filing of tax returns. With thousands of tax localities in the U.S., even small businesses easily become ensnared in excessive reporting, and some must file many different tax returns. In addition to federal reporting, each state has its own rules, and so do many counties, cities, and school districts. Companies face a slew of requirements at year-end; here are just a few:

- Companies report quarterly on federal income plus Social Security and Medicare taxes paid. The final filing of the year occurs during the year-end process.
- Federal unemployment tax is reported at year-end.
- Many state- and locality-specific income tax returns are due.
- Separate forms may be required for any state unemployment or disability taxes paid.
- By the end of January, employers must prepare and deliver W-2 forms to employees and 1099 forms to contractors.



Checklist for Year-End 2011

- Verify employee demographic data.** The IRS can impose a penalty for each inaccurate or missing W-2 that your organization produces (or fails to file). This is a good time to ensure you have accurate names, addresses, and social security numbers for every employee. Correct any missing information. Also check that terminated employees show an accurate status in your system—you will still need to issue a W-2 for those who worked during 2011.

- Check employee wage and benefits data.** Make sure you have correctly withheld taxes for the value of any taxable fringe benefits, including: group term life insurance in excess of \$50,000, supplemental AD&D insurance, spousal life insurance, education expenses not related to employee's job, third-party sick pay, personal use of a company car, company-paid parking or mass transit, and nonqualified moving expenses, gift cards, memberships, or other tangible rewards, among others.

- Check for excess retirement contributions.** Make sure that contributions 401(k), 403(b), or SIMPLE plans have not exceeded IRS limits.

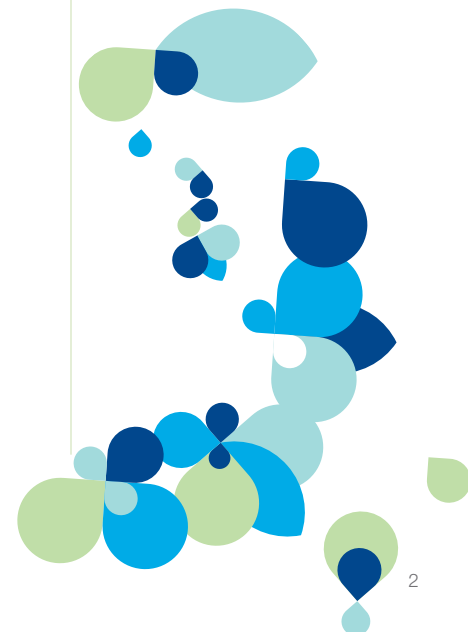
- Check federal, state, and local income taxes withheld.** Generally, state and local income taxes are calculated, withheld, and deposited based on where the work was performed. But there are exceptions that make compliance (and year-end) a real challenge, including reciprocal agreements where an employee lives in one jurisdiction, works in another, and the two taxing authorities must agree where tax will be calculated, withheld, and deposited.

States without income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

- Process any year-end bonuses.** Be sure to correctly withhold additional income taxes. If part of the bonus will be contributed to a retirement account, make sure that the addition of the bonus payment does not exceed annual limits.

- Run month-end for December 2011.** Close the month and prepare any monthly payroll tax deposits, which will be due by January 17, 2012.

- Run quarter-end reports for Q4 2011.** Close the quarter and file Form 941 Employers Quarterly Federal Tax Return by January 31, 2012.



Run year-end reporting. Close the year for 2011 and prepare to process payroll in 2012.

- **Print and mail Forms W-2 and 1099 to employees and contractors.** Companies must report employee income and withholding amounts to employees (and ex-employees if they worked in calendar year 2011) and government agencies using Form W-2. Use 1099s to report the income paid to independent contractors and other payees.

W-2 and 1099 Filing Deadlines

Due Date	Deadline For
January 31, 2012	Supplying W-2s to employees plus ex-employees who worked in 2011. Supplying 1099s to independent contractors who worked in 2011, as well as other payees.
February 29, 2012	Filing paper W-2s and 1099s.
April 2, 2012	e-Filing W-2s and 1099s.

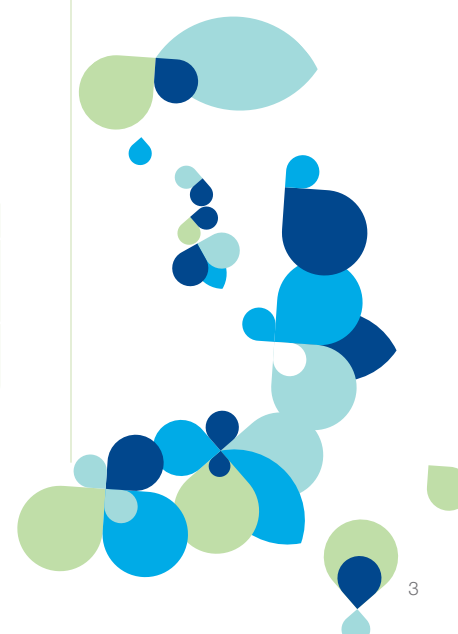
- **Mail or e-File copies of W-2s and 1099s with government agencies.** Send W-2s to the Social Security Administration along with Form W-3, Transmittal of Wage and Tax Statements. Submit 1099s to the Internal Revenue Service with Form 1096, Annual Summary and Transmittal of U.S. Information Returns. Depending on the state agency's requirements, you may also have to mail or e-File copy of these forms to the state(s), along with any state transmittal forms required. Finally, many localities also require copies of informational returns.

Note: When filing 250 or more W-2 forms, the Social Security Administration requires that they be filed electronically unless a waiver has been granted. File electronic W-2s using the SSA's Business Services Online (BSO) website. There is no fee for this service. To register, visit: www.socialsecurity.gov/bsowelcome.htm

- **Submit Form 940 for Federal Unemployment Insurance (FUTA).** The FUTA tax rate remained at 6.2% through June 30, 2011, but decreased to 6.0% beginning July 1, 2011. FUTA is owed on the first \$7,000 of wages you pay each employee. If your company owes more than \$500 in FUTA tax for the calendar year, you must deposit at least one quarterly payment.

Form 940 Filing Deadlines

Due Date	Deadline For
January 31, 2012	Submitting Form 940 and depositing FUTA if your company owes any remaining FUTA.
February 10, 2012	Filing Form 940 if your company has paid all deposits on time.



Looking Ahead to 2012

Social Security and Medicare tax changes for 2012

For 2011, the employee tax rate for social security has been reduced to 4.2%, while the employer tax rate has remained unchanged at 6.2%. In 2012, the employee tax rate for social security is scheduled to return to 6.2%, so withholding for the employee portion of FICA will need to be adjusted. The 2011 social security wage base limit is \$106,800 and is expected to increase in 2012.

In 2011, the Medicare tax rate has been 1.45% each for employers and employees. There is no wage base limit for Medicare tax. There has not been any proposal to change Medicare tax rates for 2012.

Verify unemployment insurance tax rates

When a worker loses a job, he or she may be entitled to unemployment insurance payments. The program is administered by the state but funded jointly by both federal and state governments as mandated by FUTA. Employers must submit unemployment tax payments at both the federal and state levels. While the federal portion of unemployment tax is owed only by companies, some states require a portion of their tax from employee withholdings, in addition to the company's portion.

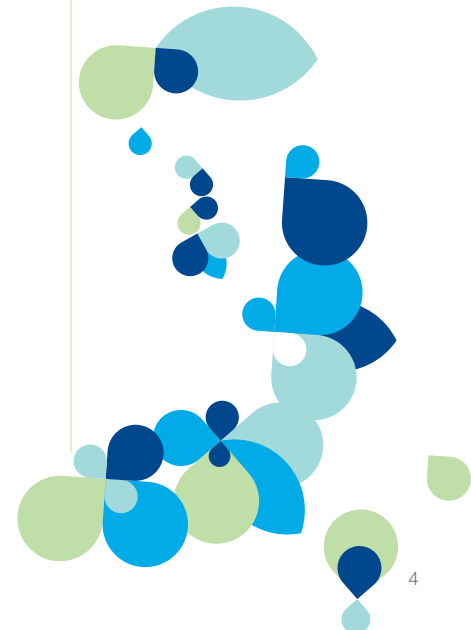
The taxable wage base for FUTA has been \$7,000 per employee for many years, but the President's 2012 budget proposes increasing it to \$15,000 in 2014. This would mean employers would owe much higher federal unemployment taxes. States have already been increasing their tax rates and wage bases in order to bolster depleted unemployment insurance trust funds. Approximately half of the states have borrowed money from the federal government to keep their UI funds solvent—that money will start to be paid back in 2012. Many states will be forced to raise tax rates and/or expand wage bases further. Keep a close eye on new legislation in your state(s) of operation.

2012 Federal Payroll Tax Deposit Calendars

You'll need to deposit employer and employee social security and Medicare taxes, as well as federal income tax you've withheld from employee paychecks. To determine whether your company must deposit every quarter, every month, or biweekly, you will need to review your tax deposit obligations in the past, according to a "look-back" period defined by the IRS. To determine your look-back period and deposit schedule, review [IRS Publication 15](#), [Circular E](#), [Employer's Tax Guide](#).

Quarterly Deposit Due Dates

Period	Due Date
January 1-March 31	April 30, 2012
April 1-June 30	July 31, 2012
July 1-September 30	October 31, 2012
October 1-December 31	January 31, 2013



Monthly Deposit Due Dates

Month Tax Liability Occurred	Deposit Due Date
December 2011	January 17, 2012
January 2012	February 15, 2012
February 2012	March 15, 2012
March 2012	April 16, 2012
April 2012	May 15, 2012
May 2012	June 15, 2012
June 2012	July 16, 2012
July 2012	August 15, 2012
August 2012	September 17, 2012
September 2012	October 15, 2012
October 2012	November 15, 2012
November 2012	December 17, 2012
December 2012	January 15, 2013

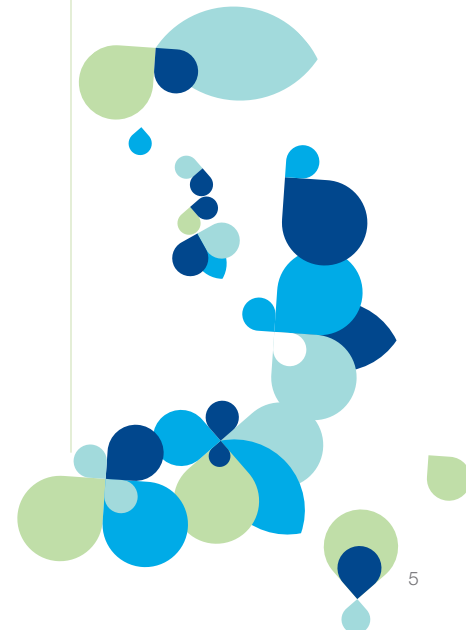
Semiweekly Deposits

If your company's payday falls on Wednesday, Thursday, or Friday, you will need to deposit payroll taxes by the following Wednesday. If payday is Saturday, Sunday, Monday, or Tuesday, you must deposit by the following Friday.

\$100,000 next-day deposit rule: If you accumulate a tax liability of \$100,000 or more on any day during a deposit period, you must deposit the tax by the next banking day, whether you are a monthly or semiweekly schedule depositor. Remember that if you are a monthly depositor and you accumulate a tax liability of \$100,000 or more during the deposit period, not only do you have to make the deposit the next day, you will also have to make the rest of your deposits as if you were a semiweekly depositor.

Avoid penalties for late deposits. Be careful to deposit according to the correct schedule, or deposit penalties can apply for every day your deposit is late. Here is the schedule of federal deposit penalties:

Penalty	Deposit is Received
2%	1-5 days late.
5%	6-15 days late.
10%	16 or more days late. Also applies to amounts paid within ten days of the date of the first notice the IRS sent asking for the tax due.
10%	Deposits paid directly to the IRS or paid with your tax return—unless your company is qualified to make quarterly deposits.
15%	Amounts still unpaid more than ten days after the date of the first notice the IRS sent asking for the tax due or the day on which you received notice and demand for immediate payment, whichever is earlier.



Which businesses must make electronic tax deposits?

As of January 2011, all businesses must make electronic federal payroll tax deposits using the Electronic Federal Tax Payment System (EFTPS). For information about EFTPS, or to sign up for a new account, visit www.eftps.gov. Many states and localities have also implemented electronic payment systems for tax collection. Their payment requirements and deadlines can vary from federal requirements.

2012 Federal Holiday Calendar

If a due date for filing any tax form or making a tax deposit falls on a Saturday, Sunday, or legal federal holiday, it is delayed until the next banking day. For payroll planning and tax filing purposes, here are the federal holidays for 2012:

Federal Holiday	Due Date
New Year's Day	Monday, January 2
Martin Luther King, Jr. Day	Monday, January 16
President's Day	Monday, February 20
Memorial Day	Monday, May 28
Independence Day	Wednesday, July 4
Labor Day	Monday, September 3
Columbus Day	Monday, October 8
Veteran's Day	Monday, November 12
Thanksgiving Day	Thursday, November 22
Christmas Day	Tuesday, December 25

Additional Resources

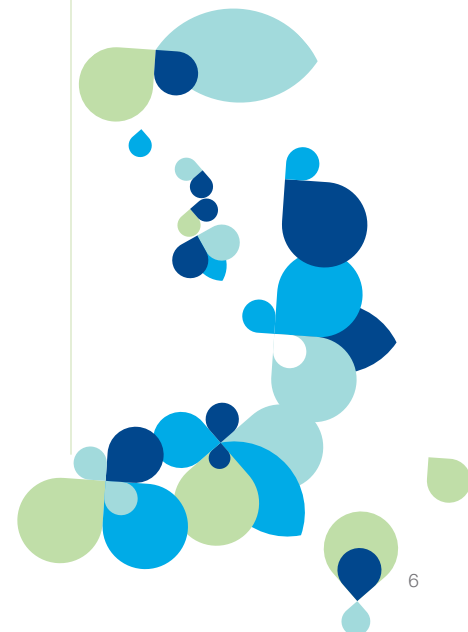
The information in this guide was compiled from information contained on the IRS, Social Security Administration, and Department of Labor websites. For additional information, you may wish to consult:

2011 Instructions for Forms W-2 and W-3

[Guide to Information Returns](#)

[Publication 15 \(2011\): Employer's Tax Guide](#)

[Publication 15-A: Employer's Supplemental Tax Guide](#)



How Automated Payroll Software Can Help

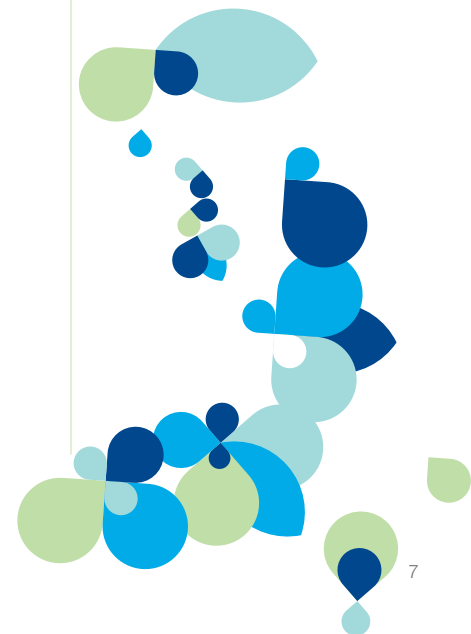
Payroll processing throughout the year involves withholding the correct amount from employee pay as well as calculating employer liabilities and submitting the payments to federal, state, and local collection agencies at mandated times. Automated payroll software—such as Sage Abra Payroll—can make it easier for your organization to:

- Produce accurate payroll by providing calculations based on up-to-date tax tables.
- Save time by automatically accessing relevant information from an integrated Human Resource Management System (HRMS) or timekeeping system.
- Reduce manual data entry by updating integrated accounting and HRMS when appropriate.
- Make tax deposits and file tax forms on time and comply with changing tax rules.
- Maintain payroll records to the standards required by the IRS and state and local agencies.

Sage Abra HRMS

This white paper is meant as a reference guide and not meant as legal advice or accounting advice. Please consult your tax accountant for specific advice and information related to the processing of your payroll.

The information contained in this document represents the current view of Sage on the issues discussed as of the date this document was prepared. Because Sage must respond to changing market conditions, it should not be interpreted to be a commitment on the part of Sage, and Sage cannot guarantee the accuracy of any information presented after the date of publication. This document is for informational purposes only. SAGE MAKES NO WARRANTIES, EXPRESSED OR IMPLIED, IN THIS DOCUMENT.





About Sage Abra HRMS

As the longest-running HRMS solutions provider, Sage delivers flexible, scalable, and comprehensive tools to help you automate and improve your business processes and produce the information you need to better manage your workforce. Unlike other HRMS solutions, Sage Abra is the only solution that combines low cost, ease of use, and the ability to dynamically share information with executives, managers, and others both inside and outside your organization. Sage Abra is comprised of HR, payroll, benefits, training, and compliance solutions developed specifically for mid-sized businesses. Its flexible design provides a comprehensive array of features and the powerful reporting and analysis capabilities needed to efficiently manage your workforce.

To learn more, please visit: www.SageAbra.com

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