Payroll Benefits – Tax Tracking

Some Medical Insurance and Retirement benefits may be pre-tax status or an annuity contract or custodial account. The Payroll Item must be setup and the appropriate payroll item(s) selected in the employee data file before printing employee paychecks.

A pre-tax medical insurance (employee deduction) is recognized as IRS code 125. This plan reduces taxable wages and social security/medicare wages. Federal/state income taxes, Social Security/Medicare taxes, and state unemployment taxes also are reduced.

The pre-tax retirement (employee deduction) is recognized as IRS code 457. The retirement amount is reported in box 12 and coded “G” on the W2 form. This plan reduces taxable wages and federal/state income taxes. Social Security/Medicare wages and taxes and state unemployment taxes are not affected.

A retirement annuity contract or custodial account is not a standard retirement plan. The employer-paid premium is added only to social security/medicare wages, and social security and medicare taxes are paid on the premium amount. It is recognized as IRS code 403(b). The employer-paid amount is reported in box 14 on the W2 form.

According to IRS guidelines, employer contributions made to a 403(b) plan generally are added to the employee’s Social Security/Medicare wages but not to Taxable wages. Both employee and employer pay Social Security and Medicare taxes. Federal and State income taxes are not paid on the employer’s contribution.

If enrolled in a retirement plan not sponsored by either the University or hosted by the Forrest T. Jones plan, employees are encouraged to contact the insurance agency to determine if their plan differs from the explanation provided within this document.

Several extension bookkeepers currently are enrolled in the Forrest T. Jones retirement plan, which is a 403(b) plan. Social Security and Medicare taxes are paid by the employee and employer on the employer-paid premium.

Effective January 2008, medical, vision, and dental MCHCP premiums paid by council employees will be considered pre-tax, according to recent IRS ruling. Here is a summary of the medical and retirement plans and how wages and taxes are affected:

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Effect on Taxable Wages</th>
<th>Effect on Social Security/Medicare Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Tax Medical, Dental, Vision (employee)</td>
<td>Reduces taxable wages and federal and state income taxes</td>
<td>Reduces SS/Medicare wages and taxes.</td>
</tr>
<tr>
<td>PEBSCO Retirement (employee)</td>
<td>Reduces taxable wages and federal and state income taxes</td>
<td>No effect.</td>
</tr>
<tr>
<td>PEBSCO Retirement (employer)</td>
<td>No effect.</td>
<td>No effect.</td>
</tr>
<tr>
<td>Forrest T. Jones or other Taxable employer retirement contribution</td>
<td>No effect. No federal or state income taxes paid on employer contribution.</td>
<td>Increases SS/Medicare wages. Employee and employer pay SS/Medicare taxes on employer contribution.</td>
</tr>
</tbody>
</table>
Sample employee check and W2 form where employee contributes towards:

- Retirement PEBSCO deduction – deduction from gross wages
- Dental and Medical deduction – deduction from gross wages

And employer contributes towards:

- Forrest T. Jones retirement – taxable.
- Retirement PEBSCO (no effect) – non-taxable

Sample Paycheck Stub

Gomer Pyle
1124 St.
The City, MO 63121

<table>
<thead>
<tr>
<th>Earnings and Hours</th>
<th>Qty</th>
<th>Rate</th>
<th>Current</th>
<th>YTD Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALARY: HOURLY</td>
<td>162.20</td>
<td>0.73</td>
<td>1,181.12</td>
<td>1,261.12</td>
</tr>
</tbody>
</table>

Deductions from Gross

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>YTD Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement PEBSCO Withholding</td>
<td>-31.00</td>
<td>-31.00</td>
</tr>
<tr>
<td>Dental (employee)</td>
<td>-10.40</td>
<td>-10.40</td>
</tr>
<tr>
<td>MGIC Medical Withholding</td>
<td>-74.00</td>
<td>-74.00</td>
</tr>
<tr>
<td><strong>Total Deductions</strong></td>
<td>-116.50</td>
<td>-116.50</td>
</tr>
</tbody>
</table>

Taxes

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>YTD Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Withholding</td>
<td>-156.00</td>
<td>-166.00</td>
</tr>
<tr>
<td>Soc. Sec. Withholding - Employee</td>
<td>-100.22</td>
<td>-100.22</td>
</tr>
<tr>
<td>Medicare Withholding - Employee</td>
<td>-23.44</td>
<td>-23.44</td>
</tr>
<tr>
<td>MGIC - Withholding</td>
<td>-32.00</td>
<td>-32.00</td>
</tr>
<tr>
<td><strong>Total Taxes</strong></td>
<td>-311.66</td>
<td>-311.66</td>
</tr>
</tbody>
</table>

Net Pay

1,153.17  1,153.17

Sample W2 Form

SS/Medicare

Wages  1581.13
- 84.70*  1496.43
+120.00  1616.43
x .062   100.22 SS
1616.43  X .0145 Med
23.44

* Dental & Medical

Taxable Wages

1581.13
-116.30
1464.83
Setup Payroll Benefit Items

As the payroll benefits items are modified for tax tracking, QuickBooks will adjust federal and state tax withholding payroll items, and employee and employer social security and medicare withholding payroll items. You must perform two tasks before printing employee paychecks for the payroll items changes to be effective:

- Edit or create the Payroll Item.
- Edit the employee data file and assign the appropriate payroll item(s).

The following illustrations provide guidelines for correct tax tracking. To edit or create a payroll item, begin with:

- Select Lists from menu bar.
- Select Payroll Item List.

Edit existing or setup new payroll items

Edit Existing Payroll Items

- Double-click on appropriate existing payroll item to edit. Cycle through the screens. Review Pre-Tax Medical, Dental or Vision (employee deduction) section below.

-or-

Create new Payroll Item for Pre-Tax

- Click on payroll button at bottom left corner of screen and select New.
  - Select Custom Setup in the Select Setup method screen.
  - Click Next.

Select the setup method you would like to use to create a new item:

- Custom Setup (allows editing of all settings; recommended for expert users)

Pre-Tax Medical, Dental, or Vision (employee deduction) 125 Plan

Repeat for each payroll liability. Not all screens are represented in this section.

Enter or change payroll item name.

Keep the same payroll liability acct. # 9055. Use appropriate payroll vendor name. (example below is a generic name)
Select Premium Only/125 for tax tracking.

- Leave all boxes blank in the Default Rate and Limits screen. Click **Finish**.

- Repeat for Pre-Tax Vision and Dental.

**Edit the Employee Data file**

- Go to the Employee Center
- Click to highlight the appropriate employee name.
- Click **Edit employee button**.
- Under **Change Tabs**, click the down arrow and select **Payroll and Compensation**.
- Under Additions, Deductions, and Company Contributions, change the current medical, dental or vision withholding payroll item to the appropriate Pre-Tax payroll item(s).
- If necessary, change the premium amount.

*Note: Since you will use the existing payroll liability account number 9055 for MCHCP Medical, there is no need to create a new payroll liability account. Use the same liability account number for vision and dental.*
PEBSCO (Nationwide) Retirement Employee withholding 457(b) Plan

The payroll items for PEBSCO employee withholding and PEBSCO employer contribution were established in the original QuickBooks data files. Review these payroll items to determine if they are set up correctly, or create a new payroll item, if necessary. **Not all screens are represented in this section.**

- If you are **editing** an existing PEBSCO (Nationwide) Employee withholding payroll item, skip to the Tax tracking screen.
- If you are creating a **new** PEBSCO (Nationwide) Employee withholding payroll item,
  - Go to page 3, Create New Payroll Item for Pre-tax.
  - Select the same options for **Select Setup Method** and **Payroll Item Type screens.**
  - Go to the **Tax Tracking Type screen**

**Select Elective 457(b).**

**Select only Federal and MO Withholding**

This is the correct setup for most payroll items.

- Leave all boxes blank in the **Default Rate and Limits** screen. Click **Finish**.

**Edit the Employee Data file**

- Go to the Employee Center
- Click to highlight the appropriate employee name.
- Click **Edit employee button**.
- Under **Change Tabs**, click the down arrow and select **Payroll and Compensation**.
- Under Additions, Deductions, and Company Contributions, change the current PEBSCO Retirement(Nationwide) withholding payroll item to the appropriate Pre-Tax payroll item.
- If necessary, change the premium amount.
For assistance on setting up other payroll benefit items, contact your regional QuickBooks trainer or the QuickBooks Administrator.