University of Missouri Extension

County Accounting Manual

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 contibution.*

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:

Summary of Plans

Type of Plan	Effect on Taxable Wages	Effect on Social Security/Medicare Wages
Pre-Tax Medical, Dental, Vision (employee)	Reduces taxable wages and federal and state income taxes	Reduces SS/Medicare wages and taxes.
PEBSCO Retirement (employee)	Reduces taxable wages and federal and state income taxes	No effect.
PEBSCO Retirement (employer)	No effect.	No effect.
Forrest T. Jones or other Taxable employer retirement contribution	No effect. No federal or state income taxes paid on employer contribution.	Increases SS/Medicare wages. Employee and employer pay SS/Medicare taxes on employer contribution.

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
This City, MO 63121

Employee Pay Stub		Check number:			Pay Period: 07/01/2007 - 07/31/2007		Pay Date: 07/31/2007	

Employee				SSN	Status (Fed/State)	Allowances/Extra
Gomer L Pyle, 1124 St, This City, MO 63121				***-**-9999	Single/Single	Fed-0/0/MO-0/0

Earnings and Hours	Qty	Rate	Current	YTD Amount		Taxable Company Items	Current	YTD Amount
SALARY - HOURLY	162.30	9.73	1,581.13	1,581.13		Retirement-Employer (Jones)	120.00	120.00
Deductions From Gross			**Current**	**YTD Amount**		**Non-taxable Company Items**	**Current**	**YTD Amount**
Retirement PEBSCO Withholding			-31.60	-31.60		Retirement PEBSCO - Employer	15.81	15.81
Dental (employee)			-10.40	-10.40		**Message**		
MCHCP Medical Withholding			-74.30	-74.30				
			-116.30	-116.30				
Taxes			**Current**	**YTD Amount**				
Federal Withholding			-155.00	-155.00				
Soc.Sec. Withholding - Employee			-100.22	-100.22				
Medicare Withholding - Employee			-23.44	-23.44				
MO - Withholding			-33.00	-33.00				
			-311.66	-311.66				
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

Payroll Tax Form

1. Interview   2. Form W-2   3. Form W-3   4. Printing Instructions

a Control number ....

b Employer's ID number .. 43-6013339

c Employer's name, address, and ZIP code
ALL-AMERICAN COUNTY EXTENSION COU
COURTHOUSE, 4TH FLOOR, 1 ANYWHERE
BESTTOWN   State   MO
66666

d Employee's social security number
333-11-9999

e Employee's name
First   Gomer   Middle Initial L
Last   Pyle

f Employee's address and ZIP code
1124 ST
THIS CITY   State   MO
63121

1 Wages, tips, other compensation	2 Federal income tax withheld
1,464.83	155.00
3 Social security wages	4 Social security tax withheld
1,616.43	100.22
5 Medicare wages and tips	6 Medicare tax withheld
1,616.43	23.44
7 Social security tips	8 Allocated tips
9 Advance EIC payment	10 Dependent care benefits
11 Nonqualified plans	12 See instrs. for box 12
	a G 31.60

13 Statutory employee ▶ ☐   b __ _____
Retirement plan ... ▶ ☐   c __ _____
Third-party sick pay ▶ ☐   d __ _____

14 Other
descr   Retirem   Amt   120.00
descr _____   Amt _____
descr _____   Amt _____
descr _____   Amt _____

15 Employer's state State identification no.	16 State wages, tips, etc	17 State income tax	18 Local wages, tips, etc	19 Local income tax	20 Locality Name
MO 11111111	1,464.83	33.00			

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**.
    - o Select **Custom Setup** in the Select Setup method screen.
    - o Click **Next**.

Add new payroll item — Select setup method
Select the setup method you would like to use to create a new item.
- ○ EZ Setup (uses standard settings; recommended for most users)
- ◉ Custom Setup (allows editing of all settings; recommended for expert users)

Add new payroll item — Payroll item type
Select the type of payroll item you want to create.
- ○ Wage (Hourly Wages, Annual Salary, Commission, Bonus)
- ○ Addition (Employee Loan, Mileage Reimbursement)
- ◉ Deduction (Union Dues, 401(K) deferral, Simple IRA)
- ○ Company Contribution (Employer 401(k) matching contribution)
- ○ Federal Tax (FUTA, Social Security, Medicare)
- ○ State Tax (State Withholding, SDI, SUI)
- ○ Other Tax (Local Tax, Misc. State Tax)

- Select **Deduction** in the Payroll Item Type screen.
- Click **Next**.
- **Go to Pre-Tax Medical, Dental, or Vision (employe deduction).. section.**

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)

Add new payroll item (Deduction) — Name used in paychecks and payroll reports
Enter name for deduction:
MCHCP PreTax Medical Deduction
For example, if you are creating a deduction for employee 401(k) plan, you may want to call it '401(k)'.

Edit payroll item (Deduction:MCHCP PreTax Medical Deduction) — Agency for employee-paid liability
Enter name of agency to which liability is paid: University of Missouri
Enter the number that identifies you to agency: 99-9999999
Liability account (employee-paid): 9000 · Payroll Liabilities:9055 · MCHCP ...
This liability account tracks deductions to be paid. You can change this account at any time.

Select Premium Only/125 for tax tracking.

These taxes should be checked.

This is the correct setup for most payroll items.

- 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 appproriate 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 withhholding 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** PEBSC0 (Nationwide) Employee withholding payroll item,
    - o Go to page 3, **Create New Payroll Item for Pre-*tax***.
    - o Select the same options for **Select Setup Method** and **Payroll Item Type screens.**
    - o 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 appproriate 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) witihholding payroll item to the appropriate Pre-Tax payroll item.
- If necessary, change the premium amount.

PEBSCO (Nationwide) Retirement Employer contribution
Some payroll screens for the Retirement Employer contribution are represented below

Edit payroll item (Company Contribution:Retirement PEBSCO - Employer)

Name used in paychecks and payroll reports
Enter name for company contribution:

Retirement PEBSCO - Employer

For example, if you are creating a company-paid expense, such as health insurance, you may want to call it 'Health Insurance'.

☑ Track Expenses By Job

To track expenses by customer and job, by class, and by service item, select the checkbox. For more information, click Help.

☐ Payroll item is inactive

To hide this item on the Payroll Item list, select the checkbox.

Edit payroll item (Company Contribution:Retirement PEBSCO - Employer)

Agency for company-paid liability
Enter name of agency to which liability is paid: University of Missouri

Enter the number that identifies you to agency:

Liability account (company-paid): 9000 · Payroll Liabilities:9070 · Retirem...
This liability account tracks company contributions to be paid. You can change this account at any time.

Expense account: 2800 · Payroll Expenses:2860 · Retirem...
Company-paid contributions are an expense to your company. You can change this account at any time.

Edit payroll item (Company Contribution:Retirement PEBSCO - Employer)

Tax tracking type
The tax tracking type determines how the payroll item appears on tax forms. Be sure to choose the correct tax tracking type to ensure that your forms are correct.

None

Are you sure you want 'None' as the tax tracking type?

'None' is typically used for payroll items such as net additions, deductions, or company contributions that don't affect taxes or tax forms. These include items such as expense reimbursements, miscellaneous after-tax fees, employee loans, and charitable contribution deductions.

If you want to report this payroll item on your tax forms, choose a different tax tracking type.

Edit payroll item (Company Contribution:Retirement PEBSCO - Employer)

Taxes
Based on the tax tracking type you've chosen, QuickBooks automatically selects the taxes that are almost always affected by this payroll item. In most cases, you don't need to change the selections you see here.

✓	Payroll Item
	Federal Unemployment
	Federal Withholding
	Medicare - Employer
	Medicare Withholding - Employee
	Soc. Sec. - Employer
	Soc.Sec. Withholding - Employee
	MO - Withholding

Click Default to revert to QuickBooks automatic settings.

Default

Forrest T. Jones or Other Taxable Employer Retirement Contribution 403 (B) Plan

Edit payroll item (Company Contribution:Retirement-Employer (Jones))

Name used in paychecks and payroll reports
Enter name for company contribution:

Retirement-Employer (Jones)

For example, if you are creating a company-paid expense, such as health insurance, you may want to call it 'Health Insurance'.

☑ Track Expenses By Job

To track expenses by customer and job, by class, and by service item, select the checkbox. For more information, click Help.

☐ Payroll item is inactive

To hide this item on the Payroll Item list, select the checkbox.

| Back | **Next** | Finish | | Help |

Edit payroll item (Company Contribution:Retirement-Employer (Jones))

Agency for company-paid liability
Enter name of agency to which liability is paid: Forest T. Jones

Enter the number that identifies you to agency:

Liability account (company-paid): 9000 · Payroll Liabilities:9071 · Other R...
9000 · Payroll Liabilities:9071 · Other Retirement Payable
This liability account tracks company contributions to be paid. You can change this account at any time.

Expense account: 2800 · Payroll Expenses:2861 · Other R...
Company-paid contributions are an expense to your company. You can change this account at any time.

| Back | **Next** | Finish | | Canc |

Edit payroll item (Company Contribution:Retirement-Employer (Jones))

Tax tracking type
The tax tracking type determines how the payroll item appears on tax forms. Be sure to choose the correct tax tracking type to ensure that your forms are correct.

Other

This tax tracking type can be associated with any type of payroll item. Examples include union dues, health insurance premiums deducted, nontaxable income, voluntary after-tax contributions, educational assistance payments, and Sec. 414(h)(2) contributions.
Effect on Form 941: None.
QuickBooks 2005 and above. Effect on Form 944: None.
Effect on Form W-2: Reports amount in box 14.

| Back | **Next** | Finish | | Cancel |

Edit payroll item (Company Contribution:Retirement-Employer (Jones))

Taxes
Based on the tax tracking type you've chosen, QuickBooks automatically selects the taxes that are almost always affected by this payroll item. In most cases, you don't need to change the selections you see here.

✓	Payroll Item
	Federal Unemployment
	Federal Withholding
✓	Medicare - Employer
✓	Medicare Withholding - Employee
✓	Soc. Sec. - Employer
✓	Soc.Sec. Withholding - Employee
	MO - Withholding

Click Default to revert to QuickBooks automatic settings.

Default

| Back | **Next** | Finish | | Help | Cancel |

For assistance on setting up other payroll benefit items, contact your regional QuickBooks trainer or the QuickBooks Administrator.