

VOLUME 27 • ISSUE 4
Winter 2018

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Final Form 941

In observance of
Christmas, PenSoft
will be closed
December 24-25.
In observance of the
New Year, PenSoft
will be closed
January 1, 2019.



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2019 Bonus Payments

It is a common practice to reward employees with a bonus especially at year-end. Interestingly employees almost never ask about the method of calculating taxes on any type of payments. In fact the majority of employees assume the bonus payment is to be handled with the same method as their regular compensation until they receive their bonus and see the large percentage of taxes withheld. Remember we are dealing with the IRS and it is no surprise there are specific instructions for the calculation of federal withholding depending on how a bonus is paid.

Program Support consultants cannot provide tax advice. When calling for assistance in the setup of a bonus income, they will ask questions of how the bonus is paid and if the standard deductions are to be applied.

2019 Bonuses Processing Supplemental Wages

Be prepared to respond to the question, “Is the bonus considered “regular wages” or “supplemental wages?”

The IRS provides instructions in Publication 15 section 5 for the taxation of compensation. The IRS includes in-depth discussion regarding different types of income and the proper taxation depending on the circumstances, and bonuses are one example. In most cases the IRS categorizes a bonus as “supplemental wages” requiring a “special” calculation for withholding different from ordinary compensation.

Section 7 of Publication 15 definition: “Supplemental wages are wage payments to an employee that aren’t regular wages. They include but aren’t limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, and payments for nondeductible moving expenses.”

See **Bonus**, page 2

Name Control Challenges in the Modernized 94x e-File

PenSoft’s e-file services works in conjunction with the Internal Revenue Services’ (IRS) Modernized e-File Program (MeF). The IRS establishes and enforces the guidelines for all 94x e-file submissions.

When filing for your Employer Identification Number (EIN)

you provided the name of your business, and it is used by the IRS in assigning your Name Control.

Name Control matching is a process where MeF verifies the Employer Identification Number (EIN) and Name Control of the filer against the IRS’s National Account Profile (NAP) database. PenSoft has built in many of the IRS’s Name Control parameters into PenSoft Payroll. They include using,

the first four valid characters of the company name, uppercase, removing of spaces and special characters other than the ampersand and dash.

It has been our experience the “Name Control” mismatch is the most common cause for an

acknowledged and rejected status in MeF.

IRS Standard Guidance for Name Control:

In general, the Business Name Control is derived from the first four characters of the business name and consists of up to four alpha and/or numeric characters.

- The Name Control can be fewer than four characters, but not more. Blanks may be present only at the end of the Name Control.
- The Name Control is determined from the information specified in the company name

See **94x**, page 4



Leroy Newman
President & CEO

President's Corner

2018 is fast coming to a close and PenSoft is working diligently to prepare 2019 PenSoft Payroll. It will be completed and ready for your download as scheduled on December 17th. The Tax Reform Bill has many changes including income tax withholding rates, Social Security and Medicare wage bases, fringe benefits, and reimbursements.

2019 PenSoft Payroll

You may download, install and register the 2019 product when it is released even before completing your last 2018 payroll and end of 2018 reports. If you have any difficulty downloading or installing call Program Support at 757-873-1199. If you are a PenSoft Hosted Solution customer, PenSoft will automatically install and register your software so it will be ready for your first payroll of 2019.

Virginia Statewide Payroll Conference

PenSoft was a Sponsor of the 18th annual Virginia Statewide Payroll Conference held in Williamsburg, Virginia October 11-13. Stephanie Salavejus, CPP, Vice President and COO, Melinee' Cody, CPP, Director of Program Support and Training, Jasmine Jones, CPP, Payroll Specialist participated in the conference training and events. Heidi Heretick, Director of Sales and Marketing, worked the PenSoft table networking and engaging with 195 payroll professionals from the seven local APA chapters.

Employees

Wendy Gay, Program Consultant, celebrated five years of excellent service at PenSoft. She came to PenSoft over 27 several years of bookkeeping. Wendy prides herself in providing excellent program support to our customers. She takes on the hard support issues and works with the other program support consultants when they need help. Additionally she is instrumental in testing our software products and providing feedback to our programming staff along with many additional projects. Thanks for five outstanding years Wendy!

Wendy prepared for and successfully passed the American Payroll Association (APA) Certified Payroll Professional (CPP) exam demonstrating her dedication to excellence and interest in self-improvement. Her studies in preparation for this exam added to her knowledge of payroll principles and practices and increased her ability to better serve our customers. Congratulations and well done Wendy!

Marion Evans, Administrative Assistant, celebrated five years of excellent service at PenSoft. She came to PenSoft with over 15 years of experience in office administration. Marion is responsible for taking requests from customers and preparing customer orders. She prides herself in providing great customer service and has received accolades from a number of customers. Thanks Marion!

Bonus, continued from page 1

Supplemental Wages Combined with Regular Wages

Bonus payment paid with regular wages but as a lump sum where each amount is not specifically separated, withhold federal income tax as if the total were a single payment for a regular payroll period.

The downside with this approach is that instead of taxes being withheld at a flat percentage and having that rate apply only to the bonus amount, taxes are withheld at what is almost certainly a higher rate on the combined amount of your normal pay.

Supplemental Wages Identified Separately from Regular Wages

Bonus payments paid separately, or combined in a single payment, but each amount is specified, the federal income tax withholding method depends on whether the employee's regular wages have federal income tax withheld.

Employees with income tax withheld from their regular wages, use one of the following methods for the supplemental wages.

- Withhold a flat 22% (no other percentage allowed).
- If the supplemental wages are paid concurrently with regular wages (aggregate method), add the supplemental wages to the concurrently paid regular wages. Taxes are calculated on the normal withholding amount based on IRS withholding tables for the sum of both amounts, then subtract what was normally or amount withheld from your last paycheck, and withhold the rest from the bonus amount.

Glad tidings for the holidays and a Happy New Year! PenSoft

Bonus, continued from page 2

Using the aggregate approach, the amount of bonus, is “separated” from the rest of your income and taxed directly and typically at a higher rate than the supplemental tax rate.

Employers and payroll staff prefer the percentage method due to it being less burdensome to administer and employees typically benefit because it will take a smaller amount of federal withholding from the bonus payment.

What if a Bonus Exceeds \$1 million?

Executive or corporate bonuses exceeding \$1 million or more are not uncommon and the IRS requires a higher federal withholding. On bonuses over a \$1 million, employers must withhold 37% of the amount above \$1 million, and the standard 22% of the amount below \$1 million.

Communication is Key

Suggest to management to include information regarding the IRS requirements for withholding taxes from a bonus along with the payment to reduce an increase in customer service calls to the payroll department.

Program Consultants are ready to answer your questions on how to setup bonus payments with the federal fixed rate. Support is available Monday-Thursday 9am-6pm and Friday 9am-5pm eastern time.

Q&A

Q. We are closing our business and in the process of filing the final Form 941. How do I report the business is closed on line 17 of the Form 941? Is there anything else I need to do?

A. There are two ways to access the check box on line 17:

Option One:

- Click Reports
- Click Federal Tax Reports under Report Categories
- Click Setup by the Form 941 button
- Select the report quarter
- Click OK
- Click Settings tab
- Check “Your business has closed” box and enter final date of wages paid
- Click OK

Option Two:

- Open the Form 941 Report for the appropriate quarter
- Click Setup at the bottom of the window
- Click Settings tab
- Check “your business has closed” box and enter in the final date of wages paid
- Click OK

In addition to the final return, the IRS requires all employers closing their business to attach a statement to the final employment return with the name of the responsible party of the closed business payroll records and the physical address

where the records are stored. It is also advised after completing all reporting requirements, to contact the IRS and close the company’s Employer Identification Number (EIN) to prevent business identity theft and unauthorized use of the company’s EIN.

Q. Our organization needs ACA reporting. If we sign up in 2018 and then have a 2017 look back period, is there an additional charge to upload export files from 2017?

A. No. PenSoft does not penalize employers who need to upload data for the look back period.

Q. Our company just received an Employer Correction Request from the Social Security Administration (SSA). The letter instructs us to download the Employer Report Status. Where is the Employer Report Status located in PenSoft Payroll?

A. The Employer Report Status cannot be accessed through PenSoft Payroll. An authorized representative of the company can call the Social Security Administration at 1-800-772-6270 or they can access the information by logging into the SSA Business Service Online (BSO) and downloading the Employer Report Status.

To access the BSO, an authorized representative of the company must be registered with the SSA BSO.

Visit www.socialsecurity.gov/bsowelcome.htm for information on how to register.

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line as provided on the EIN application. Generally, the Name Control is derived from the first four characters of the entity name.

- The ampersand (&) and hyphen (-) are the only special characters allowed in the Name Control.
- Do not include the letters “dba” (doing business as) or “fbo” (for benefit of) as part of the Name Control.

Very often businesses use their personal name instead of their business name when completing the application and in this event, the Name Control generally is the first four letters of your last name. Customers who used their first and last name as the business name normally need to correct the Name Control in PenSoft Payroll to be the first four characters of the last name.

Name Control Valid Characters:

- Alpha (A-Z)
- Numeric (0- 9)
- Hyphen (-)
- Ampersand (&)

Name Control Special Rule:

If an invalid character is used in the name line, drop the special character from the taxpayer’s name (for example, “4T.com” should be “4TCO”).

IRS Assistance

If you are unable to determine your business Name Control contact the IRS Business and Specialty Help Line at 1-800-829- 4933 and request assistance with verification of your organization’s Name Control.

Program Support does not have the authorization to act on your behalf so we cannot contact the IRS for you.

It is also important to understand to receive assistance, the IRS will verify if you are authorized to represent and act on behalf of the company.

Qualification options include:

- You are an officer of the corporation authorized to communicate with the IRS.
- Form 8821 Tax Information Authorization filed authorizing you to discuss the corporation’s entity information.
- Form 2848 Power of Attorney and Declaration of Representative filed authorizing you to discuss the corporation’s entity information.

Correcting the Company’s Name Control in PenSoft Payroll

The process of correcting your company’s Name Control is the easiest step in the process.

- Open your company in PenSoft Payroll.
- Click Setup.
- Click Identification under the basic setup group.
- Click on the Name Control field and update the 4 character Name Control.
- Click OK.
- Click Close.

After correcting the Name Control in PenSoft Payroll, follow the same submission process to resubmit to the IRS the rejected return, just be sure to click “Yes” to the question asking, “Do you want to submit the return again?”

Contact Program Support at support@pensoft.com or call 757-873-1199 with questions about filing federal employment tax returns. Program Support is available to assist Monday – Thursday from 9am-6pm and Friday 9am-5pm eastern time.