

# Contents

## Module 1: Payroll Concepts

<b>1.1 Introduction to Payroll in the United States .....</b>	<b>2</b>
Documents Employers Request.....	2
Social Security Numbers .....	2
Methods of Paying Employees .....	3
Withholding Taxes.....	3
Social Security .....	4
Medicare .....	4
Unemployment Insurance Tax.....	4
Disability Insurance Tax.....	5
Employee Benefits.....	5
<b>1.2 Introduction to Payroll .....</b>	<b>5</b>
Challenges.....	6
The Payroll Process .....	7
<b>1.3 Employee/Independent Contractor .....</b>	<b>7</b>
Worker Classification .....	7
Backup Withholding .....	17
Statutory Employee/Nonemployee .....	18
New Hire Reporting.....	21
Social Security Numbers .....	24
<b>1.4 Fair Labor Standards .....</b>	<b>25</b>
Fair Labor Standards: Concepts.....	25
Exempt/Nonexempt Employees: Concepts .....	27
Exempt/Nonexempt Employees: Definition.....	27
Minimum Wage .....	39
Tips .....	42
Regular Rate of Pay .....	44
Payments to Include in Regular Rate of Pay .....	44
Payments to Exclude from Regular Rate of Pay.....	46
The Workweek.....	50
Overtime .....	58
Work Hours.....	60
Other FLSA Provisions.....	65
<b>1.5 Employment Forms .....</b>	<b>75</b>
Employee Forms .....	75

## **Module 2: Calculations of Pay**

<b>2.1 Calculation of Regular Pay .....</b>	<b>98</b>
Calculate Regular Pay for Time Worked.....	98
Calculate Other Pay .....	99
Calculate Regular Rate of Pay .....	101
<b>2.2 Calculation of Overtime Premium .....</b>	<b>101</b>
Calculate Overtime Using a Weighted Average.....	103
Calculate Nonexempt Salaried Overtime Premium Pay.....	104
Calculate Commission Overtime Premium Pay .....	105
Calculate Piecework Overtime Premium Pay.....	107
<b>2.3 Calculation of Gross Pay .....</b>	<b>108</b>
Final Pay .....	109
<b>2.4 Calculation of Federal Taxes .....</b>	<b>109</b>
Taxable Wages.....	110
Federal Income Tax Withholding.....	112
<b>2.5 Calculation of Social Security and Medicare Taxes .....</b>	<b>137</b>
Social Security Tax Withholding Requirements .....	137
Other FICA Tax Considerations .....	140
<b>2.6 Calculation of Voluntary Deductions .....</b>	<b>144</b>
Union Dues .....	145
Credit Union Deductions .....	145
Charitable Contributions.....	145
<b>2.7 Calculation of Employer Tax Liability .....</b>	<b>146</b>
Calculate Employer Social Security Liability .....	146
Calculate Employer Medicare Liability.....	147
Calculate Employer Total Tax Liability .....	147
<b>2.8 Calculation of Gross-Ups .....</b>	<b>148</b>
Grossing-up.....	148
Grossing Up When Crossing the Social Security Wage Base .....	149
Grossing Up With 401(k) .....	150
<b>2.9 Other Tax Considerations .....</b>	<b>152</b>
Multi-State Income Taxation .....	152
Railroad Retirement Tax Act.....	156

## **Module 3: Calculations of Deductions and Net Pay**

<b>3.1 Calculation of Involuntary Deductions .....</b>	<b>160</b>
Withholding Orders .....	160
Child Support.....	161
Federal Tax Levy .....	176
Creditor Garnishments .....	183
Other Withholding Orders .....	189
Federal Administrative Wage Garnishments .....	192

<b>3.2 Calculation of Net Pay .....</b>	<b>202</b>
Calculate Total Deductions.....	202
Calculate Net Pay.....	202
Total Cost of Payroll.....	203
 <b>Module 4: Fringe Benefits and Other Payments</b>	
<b>4.1 Fringe Benefit Rules .....</b>	<b>206</b>
IRS Regulations Impacting Payroll .....	207
Taxation Requirements .....	207
Fair Market Value .....	207
IRS Requirements .....	208
Special Accounting Rule .....	210
<b>4.2 Nontaxable Benefits .....</b>	<b>211</b>
Section 132 (Income Exclusion Basics) .....	211
Plans That Favor Highly Compensated Employees .....	212
No-Additional-Cost Fringe Benefits.....	213
Qualified Employee Discounts .....	214
De Minimis Fringe Benefits .....	214
Working Condition Fringe Benefits .....	216
Cell Phones—Working Condition Fringe Benefits .....	217
Qualified Transportation Fringe Benefits .....	218
On-Premises Athletic Facilities .....	222
Qualified Retirement Advice .....	222
Moving Expenses.....	222
<b>4.3 Employer-Provided Benefits .....</b>	<b>223</b>
Awards and Prizes Income/Exclusion .....	223
Personal Use of Company Vehicles.....	226
Accounting for Vehicle Use .....	226
Group-Term Life Insurance .....	231
Whole-Life Insurance .....	235
Personal Use of Company Aircraft.....	236
Educational Assistance .....	237
Business Travel Expenses.....	240
Daily Transportation Expenses.....	244
Reimbursements Under an Accountable Plan .....	244
Payments Under a Nonaccountable Plan .....	245
Per Diem Allowances .....	247
Meals Provided to the Employee .....	249
Prorated Per Diems .....	249
Mileage Allowances .....	249
Meals and Lodging .....	252

<b>4.4 Other Payments .....</b>	<b>254</b>
Advances and Overpayments.....	254
Back Pay Awards.....	259
Bonuses .....	263
Commissions.....	264
Death Benefits.....	265
Disaster Relief Payments .....	265
Jury Duty Pay.....	267
Leave-Sharing Plans .....	267
Retroactive Wage Payments .....	269
Taxable Tips .....	270
Loans to Employees.....	276
Repayment of Employer-Provided Loans.....	277
Sick Pay .....	277
Special Rule for Multiemployer Plan .....	285
Stocks and Stock Options .....	286
Employee Can Elect Current Taxation to Limit Future Taxes - IRC §83(b) .....	292
Employees of Some Companies Can Elect to Defer Income Inclusion - IRC §83(i).....	292
Workers' Compensation .....	294
Dependent Care Assistance Programs .....	294
Severance .....	296
Golden Parachute .....	297
Club Memberships.....	297
Adoption Assistance .....	299
Differential Military Pay.....	303
Identification Protection Services .....	305

# Contents

## Module 5: Retirement Plans

<b>5.1 Retirement and Deferred Compensation Plans .....</b>	<b>2</b>
Qualified Pension and Profit-Sharing Plans .....	2
<b>5.2 Deferred Compensation Plans .....</b>	<b>3</b>
Deferred Compensation .....	3
Annual Compensation and Contribution Limits .....	4
Tax Treatment of Pension and Profit-Sharing Plans .....	5
Qualified Annuity Plans Under §403(a) .....	6
ERISA Requirements .....	6
Deferred Compensation Regulations .....	6
How After-Tax and Pre-Tax Contributions Affect Net Pay .....	8
<b>5.3 Deferred Compensation Regulations (401(k), 403(b), 457(b)) .....</b>	<b>9</b>
Eligibility for Catch-Up Contributions .....	10
Holding Periods for Elective Deferrals .....	12
Automatic 401(k) Enrollment .....	12
Tax Treatment of §401(k) Plans .....	16
Reporting Requirements .....	16
Roth Contributions to 401(k) Plans .....	17
Tax-Sheltered Annuities (403(b) Plans) .....	17
Deferred Comp Plans for Public Sector, Tax-Exempt Entities .....	20
Nondiscrimination Testing—401(k) Plans .....	23
<b>5.4 Nonqualified Plans .....</b>	<b>27</b>
Federal Income Tax Treatment .....	27
Nonqualified Deferred Compensation Plan Defined for Social Security/Medicare Taxation .....	39
Determining the Amount Deferred .....	40
Withholding Rules .....	41
Reporting Requirements .....	42

## Module 6: Cafeteria Plans

<b>6.1 Cafeteria Plans .....</b>	<b>46</b>
IRC Section 125 Components .....	46
IRC §125 Elections .....	47
<b>6.2 Flexible Spending Arrangements .....</b>	<b>62</b>
Flexible Spending Arrangements .....	62

## **Module 7: Payroll Reporting and Employment Taxes**

<b>7.1 Tax Deposit Requirements .....</b>	<b>70</b>
Lookback Period .....	70
Tax Deposit Frequency .....	73
Calculate Federal Tax Deposits .....	79
Tax Deposit Methods.....	79
Federal Tax Forms (An Overview).....	83
<b>7.2 Quarterly Returns .....</b>	<b>85</b>
Purpose of Form 941.....	85
Form 941 Reporting/Filing Requirements .....	86
Special Considerations for Mergers and Acquisitions.....	90
Form 941 Line-By-Line Reporting Requirements.....	91
E-File Employment Tax for Forms 940 and 941 .....	98
Schedule B (Form 941) Reporting/Filing Requirements .....	99
Schedule B (Form 941) Line-By-Line Requirements.....	100
Multiple Worksite Reporting .....	105
<b>7.3 Annual Returns .....</b>	<b>107</b>
Forms W-2, W-3, and Electronic Filing .....	107
Federal Unemployment Tax .....	141
Forms 1099 .....	159
Forms 1094-C and 1095-C .....	167
Other Annual Returns .....	176
<b>7.4 Correcting Returns .....</b>	<b>185</b>
Purpose of Form W-2c.....	185
Purpose of Form W-3c.....	189
Overcollected/Undercollected Taxes .....	193
Purpose of Form 941-X .....	197
Purpose of Form 843.....	233
<b>7.5 Other Reporting Requirements .....</b>	<b>235</b>
Taxation and Reporting of Wages Paid to Deceased Employees .....	235
Calculate Withholding for Wages Paid to Deceased Employees .....	237
Purpose of Form 4070.....	237
Form 4070 Requirements.....	238
Form 8027 Requirements.....	238
Purpose of Form SS-4.....	239

## **Module 8: Record Keeping and Payroll Practices**

<b>8.1 Payment Methods .....</b>	<b>242</b>
Payment by Check or Cash .....	242
Payment by Direct Deposit .....	245
Payment by Paycard.....	255
Escheat .....	258
Other Payment Regulations .....	258

<b>8.2 Payroll Practices .....</b>	<b>260</b>
Payroll Processing.....	260
Confidentiality .....	272
Legislation Impacting Payroll.....	282
Procedures and Practices .....	300
Business Continuity Plans .....	303
Workflow .....	309
Service Level Agreements .....	310
<b>8.3 Record Keeping .....</b>	<b>312</b>
DOL Record Keeping Regulations .....	314
IRS Record Keeping Regulations .....	320
USCIS Record Keeping Regulations .....	324
HIPAA Record Keeping Regulations .....	325
<b>8.4 Systems .....</b>	<b>333</b>
System Processes .....	333
Artificial Intelligence/Machine Learning .....	344
System Selection and Implementation.....	347
Other System Issues.....	364
<b>8.5 Penalties .....</b>	<b>366</b>
DOL Penalties.....	367
IRS Penalties.....	367

# Contents

## Module 9: Payroll Accounting and Auditing

<b>9.1 Accounting Terminology .....</b>	<b>2</b>
Accounting Principles .....	3
Accounting Periods .....	6
Balance Sheet and Income Statement .....	8
<b>9.2 Account Classification .....</b>	<b>14</b>
Recording Transactions .....	14
Account Balances .....	15
Debits and Credits .....	16
<b>9.3 Journal Entries .....</b>	<b>16</b>
Recording of Payroll Journal Entries .....	16
Posting Payroll Transactions .....	17
Purpose and Recording of Accruals and Reversals .....	22
<b>9.4 Reconciliations .....</b>	<b>26</b>
Reconciling the Payroll Bank Account .....	26
Reconcile General Ledger Payroll Accounts .....	27
Reconciliation of Output Reports .....	28
<b>9.5 Internal Control .....</b>	<b>29</b>
Internal Controls .....	29
Audits—External and Internal .....	36
Sarbanes-Oxley Compliance/SSAE .....	38

## Module 10: Payroll Management Administration

<b>10.1 Customer Service .....</b>	<b>44</b>
Principles of Customer Service .....	44
Customer Service Training .....	45
Responding to and Resolving Customer Requests .....	46
<b>10.2 Communication .....</b>	<b>47</b>
Communicate Effectively .....	47
Effective Communication Techniques .....	49
Effectively Manage Interpersonal Relationships .....	52
<b>10.3 Personal Time Management .....</b>	<b>53</b>
Personal Time Management Techniques .....	53
<b>10.4 Management .....</b>	<b>55</b>
Management Skills .....	55
Skill 1: Planning and Organizing .....	56
Skill 2: Staffing .....	56
Hiring .....	57
Staff Leveling .....	58
Delegating .....	58

Training .....	59
Skill 3: Directing .....	59
Skill 4: Controlling.....	61
Skill 5: Reporting .....	63
<b>10.5 Management Theories and Techniques .....</b>	<b>64</b>
The Role of the Manager.....	64
<b>10.6 Project Management .....</b>	<b>68</b>
Developing Project Plans .....	68
Planning and Design.....	69
Project Team Members and Roles .....	70
Executive Project Sponsor .....	71
Change Management.....	71
Business Planning Concepts, Methods, and Resources .....	73
Budgeting .....	75
Team Building Techniques (adapted from Tuckman's team development model) ....	76

## **Module 11: Health Benefits**

<b>11.1 Health Benefits Basics .....</b>	<b>80</b>
Types of Health Insurance Plans.....	80
<b>11.2 Taxation of Health Plans .....</b>	<b>82</b>
Tax Treatment of Contributions and Benefits.....	82
<b>11.3 HSA/HRA and COBRA .....</b>	<b>89</b>
Health Savings Account .....	89
Health Reimbursement Arrangement.....	91
COBRA Continuation .....	95
<b>11.4 Employer Shared Responsibility and Reporting .....</b>	<b>99</b>
Employer Shared Responsibility .....	99
Information Reporting by Applicable Large Employers Under the ACA .....	108
<b>11.5 Health Insurance Reporting on Form W-2 .....</b>	<b>111</b>
Reporting the Total Cost of Employer-Provided Health Coverage on Employees... 111	

## **Module 12: International Payments**

<b>12.1 Nonresident Aliens .....</b>	<b>120</b>
Resident/Nonresident Alien Taxation .....	120
Tax Treaties.....	129
Purpose of Form 8233 .....	130
Form 8233 Requirements .....	130
Impact of Visa Status on Taxation .....	131
<b>12.2 Expatriates .....</b>	<b>135</b>
Expatriates/Resident Aliens .....	135
Foreign Earned Income Exclusion/Expatriate Taxation .....	137
Totalization Agreements—Social Security/Medicare Taxes .....	141
Employer Tax Reimbursement Policies.....	143
Currency Conversion.....	146
Managing International Relationships .....	147