

Payroll Practice Fundamentals

Table of Contents

Chapter 1 Payroll Fundamentals	1-1
1.1 Challenges	1-2
1.2 Concepts	1-3
1.2.1 Employees vs. Independent Contractors	1-3
1.2.2 Common Law and Reasonable Basis Tests	1-4
1.2.3 Temporary Service/Leased Employees	1-6
1.2.4 Misclassifying Workers	1-7
1.2.5 Employment Eligibility	1-7
1.2.6 Social Security Numbers	1-10
1.2.7 New Hire Reporting	1-13
1.3 The Fair Labor Standards Act	1-16
1.3.1 Exempt vs. Nonexempt Employees	1-17
1.3.2 Exempt Employees	1-17
1.4 Federal Minimum Wage	1-20
1.4.1 State Minimum Wage	1-21
1.4.2 Tipped Employees	1-21
1.5 Additional Earnings	1-23
1.5.1 Shift Premiums	1-23
1.5.2 Paid Time Off	1-24
1.5.3 Bonuses	1-25
1.5.4 Final Pay	1-25
1.6 Defining Overtime	1-27
1.6.1 When Must Overtime Be Paid?	1-28
1.6.2 Other Overtime Regulations Exist	1-28
1.6.3 Defining the Workweek	1-29
1.6.4 Time of payment	1-29
1.6.5 Workweek Exceptions	1-29
1.6.6 Changing Workweeks	1-32
1.7 Calculating Overtime Payments	1-35
1.7.1 Establishing a Regular Rate of Pay	1-35
1.7.2 Issues When Calculating Regular Rate of Pay	1-36
1.7.3 Doing the Math – Calculating Overtime Pay	1-39
1.7.4 Acceptable Rounding	1-44
1.8 Defining Time Worked	1-46

Table of Contents

1.8.1 Portal-to-Portal Act of 1947	1-46
1.8.2 Call-back and Show-up Pay	1-48
1.8.3 Waiting to Work	1-48
1.8.4 Preparing to Work	1-48
1.8.5 Travel Time	1-49
1.8.6 Seminars/Meetings	1-50
1.8.7 Remedial Education	1-50
1.9 Recordkeeping and Systems	1-50
1.9.1 Handling Payroll Documents	1-51
1.9.2 Maintaining a Master File	1-51
1.9.3 Why a Master File?	1-53
1.9.4 Record Retention	1-54
1.9.5 HIPAA Basics	1-57
1.10 Form W-4, <i>Employee's Withholding Certificate</i>	1-59
1.10.1 Forms W-4, W-4P, and W-4R	1-60
1.10.2 Filing Requirements	1-60
1.10.3 Invalid Form W-4	1-62
1.10.4 Exempt Form W-4	1-62
1.10.5 Employer's Responsibilities	1-64
1.10.6 Withholding Income Tax From Pensions, Annuities, Nonperiodic Payments, and Rollover Distributions (Forms W-4P and W-4R)	1-66
1.10.7 Deducting Income Tax From Sick Pay (Form W-4S)	1-67
1.10.8 Obtaining Taxpayer Identification Numbers	1-67
1.10.9 State Withholding Certificates	1-67
1.11 Child Labor	1-68
1.12 Family and Medical Leave Act (FMLA)	1-69
1.13 Expatriates, Resident Aliens, and Nonresident Aliens	1-70
Chapter 2: Fundamentals of Payroll Operations	2-1
2.1 The Payroll System	2-1
2.1.1 Complying With Federal/State/Local Regulations and Company Policies	2-1
2.1.2 Timely and Accurate Issuance of Pay	2-1
2.1.3 Periodic Reporting	2-1
2.1.4 Record Retention	2-2
2.1.5 Maintaining Control and Security	2-2
2.2 Batch and Real-time Processing Methods	2-2
2.2.1 Batch Processing	2-2

Table of Contents

2.2.2 Real-time Processing	2-2
2.2.3 Employee and Manager Self-Service	2-3
2.3 Interfaces	2-3
2.3.1 Human Resources	2-3
2.3.2 Benefits	2-3
2.3.3 Data Collection	2-4
2.3.4 Bank Checking Accounts	2-4
2.3.5 Electronic Funds Transfer	2-4
2.3.6 Time and Attendance	2-4
2.3.7 General Ledger/Cost Accounting	2-4
2.3.8 Integration	2-5
2.3.9 Reconciliations	2-5
2.4 Control Procedures	2-7
2.4.1 Edits	2-7
2.4.2 Balancing and Reconciliation	2-8
2.4.3 Documentation	2-8
2.4.4 Apply Department Procedures and Update Payroll Processes	2-9
2.4.5 Auditing and Validation of Source Data Input/Output	2-9
2.4.6 Batch Controls	2-10
2.4.7 Correction Procedures	2-11
2.4.8 Accumulator Totals	2-11
2.4.9 Upgrading/Updating the Payroll System	2-11
2.4.10 Security	2-13
2.5 External audits	2-16
2.6 Paying Employees	2-18
2.6.1 Paying by Check	2-19
2.6.2 Direct Deposit	2-21
2.6.3 The Direct Deposit Process	2-22
2.6.4 Resolving Late Deposit Issues	2-27
2.6.5 Stopping Direct Deposit	2-27
2.6.6 Reversing Direct Deposit	2-28
2.6.7 Federal Bank Holidays	2-28
2.6.8 Payment by Paycard	2-29
2.6.9 Regulation of Payment Timing	2-32
2.6.10 Earned Wage Access (On-Demand Pay)	2-32
2.6.11 Unclaimed Wages	2-33
2.7 Business Continuity Plans	2-34
2.7.1 Components of a Business Continuity Plan	2-34

Table of Contents

2.7.2 Testing the Plan	2-36
Chapter 3: Paycheck Fundamentals	3-1
3.1 Withholding Federal Taxes	3-1
3.1.1 Taxable Wages	3-1
3.1.2 Wages are Taxable When Paid.	3-1
3.1.3 Factors Affecting Withholding.	3-4
3.1.4 Withholding Methods	3-4
3.1.5 A Note on Rounding.	3-26
3.1.6 Withholding Income Tax From Pensions, Annuities, and Rollover Distributions	3-26
3.2 Withholding Social Security and Medicare Taxes	3-29
3.2.1 Tax Rate and Wage Base	3-30
3.2.2 Employers Must Pay Their Portion	3-31
3.2.3 There Is No Age Limit.	3-31
3.2.4 Employers Must Withhold up to the Maximum	3-31
3.3 Additional Deductions From Pay	3-35
3.3.1 Voluntary Deductions	3-35
3.3.2 Involuntary Deductions.	3-37
3.4 State Taxes	3-54
3.4.1 State Income Taxes	3-54
3.4.2 Local Income Taxes	3-54
3.4.3 State Disability Insurance Taxes/State Paid Family Leave Taxes.	3-55
3.4.4 State Unemployment Insurance	3-56
3.4.5 Multi-State Income Taxation	3-57
3.5 Deceased Employees	3-61
3.6 Gross to Net Calculation	3-63
3.6.1 Calculating Total Deductions	3-63
3.6.2 Calculation of Net Pay	3-64
3.7 Employer-Paid Taxes.	3-64
3.7.1 Why Gross-up?	3-65
3.7.2 Calculating Gross-up.	3-65
3.7.3 Grossing up with Special Circumstances	3-66
Chapter 4: Payroll Benefit Basics	4-1
4.1 Fringe Benefits	4-1
4.1.1 Tax Treatment of Employee Compensation.	4-2
4.1.2 IRS Definition.	4-3

Table of Contents

4.1.3 Fair Market Value of Noncash Compensation	4-3
4.1.4 Imputed Income	4-3
4.1.5 Recognition of Noncash Fringe Benefits	4-4
4.1.6 When to Withhold and Deposit Taxes on Noncash Fringe Benefits	4-5
4.1.7 Withholding Tax on Fringe Benefits	4-5
4.1.8 Nonreportable Fringe Benefits	4-5
4.2 Prizes and Awards	4-11
4.2.1 Length-of-Service and Safety Awards	4-11
4.2.2 Gift Cards	4-12
4.3 Company Vehicles	4-13
4.3.1 Valuation Methods	4-14
4.4 Group-Term Life Insurance	4-18
4.5 Deferred Compensation	4-21
4.5.1 Qualified Versus Nonqualified Plans	4-21
4.5.2 401(k) Plans	4-23
4.5.3 403(b) Plans	4-26
4.5.4 457(b) Plans	4-26
4.5.5 Nonqualified Deferred Compensation Plans	4-27
4.6 Section 125 Flexible Benefit Plans	4-30
4.6.1 Cafeteria Plans	4-30
4.6.2 Possible Menu Choices	4-31
4.6.3 Tax Implications	4-32
4.6.4 Flexible Spending Accounts	4-32
Chapter 5: Tax Reporting	5-1
5.1 Depositing Federal Taxes	5-3
5.1.1 Tax Deposit Requirements	5-3
5.1.2 Clarification of the Rules	5-5
5.1.3 Safe-Harbor Rule (98% rule)	5-7
5.1.4 Making Deposits	5-8
5.2 Quarterly Tax Returns	5-13
5.2.1 Form 941, <i>Employer's Quarterly Federal Tax Return</i>	5-13
5.2.2 Form 941 Preparation	5-15
5.2.3 State Unemployment Insurance Reporting	5-30
5.2.4 FUTA (Federal Unemployment Tax Act)	5-32
5.2.5 Depositing and Reporting FUTA Tax	5-33

Table of Contents

5.3 Form W-2, <i>Wage and Tax Statement</i>	5-37
5.3.1 The W-2 Series	5-37
5.3.2 Deadlines	5-38
5.3.3 Instructions for completing Forms W-2	5-41
5.3.4 Transmitting Your Forms W-2 (Form W-3 or Electronically)	5-53
5.4 Penalties	5-56
5.5 Annual Tax Returns	5-60
5.5.1 Form 940	5-60
5.5.2 Form 1099-NEC	5-70
5.5.3 Form 1099-MISC	5-74
5.5.4 Transmitting Your Forms 1099-NEC or 1099-MISC	5-76
5.6 Additional Reporting Forms	5-77
5.6.1 Form 941-X, <i>Adjusted Employer’s Quarterly Federal Tax Return or Claim for Refund</i>	5-77
5.6.2 Form 943, <i>Employer’s Annual Federal Tax Return for Agricultural Employees</i>	5-77
5.6.3 Form 944, <i>Employer’s Annual Federal Tax Return</i>	5-78
5.6.4 Form 945, <i>Annual Return of Withheld Federal Income Tax</i>	5-78
5.6.5 Form 1094-C, <i>Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns</i>	5-78
5.6.6 Form 1095-C, <i>Employer-Provided Health Insurance and Coverage</i>	5-79
5.6.7 Form 4070, <i>Employee’s Report of Tips to Empower</i>	5-79
Chapter 6: Payroll Accounting	6-1
6.1 Accounting Basics.	6-1
6.1.1 Recording Transactions.	6-1
6.1.2 Types of Accounts	6-5
6.1.3 Balance Sheet and Income Statement	6-6
6.1.4 Double-Entry Accounting.	6-11
6.1.5 Accrual	6-18
Chapter 7: Professional Payroll Skills and Responsibilities	7-1
7.1 Customer Service	7-1
7.1.1 Principles of Customer Service	7-1
7.1.2 Implementation of Customer Service	7-3
7.1.3 Effective Communication.	7-4

Table of Contents

7.2 Professional Responsibilities	7-12
7.2.1 Responding to Penalties, Notices, Inquiries	7-12
7.2.2 Confidentiality and Security	7-12
7.2.3 Problem Solving	7-16
7.2.4 Time Management	7-17
7.2.5 Service Level Agreements	7-19
7.2.6 Workflow and Processes	7-21
7.3 Resources	7-22
Chapter 8: Preparing for the FPC Exam	8-1
8.1 History and Purpose of Certification	8-1
8.2 Format of the Examination and Important Dates	8-3
8.3 The Fundamental Payroll Certification Candidate Handbook	8-5
8.4 Fundamental Payroll Certification Exam	
Practice Test Number 1	8-30
8.5 Fundamental Payroll Certification Exam	
Practice Test Number 2	8-39
Glossary of Common Payroll Terms	G-1
APPENDIX A	
Form W-2	A-1
Form W-3	A-2
Instructions for Forms W-2, W-3, W-2c, and W-3c	A-3
Form W-2c	A-37
Form W-3c	A-38
Form W-4	A-39
Form W-4 (2019)	A-43
Form W-4P	A-47
Form W-4R	A-50
Form W-4S	A-53
Form 8508	A-55
Form 940	A-57
Instructions for Form 940	A-61
Schedule A (Form 940)	A-76
Instructions for Schedule A (Form 940)	A-77
Form 941	A-78
Instructions for Form 941	A-84
Schedule B (Form 941) A	A-107
Instructions for Schedule B (Form 941)	A-108

Table of Contents

Form 941-X	A-113
Instructions for Form 941-X	A-119
Form 945	A-150
Instructions for Form 945	A-152
Form 945-A	A-159
Instructions for Form 945-A	A-161
Form 1094-B	A-166
Form 1094-C	A-167
Form 1095-B	A-170
Form 1095-C	A-173
Form 1099-NEC	A-177
Form 1099-MISC	A-178
Form 1099-R	A-179
Form SS-5	A-180
Form SS-8	A-185
Instructions for Form SS-8	A-189
Form I-9	A-192
Instructions for Form I-9	A-195
Order/Notice to Withhold Income for Child Support	A-210
National Medical Support Notice	A-214
Notice 1439	A-219
Publication 1494	A-221
Publication 15-T	A-222
Index	I-1