

Payroll Accounting
with
 CENGAGENOW_{v2}

2020
EDITION

.....
BIEG
.....
TOLAND

Payroll Accounting



2020
EDITION

Payroll Accounting



Bernard J. Bieg

Bucks County Community College

Judith A. Toland

Bucks County Community College



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

Copyright 2020 Cengage Learning. All Rights Reserved. May not be copied, scanned, or duplicated, in whole or in part. WCN 02-200-203

Copyright 2020 Cengage Learning. All Rights Reserved. May not be copied, scanned, or duplicated, in whole or in part. Due to electronic rights, some third party content may be suppressed from the eBook and/or eChapter(s). Editorial review has deemed that any suppressed content does not materially affect the overall learning experience. Cengage Learning reserves the right to remove additional content at any time if subsequent rights restrictions require it.

This is an electronic version of the print textbook. Due to electronic rights restrictions, some third party content may be suppressed. Editorial review has deemed that any suppressed content does not materially affect the overall learning experience. The publisher reserves the right to remove content from this title at any time if subsequent rights restrictions require it. For valuable information on pricing, previous editions, changes to current editions, and alternate formats, please visit www.cengage.com/highered to search by ISBN#, author, title, or keyword for materials in your areas of interest.

Important Notice: Media content referenced within the product description or the product text may not be available in the eBook version.

Payroll Accounting, 2020 Edition
Bernard J. Bieg and Judith A. Toland

Senior Vice President, Higher Education & Skills
Product: Erin Joyner

Product Director: Jason Fremder

Product Manager: Jonathan Gross

Content Manager: Aiyana Moore

Product Assistant: Matt Schiesl

Marketing Manager: Nathan Anderson

Marketing Coordinator: Sean Messer

Intellectual Property Analyst: Ashley Maynard

Intellectual Property Project Manager:
Carly Belcher

Production Service: Lumina Datamatics

Art Director: Bethany Bourgeois

Design Element: Stockbyte/Getty Images

Text and Cover Designer: Lou Ann Thesing

Cover Image: iStock.com/malerapaso

© 2020, 2019 Cengage Learning, Inc.

Unless otherwise noted, all content is © Cengage.

ALL RIGHTS RESERVED. No part of this work covered by the copyright herein may be reproduced or distributed in any form or by any means, except as permitted by U.S. copyright law, without the prior written permission of the copyright owner.

For product information and technology assistance, contact us at
Cengage Learning Customer & Sales Support, 1-800-354-9706 or
support.cengage.com.

For permission to use material from this text or product, submit all
requests online at **www.cengage.com/permissions.**

Microsoft Excel® is a registered trademark of Microsoft Corporation.

© 2019 Microsoft.

Library of Congress Control Number: 2019948209

Student Edition ISBN: 978-0-357-11718-7

Student Edition with Access Card ISBN: 978-0-357-11717-0

Loose-leaf Edition ISBN: 978-0-357-11722-4

Loose-leaf Edition with Access Card ISBN: 978-0-357-11720-0

Cengage

200 Pier 4 Boulevard
Boston, MA 02210
USA

Cengage is a leading provider of customized learning solutions with employees residing in nearly 40 different countries and sales in more than 125 countries around the world. Find your local representative at **www.cengage.com.**

Cengage products are represented in Canada
by Nelson Education, Ltd.

To learn more about Cengage platforms and services, register or access your online learning solution, or purchase materials for your course, visit **www.cengage.com.**



AS WE GO TO PRESS...

For the most up-to-date information after publication of this textbook, please visit www.cengage.com. At the Cengage home page, enter the ISBN of your textbook (from the back cover of your book). This will take you to the product page where free companion resources can be found, along with a dedicated page of “As We Go To Press” updates.

Chapter 2

Regular Rate of Pay

The Labor Department has proposed to clarify the meaning of the “regular” pay rate (which is used to calculate the 1.5 times overtime rate). Items to be excluded include: tuition help, workplace gyms, vacation payouts, childcare, sick leave, legal services, and retail discounts. The update is intended to reduce lawsuits and encourage employers to offer these benefits.

Chapter 3

FICA-OASDI Taxable Wage Base

In this edition of the textbook, we have used the 2019 wage base of \$132,900, and current projections have projected the 2020 wage base to be \$136,800. Actual annual increases to the FICA-OASDI taxable wage base are announced in October of the preceding year based on current economic conditions.

Chapter 4

Truncated Social Security Numbers

In hopes of combating identity theft, employers have to list only the last four digits of the social security number on the W-2s sent to employees. The full number will still be required on the copy sent to the Social Security Administration. The rule applies to W-2s issued after 2020.

Draft of Form W-4 and Publication 15-T released.

The second draft versions for the 2020 Form W-4 (Employee’s Withholding Certificate) and new corresponding Publication 15-T (Federal Income Tax Withholding Methods) will be available on the IRS website sometime later this summer. The 2020 tax year will be the year where the significant changes to Form W-4 will take place due to the enactment of the Tax Cuts and Jobs Act in late December 2017.

Form 1099-NEC

For nonemployee payments over \$600 made in 2020, a new Form 1099-NEC will be used to report such payments to the IRS (prior to this year, such payments were reported on Form 1099-MISC, line 7). A prior version of this form was used in the 1980s.

New Withholding Estimator

The Internal Revenue Service has a new Tax Withholding Estimator, a tool designed to make it easier to have the right amount of tax withheld during the year. The Tax Withholding Estimator replaces the Withholding Calculator, which offered workers a convenient online method for checking their withholding.

Chapter 7

Philadelphia Wage Tax

Effective July 1, 2019, until June 30, 2020, the Philadelphia Wage Tax is 3.8712% (resident) and 3.4481% (nonresident).



PREFACE

PAYROLL ACCOUNTING AND TODAY'S BUSINESS ENVIRONMENT

Today's payroll accountant is a major player on a company's management team. Management's need for timely and accurate payroll cost data as a part of the total planning step has moved payroll from a disbursement and recording function to an integral part of the management process.

With constant changes in the legal environment, technology advancements in the administration of payroll functions and with tax withholding responsibilities, the payroll accounting occupation has become proactive. During this time when the need for accurate information is so critical, *Payroll Accounting* has established a record of being the most thorough book on the market for over 20 years. Each edition has been updated with the most current data available.

The 2020 edition of *Payroll Accounting* continues to provide the most user-friendly payroll accounting coverage, in addition to significant resources that will aid instructors and students alike in their mastery of payroll accounting.

CengageNOWv2

Payroll Accounting 2020 is fully integrated with CengageNOWv2, a powerful course management and online homework tool that provides robust instructor control and customization to optimize the student learning experience and meet desired outcomes.

CengageNOWv2 Includes

- Integrated eBook
- End-of-chapter homework with static and algorithmic versions
- Continuing Payroll Problems (CPP)
- Adaptive Study Plan and multimedia study tools
- Test bank
- Excel Online
- Course management tools and flexible assignment options
- Gradebook Analytics
- Mastery Problems
- Tell Me More Lecture Activities with assignable questions
- Robust feedback, which now includes feedback for Forms 940 and 941.
- Audit Tests in CengageNOWv2
- Show Me How Demonstrative Videos



"To students, it's quick feedback, and they can improve the grades by working on the questions multiple times; to instructors, it's less grading time, and easy to evaluate students' performance."

-Jack Wu,
Chemeketa Community College

Tell Me More Lecture Activities

Tell Me More Lecture Activities are available and correlate to each Learning Objective (LO). These Lecture Assignments review the material covered in each LO, giving students a way to review what is covered in each objective in a digestible video activity format so they come to class more prepared and ready to participate.



Audit Tests for Payroll Project in Chapter 7 and Appendix A

The Student Audit Tests are designed to help students as they work through the Payroll Project in Chapter 7 and Appendix A. These tests can be assigned specifically to the Payroll Dates inside CengageNOWv2, and students can answer them to ensure they are fully understanding the concept and process of the payroll project.

Show Me How Problem Demonstrative Videos

Show Me How Videos are available for all continuing payroll problems at the end of each chapter and the most commonly assigned end-of-chapter assignments in both the A Set and B Set. These Videos provide students with both a detailed walk-through of a similar problem and problem-solving strategies.



Going Further in Payroll Accounting

- **UPDATED:** Detailed Check My Work and Post-Submission feedback with explanations and tips for completing the problem

Feedback

▼ Check My Work

Identify which accounts are affected in each transaction. Keep in mind that every transaction involves at least two accounts. Determine whether the account increases or decreases and record each increase or decrease following the rules of debit and credit. Use the Posting Reference column to enter the corresponding account number from the general ledger account. Remember total debits should equal total credits in your entries.

[Learning Objective 1](#)

[Learning Objective 2](#)

[Learning Objective 3](#)

Post-Submission

a. Hours worked each day:

| | |
|-----------|-----------|
| Monday | 8 hours |
| Tuesday | 7.9 hours |
| Wednesday | 7.6 hours |
| Thursday | 7.6 hours |
| Friday | 7.8 hours |

b. Total hours worked 38.9 hours

c. Gross earnings for the week = $38.9 \times \$12.15 = \472.64

Solution

Note: In this chapter and in all succeeding work throughout the course, **unless instructed otherwise**, calculate hourly rates and overtime rates as follows:

- Carry the hourly rate and the overtime rate to 3 decimal places and then round off to 2 decimal places (round the hourly rate to 2 decimal places before multiplying by one and one-half to determine the over-time rate).
- If the third decimal place is 5 or more, round to the next higher cent.
- If the third decimal place is less than 5, simply drop the third decimal place.

Examples: Monthly rate \$1,827
 Weekly rate $(\$1,827 \times 12)/52 = \421.615 rounded to \$421.62
 Hourly rate $\$421.62/40 = \10.540 rounded to \$10.54
 O.T. rate $\$10.54 \times 1.5 = \15.81

Also, use the minimum hourly wage of \$7.25 in solving these problems and all that follow.



- **Mastery Problems** within CengageNOWv2 are designed to help students understand difficult topics in payroll accounting by breaking down the topic into smaller parts. Each part builds on other parts through a systematic problem-solving process. These problems address key chapter learning objectives and are algorithmic for versatile assignment options.

CENGAGENOWv2 Home Courses Users **Assignments** Gradebook Study Tools

Mastery Problem Calculator Report Content Error

Compute Taxable Earnings, Gross FUTA tax and Net FUTA Tax.

Learning Objective 3: Compute the federal unemployment tax, the credit against the tax, and any credit reductions that might apply.

In this step, you will walk through the process to compute net FUTA tax due. Below is a list of employees for Doolin Insurance Services, with the amount of qualifying earnings they have by

| Employee Name | Calendar earnings | Year to Date Taxable Earnings |
|----------------|-------------------|-------------------------------|
| Faye Deering | \$35331.00 | \$ |
| Manuel Estrada | \$11202.50 | \$ |
| Jon Eskridge | \$3505.00 | \$ |
| Janet Lee | \$28364.25 | \$ |

Next, total the taxable earnings from above and apply the current FUTA tax rate to determine the gross FUTA tax due. Round the FUTA tax to the nearest cent.

| | |
|--------------------------|----|
| Total taxable earnings | \$ |
| × Rate of FUTA tax | % |
| Amount of Gross FUTA tax | \$ |

Finally, compute the SUTA credit and subtract it from the gross FUTA calculated in the prior step. Assume that state taxable wages are the same as federal taxable wages, and that Doolin

| | |
|------------------------------|----|
| Total state taxable earnings | \$ |
| × Rate of SUTA tax credit | % |
| SUTA tax credit | \$ |
| Amount of net FUTA tax due | \$ |

- CengageNOWv2 contains numerous algorithmic problems that allow instructors to have more flexibility and assurance that students are completing the projects on their own.
- Randomized Test Bank answers within CengageNOWv2 allow instructors to assign the same multiple-choice test problems, but CengageNOWv2 will randomize the selection choices. The selection order for each student changes, combating student cheating. See the following example.

The entry to deposit FICA taxes and federal income taxes withheld involves all of the following accounts *except*:

a. Payroll Taxes.

- b. FICA Taxes Payable—OASDI.
- c. Cash.
- d. FICA Taxes Payable—HI.
- e. Employees FIT.

The entry to deposit FICA taxes and federal income taxes withheld involves all of the following accounts *except*:

a. Cash.

- b. Employees FIT.
- c. **Payroll Taxes.**
- d. FICA Taxes Payable—HI.
- e. FICA Taxes Payable—OASDI.

KEY FEATURES

- **Motivation, Application, Mastery**—*Payroll Accounting 2020* and CengageNOWv2 help you elevate student thinking with unique content that addresses each stage of the learning process, prepares students to learn, provides practice opportunities that better prepare students for the exam, and helps students achieve mastery with tools that help them make connections and see the big picture.
- **The Washington Update**—The Washington Update, which appears within Chapters 1, 2, 3, 4, and 7, advises the student of the tax code and tax laws that were used in the current edition. However, because tax code, tables, and laws may be changed by Congress after the text has been printed, the student is advised on how, in practice, they can find the most current tax code, tables, and laws.

WASHINGTON UPDATE

A RULE PROPOSED BY THE LABOR DEPARTMENT WOULD INCREASE THE SALARY THRESHOLD TO \$35,308 AND, UNLIKE PREVIOUS PROPOSALS, DOES NOT INCLUDE AUTOMATIC ADJUSTMENTS TO ACCOUNT FOR INFLATION. IT APPEARS THAT THIS RULE WILL BE FINALIZED BEFORE THE START OF 2020.

- **Enhanced Excel Templates**—The Excel Templates include a feedback section giving instructors the option for adding a comment/grade and an area for students to show their work.
- **Excel Online**—Cengage and Microsoft have partnered in CengageNOWv2 to provide students with a uniform, authentic Excel experience. It provides instant feedback, built-in video tips, and easily accessible spreadsheet work. These features allow you to spend more time teaching college accounting applications, and less time troubleshooting Excel.

These new algorithmic activities offer pre-populated data directly in Microsoft Excel Online. Each student receives his or her own version of the problem to perform the necessary data calculations in Excel Online. Their work is constantly saved in Cengage cloud storage as a part of homework assignments in CengageNOWv2. It's easily retrievable so students can review their answers without cumbersome file management and numerous downloads/uploads.

- **Superior Examples**—Examples are identified and numbered within the text. Various end-of-chapter problems are identified as a problem similar to an example within the text. See the examples below.

Ned Fromton, an employer, files his employment tax return 20 days after the due date of the return. The amount of tax that was unpaid is \$6,000. Fromton's penalty is:

Failure to file ($5\% \times \$6,000$) = \$300 *Note: Any fraction of a month counts as a whole month.*

EXAMPLE 3-7



"Excellent! In the past it was often difficult to point students to a particular example when there was more than one on a page."

—Karen Spray,
Northeast Community College

"I like this connection; students can easily test themselves on a specific example."

-Jennifer Morton,
Ivy Tech Community College

3-16A • LO 5



See Example 3-6 on page 3-20, Example 3-7 on page 3-29,
Example 3-8 on page 3-31

Vulcan Company is a monthly depositor whose tax liability for March 20-- is \$2,505.

1. What is the due date for the deposit of these taxes? _____
2. Assume that no deposit was made until April 29 (14 days late). Compute the following penalties:
 - a. Penalty for failure to make timely deposit. \$ _____
 - b. Penalty for failure to fully pay tax. \$ _____
 - c. Interest on taxes due and unpaid (assume a 6% interest rate). \$ _____
 - d. Total penalty imposed. \$ _____

COMPUTERIZED PAYROLL PROJECT

Chapter 7—The Payroll Project

Chapter 7 consists of a practice set or simulation. The student applies the knowledge acquired in the first six chapters to a practical payroll simulation as the payroll accountant for Glo-Brite Paint Company. The Payroll Project can be completed manually using fold-out Payroll Registers located at the back of the text. Payroll tax returns can now be completed manually using forms in the textbook or in CengageNOWv2.



Appendix A—Excel Template Instructions for the Glo-Brite Payroll Project (Chapter 7: Short Version)

Appendix A consists of an electronic version of the books of account and payroll records. It has specific instructions for using the Excel template, illustrative case demonstrating November 20 payroll, and complete instructions for the short version project. Students are encouraged to complete one manual payroll from Chapter 7 prior to using the Excel template. The Excel template is located on the Payroll Accounting Web site: www.cengage.com. Payroll tax returns can now be completed manually using forms in the textbook or in CengageNOWv2.

OUTSTANDING PEDAGOGY

Learning Objectives

Learning Objectives are enumerated at the beginning of each chapter, and the numbers are repeated next to the start of the applicable text coverage for easy navigation.

LO 3

Compute the federal unemployment tax, the credit against the tax, and any credit reductions that might apply.

Credits Against FUTA Tax

The actual FUTA tax paid is usually only 0.6 percent, since employers are entitled to a credit against their FUTA tax liability for contributions made under approved state unemployment compensation laws. The maximum credit permitted is 5.4 percent (90% of 6%). Thus, in the preceding example where the gross FUTA tax rate is 6.0 percent, the net FUTA rate would be 0.6 percent if the full 5.4 percent credit applied. Even if employers pay a SUTA rate of less than 5.4 percent, they still get the full credit against the FUTA tax.

Self-Study Quizzes

Self-Study Quizzes appear throughout each chapter and test the understanding of major concepts. Answers to the quizzes are available within each chapter.

SELF-STUDY QUIZ 3-1

Which of the following are covered by FICA (indicate Yes or No)?

- _____ 1. Andrian Mitchell, a full-time life insurance salesperson.
- _____ 2. John Sain, a federal government employee, hired in 1990.
- _____ 3. Bonnie Stone, a real estate agent.
- _____ 4. Stuart Schuck, who offers lawn care service to homeowners in the neighborhood.

Note: Answers to Self-Study Quizzes are on page 3-33.

Over the Line Real-World Ethics Cases

The Over the Line feature illustrates cases of companies either intentionally or unintentionally crossing the boundaries of fairness in their interpretation of payroll laws.

Over the Line

In a recent lawsuit settlement, FedEx Ground Package System Inc. will distribute \$2 million to an estimated 500 drivers who delivered packages for FedEx Ground and FedEx Home Delivery. The New York State Attorney General's Office filed the lawsuit alleging that drivers had been unlawfully misclassified as independent contractors, but were actually employees. This action sought restitution for violations of New York labor law, including unpaid overtime and unlawful deductions from wages.²

Check Figures Included at the End of This Text

Check figures provide help and assist users in staying on track as they learn the intricacies of payroll accounting.

Key Points Summary

This summary at the end of the chapter ties the key points in the chapter to the Learning Objectives.

Use of Marginal Icons

Use of marginal icons (“On the Net,” “News Alert,” “IRS Connection,” and “On the Job”) helps integrate the real-world applications of this facts-intensive area of study. “On the Net” icons allow optional integration of Internet research sites for learners.

The icons in each chapter highlight the most current forms, instructions, and wage and tax laws available.

ON THE NET

<http://www.ssa.gov>
Social Security Online.
 Maintained by the Social Security Administration, it contains general FICA information.
<http://www.ssa.gov/employer/> “Employer W-2 Filing Instructions & Information.”

IRS CONNECTION

The IRS has recently issued guidance regarding same-sex marriage relating to retirement plans. If a couple is legally married in a jurisdiction that recognizes it, then they are married for federal tax purposes.

THOROUGH END-OF-CHAPTER MATERIALS



End-of-chapter assignable materials include matching quizzes, review questions, discussion questions, practical problems, case problems, and continuing payroll problems, which can also be completed using Excel.

CONTINUING PAYROLL PROBLEM • A

SHOW ME HOW

Refer to the partially completed payroll register you started at the end of Chapter 2. You will now determine the amount of FICA taxes to be withheld from each employee's pay for the pay period ending January 8, 20--.

- In the Taxable Earnings columns, record the amount of each employee's weekly earnings that is subject to FICA taxes. All wages are taxable for OASDI and HI taxes.
- Using the amount recorded in step 1, compute the taxes for each employee and record in the appropriate column.

Note: Keep your partially completed payroll register for use at the end of Chapter 4.

Up-to-the-Minute Tax Law Changes

Up-to-date knowledge is especially important for today's payroll specialists. This edition has been completely updated to reflect the tax law changes that affect payroll accounting. Users can find these changes listed on the “As We Go To Press” page in the text and on www.cengage.com.

INSTRUCTOR RESOURCES

Solutions Manual/Test Bank (Exams)/Achievement Tests

This robust manual contains the Learning Objectives, Chapter Outline, and solutions to all end-of-chapter exercises and problems including the Continuing Payroll Problems, Case Problems, and the Payroll Project. The Test Bank questions and solutions are included to assist with choosing True/False, Multiple-Choice questions, and problems for examinations. Achievement Tests and keys are provided for additional testing and can also be reproduced.

Test Bank Available with Cengage Learning Testing Powered by Cognero

What is Cognero?

- Full-featured, online-assessment system allows instructors to manage test bank content from multiple Cengage Learning solutions.
- Create multiple test versions in an instant.
- Deliver tests from your LMS, your classroom, or wherever you want.
- Works on any operating system or browser.
- No special installs or downloads needed.
- Create tests from school, home, the coffee shop—anywhere with Internet access.

How do I access it?

- Log into your Cengage Learning SSO account at login.cengage.com.
- Add *Payroll Accounting 2020* to your bookshelf (ISBN: 9780357117170).
- Once the book is added to your bookshelf, a link to access Cognero for *Payroll Accounting 2020* will appear, along with the link to the instructor and student companion sites.

How do I start?

- Online resources, user guides, and instructional videos are available on the instructor companion Web site at login.cengage.com.
- Please address any other technical questions to Cengage Learning Technical Support at support.cengage.com.

Instructor Web Site (login.cengage.com)

In addition to the material available to students online, the instructor site contains password-protected instructor resources. Instructors can find the following resources:

- Solutions Manual in Microsoft Word
- Comprehensive PowerPoint slides
- Achievement Tests and Keys
- Excel solutions for all end-of-chapter problems
- Excel solutions for Payroll Project (Appendix A)

STUDENT RESOURCES

Student Companion Web Site (www.cengage.com)

Accessible through www.cengage.com with your Cengage Unlimited subscription or under the study tools tab of CengageNOWv2 course, the student Web site contains Check Figures, Web Links, and PowerPoint slides. The Excel templates are posted for the short version of the Glo-Brite Payroll Project, Continuing Payroll Problems A and B, and selected end-of-chapter problems designated by the Excel icon. In addition, the student has access to important information contained in Appendix B: Social Security Benefits and Appendix C: Unemployment Benefits.



"I am very satisfied with the ability to create a different version of a test at any given time."

-Vernon Bogan,
Brown Mackie College



ACKNOWLEDGMENTS

Our sincere appreciation is extended to the many instructors and students who have contributed suggestions to make the textbook more interesting, understandable, and practical to those who pursue the study of payroll accounting. As a result of their very helpful recommendations, the textbook will better satisfy the learning needs of students and the teaching needs of instructors. We would like to thank the following instructors for their valuable comments and suggestions:

Steven Barela
Santa Fe Community College
Gretta Biggs
Nunez Community College
Melissa D. Boback
Cambria-Rowe Business College
Robert Bolmer
Everest Institute
Sharon Brown
Kaplan University
Tracy Carmichael
Fletcher Technical Community College
John Chappell
Northland Community and Technical College
Amy Chatagner
Mississippi Gulf Coast Community College
Diane Clugston
Cambria-Rowe Business College
Nancy Cowett
Northern Maine Community College
Bruce Creech
Sampson Community College
Margaret Lynn Crossman
Laney College
Amy Crouch
International Business College
Cher Cuppari
Everest University
William H. Dams
Lenoir Community College
Judy Daulton
Piedmont Technical College

Stephanie Desormeaux
Delta Tech
Shelly Dhir
Unitek
Barbara Dickson
MTI College
Kerry Dolan
Great Falls College Montana State University
Marianne Edmunds
Daymar College
Annette Edwards
Tennessee College of Applied Technology
Dustin Emhart
North Georgia Technical College
Brian Fink
Danville Area Community College
David Forester
Haywood Community College
Paul Franklin
Kaplan University
Connie Robin Gibson
TriCounty Community College
Marina Grau
Houston Community College
Susan Greene
Cloud County Community College
Steve Groves
Ivy Tech Community College
Bruce Gunning
Kent State University at East Liverpool

Penny Hahn
Henderson Community College
Diann Hammon
JF Drake State Community College
Toni R. Hartley
Laurel Business Institute
Lyle Hicks
Danville Area Community College
JoLynn Hightower
Texas State Technical College West Texas
Kim Hurt
Central Community College
Connie Jones
Wake Tech
Lynn Krausse
Bakersfield College
Jessica Lancaster
McCann School of Business and Technology
Greg Lauer
North Iowa Area Community College
Gil Logan
Bryant & Stratton College
Angel Luper
Tri-County Technical College
Jason Marconi
McCann School of Business and Technology
Dan Marlow
American Business and Technology University

| | | |
|--|--|--|
| Sharon Martinez <i>Brown Mackie College</i> | Michelle Parker <i>Coastal Pines Technical College</i> | Marie Stewart <i>Laurel Technical Institute</i> |
| Michelle Masingill <i>North Idaho College</i> | Jamie Payton <i>Gadsten State Community College</i> | Juanita Sweet <i>Cape Cod Community College</i> |
| Carole Maske <i>Southwestern Community College</i> | Ann Price <i>Blue Ridge Community and Technical College</i> | Shunda Ware <i>Atlanta Technical College</i> |
| Drew McCabe <i>Brown Mackie College</i> | Barbara Rice <i>Gateway Community and Technical College</i> | Cammy Wayne <i>William Rainey Harper College</i> |
| Linda McCarley <i>Bevill State Community College</i> | Patricia Scales <i>Brookstone College</i> | Lynn Whiddon <i>Central Georgia Technical College</i> |
| Dawn McKinley <i>Harper College</i> | Tracy Schmeltzer <i>Wayne Community College</i> | Michele Wilkens <i>Minnesota State University</i> |
| Lori Meseke <i>Vandalia Community Schools</i> | Karen Spray <i>Northeast Community College</i> | Tomeika Williams <i>Rasmussen College</i> |
| Joseph Malino Nicassio <i>Westmoreland County Community College</i> | | Jack Wu <i>Chemeketa Community College</i> |
| | | Jessica York <i>National College</i> |

In addition, the authors would like to thank the following content providers and verifiers for the 2020 edition:

Bernie Hill, *Spokane Falls Community College*, retired instructor, for preparing the Excel templates and for verifying the text and all the elements on the Web site and verification of CengageNOWv2 and all end-of-chapter material.

Lisa Swallow, Program Director/Associate Professor, *Missoula College, University of Montana Business and Accounting Technology*, for aid in end-of-chapter verification, supplemental items, and CengageNOWv2 verification.

Molly McFadden-May, *Tulsa Community College*, Assistant Professor, for aid in the CengageNOWv2 end-of-chapter feedback revisions.



ABOUT THE AUTHORS



Courtesy of Steve Bacher, Bucks County Community College

Bernard J. Bieg

After receiving his Master's in Business Administration from the University of Notre Dame and passing the Certified Public Accountants' exam in the early 1970s, Bernard Bieg turned his attention toward a career in teaching. He has been a professor at Bucks County Community College for more than 30 years. During that time, he has taught the whole spectrum of accounting offerings, including payroll accounting. He has maintained strong connections with today's business world by serving as an internal auditor for a local nonprofit organization. His association with this textbook began in 1977 as a co-author with one of the originators of the book, Bill Keeling.



Courtesy of Steve Bacher, Bucks County Community College

Judith A. Toland

Judith Toland received her Master's Degree in Education from Temple University in 2002, her Bachelor's Degree in Business Administration—Accounting from Bloomsburg University in 1981, and her Associate's Degree from Bucks County Community College in Business Administration in 1979. Judy has taught Accounting courses at BCCC since 1989 and is currently a professor in the Business Studies Department. Judy earned the prestigious Certified Payroll Professional (CPP) designation in 2011.



CONTENTS

| | |
|---|------------|
| AS WE GO TO PRESS..... | iii |
| PREFACE..... | iv |
| ACKNOWLEDGMENTS..... | xi |
| ABOUT THE AUTHORS..... | xiii |
| 1 The Need for Payroll and Personnel Records..... | 1-1 |
| The Payroll Profession..... | 1-2 |
| Fair Labor Standards Act..... | 1-3 |
| Federal Insurance Contributions Act..... | 1-4 |
| Income Tax Withholding Laws..... | 1-4 |
| Unemployment Tax Acts..... | 1-4 |
| Recordkeeping Requirements..... | 1-5 |
| Fair Employment Laws..... | 1-5 |
| Other Federal Laws Affecting the Need for Payroll and Personnel Records..... | 1-8 |
| Other State Laws Affecting the Need for Payroll and Personnel Records..... | 1-13 |
| Human Resources and Payroll Accounting Systems..... | 1-14 |
| Human Resources System..... | 1-15 |
| Recordkeeping System..... | 1-22 |
| Payroll Accounting System..... | 1-23 |
| 2 Computing Wages and Salaries..... | 2-1 |
| The Fair Labor Standards Act..... | 2-1 |
| Determining Employee’s Work Time..... | 2-15 |
| Records Used for Timekeeping..... | 2-19 |
| Methods of Computing Wages and Salaries..... | 2-22 |
| 3 Social Security Taxes..... | 3-1 |
| Coverage Under FICA..... | 3-1 |
| A Self-Employed Person..... | 3-13 |
| Employer Identification Number..... | 3-14 |
| Employee’s Application for Social Security Card (Form SS-5)..... | 3-16 |

| | |
|--|------------|
| Returns Required for Social Security Purposes | 3-17 |
| Preparing Form 941 (Employer's Quarterly Federal Tax Return) | 3-22 |
| Failure-to-Comply Penalties | 3-29 |
| 4 Income Tax Withholding..... | 4-1 |
| Coverage Under Federal Income Tax Withholding Laws..... | 4-1 |
| Tax-Deferred Retirement Accounts | 4-8 |
| Withholding Allowances | 4-10 |
| Federal Income Tax Withholding | 4-15 |
| Other Methods of Withholding..... | 4-18 |
| Supplemental Wage Payments | 4-19 |
| Wage and Tax Statements | 4-22 |
| Returns Employers Must Complete..... | 4-29 |
| Information Returns | 4-29 |
| Independent Contractor Payments | 4-31 |
| Backup Withholding | 4-31 |
| Electronic Filing Form W-2 and Information Returns..... | 4-31 |
| Withholding State Income Tax..... | 4-32 |
| 5 Unemployment Compensation Taxes | 5-1 |
| Coverage Under FUTA and SUTA..... | 5-2 |
| Unemployment Compensation Taxes and Credits | 5-9 |
| Unemployment Compensation Reports Required of the Employer..... | 5-19 |
| 6 Analyzing and Journalizing Payroll..... | 6-1 |
| The Payroll Register | 6-1 |
| The Employee's Earnings Record | 6-4 |
| Recording the Gross Payroll and Withholdings | 6-6 |
| Methods of Paying Wages and Salaries | 6-13 |
| Recording Payroll Taxes..... | 6-18 |
| Recording Workers' Compensation Insurance Expense..... | 6-22 |
| Recording the Deposit or Payment of Payroll Taxes | 6-23 |
| Recording End-of-Period Adjustments | 6-24 |
| Summary of Accounts Used in Recording Payroll Transactions | 6-26 |
| Illustrative Case | 6-27 |
| 7 Payroll Project | 7-1 |
| Books of Account and Payroll Records | 7-2 |
| General Information | 7-3 |
| Start of Payroll Project | 7-6 |
| End-of-Year Activities | 7-19 |
| Accounting Records and Reports | 7-23 |
| Project Audit Tests | 7-67 |

| | |
|---|------------|
| APPENDIX A: Excel Template Instructions for the Glo-Brite Payroll Project (Chapter 7: Short Version) | A-1 |
| I. Getting to Know Excel..... | A-1 |
| II. Excel Templates for Payroll Project’s Short Version | A-5 |
| III. Illustrative Case..... | A-11 |
| IV. Short Payroll Project | A-17 |
| V. End-of-Year Activities | A-20 |
| VI. Project Audit Tests | A-25 |
| TAX TABLE A: TABLES FOR PERCENTAGE METHOD OF INCOME TAX WITHHOLDING | T-1 |
| TAX TABLE B: WAGE BRACKET METHOD TABLES FOR INCOME TAX WITHHOLDING | T-5 |
| CHECK FIGURES..... | CF-1 |
| GLOSSARY..... | G-1 |
| INDEX | I-1 |
| FEDERAL PAYROLL TAXES CALENDAR..... | PC-1 |

Online Web Appendices (cengage.com)

Controlling Costs: Payroll, Benefits, and Taxes..... CC-1

APPENDIX B: Social Security Benefits..... B-1

| | |
|--|-----|
| What Factors Are Used to Determine Social Security Benefits? | B-1 |
| What Benefits Are Provided by Social Security? | B-2 |
| What Are Reduced Benefits? | B-4 |
| How Does Working After Retirement Affect Social Security Benefits? | B-5 |
| How Do You Apply for Social Security Benefits? | B-6 |
| What Is Medicare? | B-7 |

APPENDIX C: Unemployment Benefits

| | |
|--|-----|
| Unemployment Compensation Benefits | C-1 |
|--|-----|

The Need for Payroll and Personnel Records

Can't wait to get started? Let's take our time and get an overview of the entire payroll process.

It's not easy being an employer. Many legal do's and don'ts must be followed before we even begin to consider the costs of employing workers, and the do's and don'ts are always changing.

We need to have applications completed, conduct interviews, check references, and examine credit reports. How far can we go in checking on the background of an individual applicant? What records should we keep on each employee? Where do we show the calculations that must be completed in order to give each employee a paycheck?

Get ready to begin the process of understanding payroll operations.

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- 1 Identify the various laws that affect employers in their payroll operations.
- 2 Examine the recordkeeping requirements of these laws.
- 3 Describe the employment procedures generally followed in a Human Resources Department.
- 4 Identify the various personnel records used by businesses and the type of information shown on each form.
- 5 Identify the *payroll register* and the *employee's earnings record*.

No matter the size of the company, the profitability, the product or service being sold, or the type of organization, employees have to be paid. This task has become more difficult as numerous regulations have been enacted. Recent legislation has only added to the administrative burden, and future legislation will continue this trend. The payroll person is no longer the employee stuck in the corner who only appears on payday to distribute paychecks. The job responsibilities have multiplied and now require persons with advanced knowledge in the area of payroll to handle the position. In many cases, the payroll specialist has been on the leading edge of change and automation.

Payroll professionals are responsible for processing over 4 billion pay statements each year to over 100 million people in the workforce of the United States. The processing of payrolls allows no margin for error. Employees, employers, and government agencies monitor the work performed by payroll professionals. A payroll accounting system is the only operation in a business that is almost completely governed by various federal, state, and local laws and regulations. Rules establish who is an employee, what is time worked, when overtime is to be paid, what deductions are made, when to pay an employee, what benefits have to be provided, and when taxes are paid. Local, state, federal, and international legislation must be monitored to follow the impact on payroll operations. Changes in legislation bring the potential for fraud and errors. Lack of compliance with these laws and regulations can result in both fines and back-pay awards.

The payroll professional has risen in the ranks of the accounting profession and now demands salaries commensurate with his or her peers. The confidentiality of the payroll information from each employee's pay rate to the garnishments



Photograph: ee/Shutterstock.com

imposed on some employees has tightened the link to the upper management teams. The confidence and trust that must be placed in payroll professionals have made them an integral part of the “inner circle.” This chapter briefly examines the various laws that affect employers in their payroll operations and the payroll and personnel records that they use to meet the requirements of the laws. First, however, let’s take a brief look at payroll accounting as a profession.

The Payroll Profession

A 2019 payroll survey of large employers conducted by Robert Half Associates revealed a range of salaries for payroll managers of \$59,250–\$126,250 and for payroll clerks of \$32,250–\$60,750.

Typically, an entry-level payroll clerk collects, reviews, approves, and records time records. The clerk also updates attendance records, including vacation, sick, and personal days. Once a payroll is processed, the clerk reviews the information to ensure the accuracy of each employee’s pay statement. Job responsibilities will include entering the following information into the payroll system:

1. Time-worked data.
2. Pay rate changes.
3. Tax rate changes.
4. Employee-authorized payroll deductions.
5. New employee information.
6. Marital and employee allowance changes.

Providing information to the Finance Department concerning the amounts to be paid for taxes, health insurance premiums, retirement plans, etc., may also be part of the evolving duties of the advancing payroll professional. One of the final stages involves the completion of payroll tax returns, employee information returns, federal and state census surveys, and fringe benefit and welfare plan returns.

Payroll professionals must keep abreast of the changes in their field so that they can remain technically proficient. This need has been met by an association of payroll practitioners—the American Payroll Association (APA). Membership in the association is open to anyone interested in or engaged in the support of payroll accounting. The APA offers professional training seminars and various publications to its members. Each year, the APA administers examinations for the payroll accountant and awards certificates to those who pass the exams, Fundamental Payroll Certification (to demonstrate a baseline of payroll competency) and Payroll Professional Certification (for the experienced professional to demonstrate the full-range of payroll competency). This testing and certification process has helped the payroll profession to gain recognition in the business community. The APA has also established guidelines for the conduct of the payroll professional. This “Code of Ethics,” shown in Figure 1.1, sets the direction for the profession.¹

One of a number of publications designed to provide current information to the practitioner is published by the Research Institute of America, Inc. This biweekly publication is entitled *Payroll Guide*, and it is a comprehensive review of changes in regulations affecting payroll reporting.²

¹ For more information on the organization, write to American Payroll Association, 660 North Main Avenue, Suite 100, San Antonio, TX 78205-1217; Tel: 210-224-6406; APA@americanpayroll.org.

² *Payroll Guide* is published by Thomson Reuters, 121 River Street, Hoboken, NJ 07030; Tel: 1-800-431-9025.

FIGURE 1.1
APA Code of Ethics

1. To be mindful of the personal aspect of the payroll relationship between employer and employee, and to ensure that harmony is maintained through constant concern for the Payroll Professional's fellow employees.
2. To strive for perfect compliance, accuracy, and timeliness of all payroll activities.
3. To keep abreast of the state of the payroll art with regard to developments in payroll technologies.
4. To be current with legislative developments and actions on the part of regulatory bodies, insofar as they affect payroll.
5. To maintain the absolute confidentiality of the payroll within the procedures of the employer.
6. To refrain from using Association activities for one's personal self-interest or financial gain.
7. To take as one's commitment the enhancement of one's professional abilities through the resources of the American Payroll Association.
8. To support one's fellow Payroll Professionals, both within and outside one's organization.

Source: For more information on the organization, contact the American Payroll Association, 660 North Main Avenue, Suite 100, San Antonio, TX 78205-1217; Tel: 210-224-6406; APA@americanpayroll.org.

WASHINGTON UPDATE

IN ORDER TO KEEP ABREAST OF MAJOR CHANGES IN THE LAWS CONCERNING PAYROLL ACTIVITIES, PLEASE REFER TO OUR ONLINE VERSION OF THE TEXT-BOOK WHERE THESE DEVELOPING CHANGES CAN BE LISTED AS THEY BECOME LAW. THE PRINTED VERSION WILL BE AS CURRENT AS POSSIBLE BASED ON THE INFORMATION AVAILABLE TO THE AUTHORS AT THE TIME OF THE WRITING OF THE MANUSCRIPT.

Fair Labor Standards Act

The Fair Labor Standards Act (FLSA), referred to as the Federal Wage and Hour Law, is covered in Chapter 2. The outline of the law deals with:

- Minimum wage (\$7.25 per hour) and overtime pay requirements. In addition, equal pay for equal work, employment of child labor, public service contracts, and wage garnishment.
- Coverage of employers engaged in interstate commerce or in production of goods and services for interstate commerce.
- Maintaining records that explain the basis of wage differentials paid to employees of opposite sex for equal work.
- Displaying a poster (from the regional office of the Wage and Hour division) informing employees of the provisions of the law.
- States' Minimum Wage and Maximum Hour Laws that also establish minimum wage rates for covered employees. Where both federal and state laws cover the same employee, the higher of two rates prevails (e.g., Rhode Island—\$10.50 per hour).
- The State's wage orders that also can affect pay periods, pay for call-in and waiting times, rest and meal periods, absences, meals and lodging, uniforms, etc.

LO 1

Identify the various laws that affect employers in their payroll operations.

ON THE JOB

Up until July 24, 2009, the minimum wage was \$6.55 per hour.

ON THE NET

<http://www.dol.gov/whd/minwage/america.htm>

This Web site contains the minimum wage laws by state in map and text form.

Federal Insurance Contributions Act

Chapter 3 covers FICA (social security) in detail; however, the basic provisions of the act deal with:

- Tax on employees (set percent of their gross wages) and employers for the Federal Old-Age and Survivors' Trust Fund and the Federal Disability Insurance Trust Fund.
- Separate tax on employees and employers to finance the Health Insurance Plan—Medicare.
- Tax on net earnings of the self-employed individual (Self-Employment Contributions Act—SECA).
- Making payments to persons who are entitled to benefits under these social security taxes.

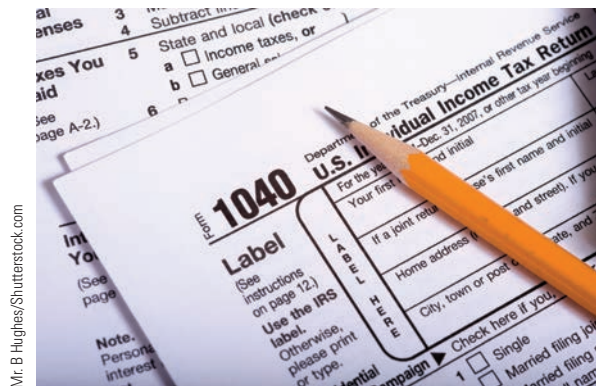
Income Tax Withholding Laws

Chapter 4 covers income tax withholding, but basically:

- **Income tax** is levied on the earnings of most employees and is deducted from their gross pay.
- Income taxes can be imposed by federal, state, and local governments.
- Federal Income Tax (FIT) employs a percentage formula or a wage bracket chart used by each employer to withhold a specified amount from each wage payment.
- State tax rates vary from state to state.

ON THE NET

<http://www.payroll-taxes.com/>
Premiere Payroll Tax Research Library. This site contains addresses, phone numbers, form numbers (with explanations), and filing dates for federal and state taxing authorities.



Unemployment Tax Acts

Chapter 5 covers unemployment taxes with a detailed discussion of:

- Tax levied on employers (Federal Unemployment Tax Act—FUTA) that is used to pay state and federal administrative expenses of the unemployment program.
- A credit granted against most of the FUTA tax if the employer pays a state unemployment tax. A smaller credit is granted to states that have not paid back borrowings from the federal government which were used to pay the cost of benefits to their eligible unemployed workers.
- State unemployment taxes (SUTA) on employers imposed by all states. These taxes are used to pay unemployment benefits.

- Standards set by the Social Security Act that result in a high degree of uniformity in the requirements of state unemployment laws.
- Employers' need to be aware of the SUTA laws in the states where they operate.

Recordkeeping Requirements

Although the laws do impose recordkeeping requirements on employers, no specific form of record is mandated. Figure 1.2, on page 1-6, lists the specific information needed and the retention time periods required.

LO 2

Examine the recordkeeping requirements of these laws.

Fair Employment Laws

Federal and state legislations have been enacted to enforce **fair employment practices**. Many of these laws deal with discrimination on the basis of age, race, color, religion, gender, or national origin.

Civil Rights Act of 1964

Title VII of the Civil Rights Act of 1964, entitled “Equal Employment Opportunity,” provides for several fair employment practices. The act, as amended, forbids employers to discriminate in hiring, firing, promoting, compensating, or in any other condition of employment on the basis of race, color, religion, gender, or national origin. Guidelines, established by the Equal Employment Opportunity Commission (EEOC), also include physical characteristics in the definition of national origin discrimination. For example, unnecessary height or weight requirements could exclude some individuals on the basis of their national origin. The EEOC has also declared that sexual harassment violates the Civil Rights Act. Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature can constitute sexual harassment.

The EEOC prohibits unions from excluding or segregating their members on these bases, and employment agencies may not refer or refuse to refer applicants for employment on the basis of race, color, religion, gender, or national origin.

This act covers all employers who engage in an industry “affecting commerce” and who employ 15 or more workers for each working day in each of 20 or more weeks in the current or preceding calendar year. Employers specifically excluded from coverage of the fair employment practices include the U.S. government (state and local governments are covered), a corporation wholly owned by the United States, Indian tribes, private membership clubs (other than labor unions) exempt from federal income tax, and religious societies in the employment of members of a particular religion to work on the societies’ religious activities. Although the U.S. government is classified as an exempt employer, the act states that the policy of the U.S. government provides equal employment opportunities without discrimination and that the president should use his existing authority to implement this policy.

The act requires an employer information report (EEO-I) to be filed annually by employers with federal government contracts of \$50,000 or more who have 50 or more employees, and employers without a government contract who have 100 or more employees.

Title VII does not protect an employee from arbitrary treatment or dismissal. As long as the employer applies these policies in a nondiscriminatory manner, Title VII requirements have not been violated.

ON THE NET

<http://www.eeoc.gov>/ This EEOC homepage overviews guidelines and services of the Equal Employment Opportunity Commission (EEOC).

ON THE JOB

Title VII requires employers to reasonably accommodate workers’ religious-based requests without causing an undue hardship to others.

FIGURE 1.2

Summary of Information Required by Major Federal Payroll Laws

| | Item | Fair Labor Standards Act | Social Security | Income Tax Withholding | Unemployment Tax |
|-----------------|--|---------------------------------|------------------------|-------------------------------|-------------------------|
| EMPLOYEE DATA | Name | Yes | Yes | Yes | Yes |
| | Address | Yes | Yes | Yes | Yes |
| | Gender | Yes | .... | .... | .... |
| | Date of birth | Yes | .... | .... | .... |
| | Social security number | Yes | Yes | Yes | Yes |
| | Withholding allowances claimed | .... | .... | Yes | .... |
| | Occupation | Yes | Yes | Yes | Yes |
| | Period employed | .... | Yes | Yes | Yes |
| | State where services rendered | .... | Yes | .... | Yes |
| EMPLOYMENT DATA | Beginning and ending dates of employee's employment | .... | Yes | Yes | .... |
| | Day and time of day when workweek begins | Yes | .... | .... | .... |
| | Regular hourly rate of pay | Yes | .... | .... | .... |
| | Basis of wage payments; e.g., \$9.25 per hour; \$74.00 per day | Yes | .... | .... | .... |
| | Hours worked each day | Yes | .... | .... | .... |
| | Hours worked each week | Yes | .... | .... | .... |
| | Daily or weekly straight-time pay, exclusive of overtime pay | Yes | .... | .... | .... |
| | Amount and nature of exempt pay | Yes | .... | .... | .... |
| | Weekly overtime pay | Yes | .... | .... | .... |
| | Total additions to or deductions from wages | Yes | .... | .... | .... |
| | Total remuneration for payroll period | Yes | Yes | Yes | .... |
| | Total remuneration for calendar year | .... | Yes | .... | Yes |
| | Date of payment | Yes | Yes | Yes | Yes |
| | Payroll period | Yes | Yes | Yes | Yes |
| TAX DATA | Employee's wages subject to tax for payroll period | .... | Yes | Yes | .... |
| | Employee's wages subject to tax for calendar year | .... | Yes | .... | Yes |
| | Taxable remuneration—if different from total remuneration, reason for difference | .... | Yes | Yes | Yes |
| | Tax deductions from employee's wages | .... | Yes | Yes | Yes |
| | Date tax collected if other than date of payment | .... | Yes | Yes | .... |
| | Tax paid by employer but not deducted from employee's wages | .... | Yes | Yes | Yes |
| GEN'L | Specific form of records | No | No | No | No |
| | Number of years records must be kept | 2–3 | 4* | 4* | 4* |

*Four years after the due date of the payment of the tax to which the records relate.

Over the Line

Yellow Transportation has a policy that new employees can be fired if they are late for work during their first 30 days of employment. A non-white employee who was late twice during this period was fired. He then sued the company for racial bias, stating that long-term white employees were not held to the same standard. The court rejected his claim and stated that in order to prove bias the comparison had to be made with newly hired white employees. This ruling confirms the right of a company to set stricter rules during an initial training period.³

To accomplish the purpose of eliminating discrimination, the EEOC tries to obtain voluntary compliance with the law before filing a court action for an injunction. It can institute court proceedings for an injunction if it believes that any person or group of persons is not complying with the law. Where a state or local law forbids discriminatory practices, relief must first be sought under the state or local law before a complaint is filed with the Commission. In most states, a special commission or the state Department of Labor administers the laws and may authorize cease-and-desist orders that are enforceable in the courts.

The Civil Rights Act of 1991 grants compensatory and punitive damages in cases where the discrimination is intentional. It also provides for the repayment of attorney fees and the possibility of a jury trial.

Executive Orders

Employers not subject to the Title VII coverage discussed above may come within the scope of the Civil Rights Act by reason of a contract or a subcontract involving federal funds. In a series of **executive orders**, the federal government has banned, in employment on government contracts, discrimination based on race, color, religion, gender, or national origin.

Age Discrimination in Employment Act

The Age Discrimination in Employment Act of 1967 (ADEA) prohibits employers, employment agencies, and labor unions from discriminating on the basis of age in their employment practices. The act covers employers engaged in an industry affecting interstate commerce (who employ 20 or more workers), employment agencies, and labor unions. The act also covers federal, state, and local government employees, other than elected officials and certain aides not covered by civil service. The ADEA provides protection for virtually all workers over 40. A key exception is executives who are 65 or older and who have held high policy-making positions during the two-year period prior to retirement. If such an employee is entitled to an annual retirement benefit from the employer of at least \$44,000, the employee can be forcibly retired.

In order to prove compliance with the various fair employment laws, employers must keep accurate personnel and payroll records. All employment applications, along with notations as to their disposition and the reasons for the disposition, should be retained. All records pertaining to promotions, discharges, seniority plans, merit programs, incentive payment plans, etc., should also be retained.

ON THE JOB

Court rulings have updated the regulations to state that favoring an older individual over a younger individual because of age is not unlawful discrimination under the ADEA.

³ *HR Specialist*, March 2012, p. 3.

Over the Line

Louisville-based Texas Roadhouse with more than 450 locations in the United States is fighting a lawsuit brought by 55 women and men charging discrimination against workers age 40 and older by refusing to employ them as hosts, bartenders, and servers. In legal filings, the company stated that even if its policies had an adverse impact on older workers, they were lawful, because they are job-related and consistent with business necessity (in that servers must line dance, wear jeans, and work evenings).

ON THE JOB

Even though alcoholism is a disability under the ADA, employees can be disciplined for misconduct that occurred while under the influence.

Americans with Disabilities Act

The Americans with Disabilities Act of 1990 (ADA) prohibits employers with 15 or more employees, employment agencies, labor organizations, or joint labor-management committees from discriminating against qualified persons with disabilities because of their disability.

The prohibition of disability-based discrimination applies to job application procedures, hiring, advancement, termination, compensation, job training, and other conditions of employment. In addition, reasonable accommodations, such as wheelchair-accessible restrooms and ramps for qualified disabled job applicants and workers, must be provided.

Under the ADA, a person is considered “qualified” if he or she can perform the essential functions of the job with or without reasonable accommodation.

Other Federal Laws Affecting the Need for Payroll and Personnel Records

Generally, the payroll and personnel records and reports that a business prepares and retains to meet the requirements of the laws already discussed provide sufficient information needed under the laws outlined in Figure 1.3 and discussed below.

Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996

The Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandates that all states must establish new-hire reporting programs. Every employer is required to report the name, address, and social security number on each new employee and the employer’s name, address, and federal employer identification number *within 20 days of hire* to the State Directory of New Hire Reporting. In many states, submission of a copy of the employee’s W-4 form (Employee’s Withholding Allowance Certificate) will satisfy the reporting requirement. This information must then be forwarded within 5 business days by the state to the federal Office of Child Support Enforcement (OCSE) for entry into the National Directory of New Hires. Employers with operations in more than one state may file one report with the state of their choice. That state is then to share the information with the other states.

New-hire reporting requirements in 16 states now also include information reporting on independent contractors. The main reason for this requirement is to help in the enforcement of child support obligations. In addition, it will reduce fraud in the unemployment, workers’ compensation, and public assistance programs. Failure to report this information can result in fines of up to \$25.00 per new hire. Even though under federal law employers do not have to report this same information on independent contractors, some states do require such reporting.

FIGURE 1.3
Federal Laws Affecting the Need for Payroll and Personnel Records

| Law | Coverage | Contract Dollar Minimum | Major Provisions |
|--|--|-------------------------|---|
| Davis-Bacon Act (1931) | Laborers for contractors or subcontractors on federal government contracts for construction, alteration, or repair of public buildings or works. | \$ 2,000 | Minimum wage set by secretary of labor (weight is given to union wage scale prevailing in the project area). |
| Walsh-Healey Public Contracts Act (1936) | Laborers for contractors who furnish materials, supplies, articles, and equipment to any agency of the United States. | \$15,000 | Single minimum wage determined by secretary of labor for all covered employees in a given industry. |
| McNamara-O'Hara Service Contract Act (1965) | Service employees on contracts with the United States or the District of Columbia for the furnishing of services. | \$ 2,500 | Minimum wage set by secretary of labor based on minimum wage found to be prevailing in that locality. |
| Occupational Safety and Health Act (OSHA) (1970) | Any business involved in interstate commerce. | \$ 0 | Sets specific occupational and health standards for employers; requires that records be kept of work-related injuries, illnesses, and deaths. |
| Vocational Rehabilitation Act (1973) | Companies with federal agency contracts. | \$ 2,500 | Must include in the contract an affirmative action clause requiring that the handicapped applicant or employee will be given appropriate consideration. |
| Vietnam Era Veterans' Readjustment Act (1974) | Government contractors with federal contracts or subcontracts. | \$10,000 | Requires contractors to take affirmative action to employ and advance in employment qualified veterans of the Vietnam era and disabled veterans. |

Immigration Reform and Control Act of 1986

The Immigration Reform and Control Act of 1986 (IRCA) bars employers from hiring and retaining aliens unauthorized to work in the United States. It also requires all employers to verify employment eligibility for all individuals by examining the employee's verification documents and having the employee complete **Form I-9, Employment Eligibility Verification**. Form I-9 lists the documents that an employee can choose from to furnish to the employer. These documents identify the employee and, if an alien, verify authorization to work in the United States. The employer must examine the documents to verify their authenticity and then record the appropriate information on the employee's Form I-9. Employers must also follow up on documents (with an expiration date) that limit the employee's authorization to work. The employer cannot ask an applicant about his or her immigration status before a conditional job offer.

Photocopying new employees' I-9 documents is permitted but not required. If done, photocopying should apply to *all* new employees. Employers are not required to submit Forms I-9 to the U.S. Citizenship and Immigration Service.

Section 1 of the form must be signed by the employee no later than the first day of employment, but not before accepting a job offer. Section 2 must be signed by the employer or authorized representative within three business days of the employee's first day of employment. The person signing Section 2 must be the same person who examined the employee's documents.

Failure to produce the required documents can result in termination as long as the employer applies this rule uniformly to all employees. If it is confirmed that an employee is not legally authorized to work in this country, the employee must be fired immediately.

The process of collecting, filing, and retaining I-9 forms and supporting documentation should be a centralized function so that inconsistencies are eliminated. The forms (I-9) and supporting documentation should be filed separately from other personnel records so that the information contained in the forms is kept private. The form must be retained for three years after the date of hiring or

for one year after the date the employment is terminated, whichever is later. Terminated employees who are rehired within three years of the date of the initially filed Form I-9 need only reverify the information to the employer.

The U.S. Citizenship and Immigration Services (USCIS) can levy fines if an audit uncovers hiring, recruiting, or referring violations.

The fines on employers are broken down as follows:

- First offense—\$559 to \$4,473 per illegal employee.
- Second offense—\$4,473 to \$11,181 per illegal employee.
- Third offense or more—\$6,709 to \$22,363 per illegal employee.
- Pattern of violations—extra fines and up to six months in jail.

There are also fines levied for document fraud.

Over the Line

The largest ever penalty in an immigration case (\$95 million) was assessed to a Pennsylvania-based tree company for hiring workers whom company executives knew lacked proper immigration documents.

E-Verify

This is a government-run Internet-based system that allows employers to check the employment eligibility of new hires by comparing the information on an employee's Form I-9 with databases of the Social Security Administration and the Department of Homeland Security. E-Verify requires a social security number (SSN) for the employee, so even though a newly hired employee is not required to have applied for a SSN before completing Form I-9, the employee must apply for it as soon as possible.

For most employers, this is a voluntary program; however, if the employer has a federal contract or subcontract that contains an E-Verify clause, the new hires of that organization and the employees performing work on the federal contract must be verified. All new federal employees must have their employment eligibility confirmed through E-Verify. State laws can also require employers to E-Verify (mandatory in over 20 states for some or all employees).

If there is a record mismatch, a tentative nonconfirmation is issued to the employer who must then notify the affected employee. If the employee had voluntarily provided his or her e-mail address on Form I-9, E-Verify will inform the employee at the same time as the employer. In case of a mismatch, the employee has eight working days to correct the discrepancy or be fired.

Family and Medical Leave Act of 1993

The Family and Medical Leave Act of 1993 (FMLA) requires employers that have 50 or more employees within a 75-mile radius, for at least 20 weeks in the current or preceding calendar year, to grant workers *unpaid leave* for a family or medical emergency. In cases of childbirth, adoption, or serious illness of the employee or the employee's child, spouse, or parent, the employer must offer the worker as many as 12 weeks of unpaid leave. The leave may be used all at once, or in separate weeks, days, or hours. However, the leave must be taken within 12 months of the qualifying event.

During the leave, employers must continue health-care coverage, and they must also guarantee that the employee will return to the same job or to a comparable position. The employer can substitute an employee's earned paid leave for any part of the 12-week family leave as long as notification is given to the employee within

ON THE JOB

FMLA absenteeism is highest among health-care employees with 39 percent of their workforce with open FMLA leave (average length of 28 days).



© Lypsa/Shutterstock.com

two business days of receiving the request for the leave and it does not violate an existing employment contract.

Employers that pay employees on family and medical leave at least 50 percent of their normal wages may take a general business tax credit equal to 12.5 percent of the wages paid. The credit increases (to a maximum of 25 percent) in increments of 0.25 percent for each percentage point over the 50 percent starting point. The credit applies to wages paid for up to 12 weeks of leave time and does not apply to employees with wages over \$72,000. This provision was set to expire on December 31, 2019, but Congress is expected to extend it.

An expansion of FMLA allowed employees to take leave (up to 12 weeks) when a family member is on active duty or when the employee cares for a family member with a serious injury or illness incurred in the line of duty (up to 26 weeks).

An employee who has used the 12-week allotment under FMLA may be entitled to additional time off as a reasonable accommodation under the Americans with Disabilities Act (see page 1-8) as long as the employee's condition qualifies as a disability.

Employers can exempt the following:

1. The highest-paid 10 percent of their workforce.
2. Those who have not worked at least one year and at least 1,250 hours in the previous 12 months for the company.

A few states (California, New Jersey, New York, and Rhode Island) have implemented *paid* family leave plans. For example, New Jersey now allows workers six weeks' paid leave (at two-thirds of their salary up to \$650/week) to care for family members with a serious health condition, or to be with a child during the first 12 months after his or her birth or adoption. The program is funded through payroll deductions that are estimated to cost employees a maximum of \$27.52 a year.

Current regulations allow employers to contact employees' doctors for clarification on the information on the employees' certification forms. This contact cannot be made by the employees' direct supervisors, but must be done by human resources professionals, leave administrators, or management officials.⁴

The definition of "spouse" was revised to examine the law of the state in which the marriage was entered into instead of the law of the state in which the employee resides. This allows all legally married couples (whether opposite-sex, same-sex, or married under common law) to have consistent family leave rights regardless of where they live.

An organization that is below the limits of coverage could be courting an FMLA lawsuit if in its employee handbook or benefits materials there is a statement that it complies with the FMLA.

Uniformed Services Employment and Reemployment Rights Act of 1994

The Uniformed Services Employment and Reemployment Rights Act (USERRA) gives military personnel the right to take leaves of absences from their civilian jobs for active military service and to return to their jobs with accrued seniority. The reinstatement must be to the employee's original position or its equivalent, except for the dishonorably discharged. In addition, the return must be granted within two weeks of the job request, and health benefits must be started without any waiting period.

ON THE JOB

Even though employers can give a general reason for leave, it is the responsibility of the employer to identify requests that may qualify as FMLA leave.

⁴"Compensation and Benefits," *HR Specialist*, March 2012, p. 2.

Employee Retirement Income Security Act of 1974

The Employee Retirement Income Security Act of 1974 (ERISA) covers employee pension and welfare plans established or maintained by any employer or employee organization representing employees engaged in commerce or in any industry or activity affecting commerce. The legislation safeguards pension funds by regulating how the funds are to be raised and disbursed, who controls them, and what is to be done when funds are insufficient to pay promised benefits. The law *does not* require every employer to establish a pension plan; however, if there is an employer pension plan, every employee is eligible *after reaching age 21 or completing one year of service*, whichever is later.

ERISA was designed primarily to ensure that workers covered by private pension plans receive benefits from those plans in accordance with their credited years of service with their employers. **Vesting** conveys to employees the right to share in a retirement fund if they are terminated before the normal retirement age. The vesting process is linked to the number of years needed for workers to earn an equity in their retirement plans and to become entitled to full or partial benefits at some future date if they leave the company before retirement. Once vested, a worker has the right to receive a pension at retirement age, based on years of covered service, even though the worker may not be working for the firm at that time. Currently, the law provides for full vesting of the employer's contributions *in three years or gradually over six years* (20 percent after two years and 20 percent a year for the next four years). The plan administrator must file an annual report (Form 5500) with the federal government by the end of the seventh month following the close of the plan year.

To protect against potential benefit losses because of a plan's termination, ERISA set up a government insurance program, the Pension Benefit Guaranty Corporation, to pay any benefits that could not be met with funds from the plan.

Disclosure Requirements

Informational reports must be filed with the U.S. Department of Labor, the IRS, and the government insurance program. In general, the reports consist of descriptions of the plans and the annual financial data. The plan descriptions include the eligibility requirements for participation and for benefits; provisions for nonforfeitable pension benefits; circumstances that may result in disqualification, loss, or denial of benefits; and procedures for presenting claims. The annual reports include financial statements and schedules showing the current value of plan assets and liabilities, receipts and disbursements, and employer contributions; the assets held for investment purposes; insurance data; and an opinion by an independent qualified public accountant. Upon written request from the participants, the administrator must also furnish a statement, not more than once in a 12-month period, of the total benefits accrued, accrued benefits that are vested, if any, or the earliest date on which accrued benefits will become vested.

Affordable Care Act of 2010 (ACA)

The Affordable Care Act (Obamacare) consists of two pieces of legislation: Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act. The act was designed to expand health insurance coverage to more Americans while increasing benefits and lowering costs for consumers.

State-based health insurance exchanges are established for those who do not have access to employer-provided coverage or do not qualify for public programs like Medicaid. These will be marketplaces where individuals can comparison shop. Individuals and families with incomes between 100 percent and 400 percent of the federal poverty level will receive subsidies to buy coverage.