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PAYROLL ACCOUNTING

2024



Jeanette M. Landin
Paulette Schirmer

Tenth Edition

Payroll Accounting 2024

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**Jeanette M. Landin, Ed.D.,
M.B.A.**

Landmark College

**Paulette Schirmer, D.B.A.,
M.B.A.**

University of Alaska Southeast

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PAYROLL ACCOUNTING 2024

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About the Authors



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Jeanette Landin

Landmark College

Jeanette Landin is an associate professor of professional studies at Landmark College in Putney, Vermont, where she teaches undergraduate accounting and business courses to an at-risk student population. She is a baccalaureate student advisor and is the program coordinator for both associate's and bachelor's level degrees offered

by the school of Professional Studies. Dr. Landin earned her B.A. degree from the University of California at Irvine before receiving her M.B.A. and Ed.D. from the University of Phoenix, where she researched college success strategies for at-risk students. She has earned master's certificates in accounting and autism spectrum disorders.

Dr. Landin is an active member of the Institute for Management Accountants (IMA), the American Accounting Association, Teachers of Accounting at Two-Year Colleges (TACTYC), the Society for Human Resource Management (SHRM), Association of Certified Fraud Examiners (ACFE), and Vermont Women in Higher Education (VWHE) and a Fellow with the International Society for Development and Sustainability. She previously served as an active member of the California Business Educators Association and the Western Business Educators Association. Dr. Landin has served as the IMA's Committee for Academic Relations chair and as a peer reviewer for the American Accounting Association. She is a peer reviewer for the *Transnational Journal of Business* and the associate editor for accounting with the Multimedia Educational Resource for Learning and Online Teaching (MERLOT).



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Paulette Schirmer

University of Alaska Southeast

Paulette Schirmer is an assistant professor of accounting with the University of Alaska Southeast for its accounting courses. She received her B.S. in accounting from Metropolitan State College of Denver (now Metropolitan State University of Denver),

her M.B.A. from Regis University, and her D.B.A. from the University of Phoenix, where she researched globalization strategies for small businesses.

Dr. Schirmer was also recently an accountant with the Division of Finance for the State of Alaska. She worked as the statewide training coordinator and assisted with developing and troubleshooting the accounting program's reporting system. Dr. Schirmer was active in preparing Alaska's Annual Comprehensive Financial Report, Annual Compensation and Travel Report, assisted with budgetary implementation, departmental accounting, and structure training. Dr. Schirmer is an active member of the Institute for Management Accountants (IMA), Teachers of Accounting at Two-Year Colleges (TACTYC), the Society for Human Resource Management (SHRM), American Payroll Association, and Quality Matters.

Dedications

The authors dedicate this book to the following individuals:

For Chris, Kira, and Meg, who remind me to relax,
and for Mom and Dad, who believed in me until the very end.

—Jeanette Landin

For Royce and Elizabeth, who kept me grounded and
reminded me to have fun. For Christina, who reminds me to
stop and breathe.

—Paulette Schirmer

A Note from the Authors

We are excited to share the new edition of *Payroll Accounting 2024* with you. Payroll accounting is detailed, deadline-driven, and of utmost importance for the successful functioning of a business. The changing, detailed nature of payroll accounting involves legal challenges, economic changes, technological advances, and—above all—governmental obligations. Our text takes a modern approach to payroll accounting, incorporating coverage of real-world issues that many students will face in their careers, such as cybersecurity, payroll fraud, labor planning, artificial intelligence, and labor costs. We believe that this textbook’s information and ancillary materials contribute to a comprehensive understanding of payroll accounting in the 21st century and will make accounting students more valuable to the organizations they work for in their careers.

But as educators, we understand that providing the content is not enough, so we provide multiple opportunities for students to practice in Connect. Whether you are teaching face-to-face, hybrid, or online, *Payroll Accounting 2024* is flexible enough to be used in courses as short as 3 weeks and as long as 15 weeks. We are proud of what we have accomplished with this text, and we thank the faculty and students who have provided feedback to refine the content in this edition. We strongly believe that we have taken payroll accounting education to a higher level of rigor.


Our payroll accounting approach differs from other texts because of our perspective on payroll’s role in business. To us, payroll is more than pressing buttons, writing checks, and submitting forms—payroll is the story of **people**. These people include the ones within the business who make decisions about the company’s directions and the people who work for the business and depend on their paychecks to support their livelihoods. We wrote this text because we wanted students to understand how business directly affects employees’ lives and vice versa.

In light of the COVID-19 pandemic and changes to payroll practices that started in 2020, we have included information specific to employees’ and employers’ governmental provisions, many of which are sunseting soon. We wanted to make the information available for students who may encounter workplace issues related to the pandemic in the future.

To foster the connection between business and people, each chapter’s introductory story contains recent events involving payroll accounting that highlight the connections among payroll, legislation, business decisions, and people affected by all the decisions made. In Chapter 1, we highlighted a shift in workers’ attitudes to work that emanated from the changes to the work environment during COVID-19 shutdowns: the demand for a better work-life balance supported by employers. For Chapter 2, we discussed the current movement of refugees into the workplace and highlighted the difference between H-1B and refugee work visas. In Chapter 3, we explored the challenges of new pay transparency laws that have been enacted in many places. Chapter 4 explores the need for flexible benefits that suit both traditional and remote workers and the “out of sight, out of mind” challenges that remote workers face. In Chapter 5, we focused on the demand for flexible pay or on-demand pay that is gaining popularity. In Chapter 6, we discussed the challenge of rising labor costs that employers face, many of which have resulted in layoffs. Finally, our Chapter 7 introduction considers the effects of artificial intelligence, the Great Resignation, and COVID-19, all of which have led to a shortage of accountants.

What makes this text a modern approach is that we believe that payroll is the connection between financial and managerial accounting. It has everyday connections to businesses, people, and the greater economy in a myriad of ways. Our approach is to encourage students to know the **how** of computing payroll and the **why** inherent to its logic because we believe strongly that the future of the accounting profession involves people with higher-order knowledge of both the process and the purpose within the broader scheme of business. We have included materials to demonstrate the integration of payroll in other aspects of both managerial and financial accounting and business operations. Within Appendixes D and E, we have provided information that allows readers to connect their learning about payroll within the context of their own state’s legal framework and links to each state’s revenue department to facilitate specific learning. We are passionate about the connections students make between college education and their lives because we understand their importance, and we bring a wealth of experience in accounting, education, industry, and governmental settings that informs our writing.

Our text features many interesting real-world connections. We have drawn examples from many disciplines to help make payroll accounting come alive for teachers and students alike. We want to call specific attention to two discussions that are unique to our text: (1) the content in Chapter 6 explores labor planning for employers (Learning Objectives 6-5 and 6-6), and (2) the discussion in Chapter 7 about the function of labor costs in business and employee benefits reports as strategic tools (Learning Objectives 7-5 and 7-6). We believe this information contributes to a comprehensive understanding of payroll accounting as it evolves in the 21st century. It will make accounting students more valuable as emerging accountants embark upon their careers.



We strongly believe that payroll accounting needs to be applied, so we provide both a continuing problem, located at the end of each chapter, and a comprehensive problem, located in Appendix A, that may be presented in either three-month or one-month versions. Technological integration of the continuing problem and Appendix A within Connect provides an excellent tool for student learning and faculty assessment of course learning objectives. To facilitate student assessment, we included formative assessments in our comprehensive problem in Appendix A in the form of Stop & Check questions. SmartBook 2.0 and guided example videos of tax-form completion reinforce integral concepts and key terminology. We are excited to produce this work through McGraw-Hill because of its top-quality teaching and learning resources available through Connect. Teaching traditional payroll accounting and Internet-based financial accounting via McGraw-Hill's Connect platform for several years has been a wonderful experience for our students and ourselves.

The AACSB guidelines encourage achieving the highest possible standards in business education. We believe that students should understand both how payroll should be completed and how it can be manipulated for personal gain. Payroll fraud continues to be a major source of loss for companies, and it is surprising to find how common it is. We have included examples of the frauds that employees have perpetrated in recent years. According to the Association of Certified Fraud Examiners, payroll fraud of all types, including misclassification of workers, costs businesses \$62,000 per instance and approximately \$130 billion annually. We hope that these stories enliven and enrich your class discussions. We have updated the payroll processing options in Chapter 1 to reflect an accurate representation of the current state of the available technology used by businesses of any size (Learning Objective 1-5). In Chapter 2, we explored situations where an individual may have multiple employers and how to report new employees per legal requirements (Learning Objective 2-2). We believe that this information about multiple employers and multistate employees is a growing issue that will challenge employers, especially as payroll employees have been working from remote locations. As such, we explored cybersecurity and payroll in more depth in Learning Objective 2-5 to attenuate students to this growing concern.

We have updated our section about cryptocurrency as a means of transmitting payroll amounts due in Learning Objective 5-6. It is important to understand that cryptocurrency as a means of paying employees, while being considered, is a complicated issue because of its connection to the stock market, as opposed to a central bank, as a basis for its value. This topic is evolving. We are certain that we will witness the evolution of payment methods involving cryptocurrency in the future regarding regulating its use and protecting employee pay and employer tax remittance.

We continue to rely on our colleagues' guidance, instructor feedback, and student suggestions to keep us grounded and push us to deliver the best possible content. We hope you enjoy reading this book as much as we enjoy writing it!

*Jeanette Landin
Paulette Schirmer*

Changes to the Tenth Edition

We have included additional content in this tenth edition of *Payroll Accounting* based on our reviewers' and users' feedback. While updating the tenth edition content, we updated many laws in Chapter 1. In Chapter 2, we added clarity to the pros and cons of Internet-based payroll apps. In Chapter 3, we explored a trend toward repealing the subminimum wage laws in some states. For Chapter 4, we added a summary of pre- and post-tax deductions with the note that some can be either. Chapter 5 contains information about pay on demand and its implications for employers. We added a year-end payroll checklist to Chapter 6, and information about the integration of artificial intelligence into the payroll industry in Chapter 7.

We have maintained our content about the available payroll certification exams. A correlation guide is included in Appendix F that aligns the learning objectives in the text with the topics included on payroll certification examinations offered by the National Association of Certified Professional Bookkeepers (NACPB), the American Institute of Professional Bookkeepers (AIPB), and the American Payroll Association (APA).

We appreciate all feedback and user recommendations we have received because they have helped us create a stronger, more complete text. The changes we have made have added clarity, updated information, and additional opportunities for students to demonstrate their understanding of the concepts presented.

The following are specific changes to each chapter.

Chapter 1

Chapter 1 contained the biggest changes of the year. It involved the enactment of the SECURE 2.0 and Respect for Marriage Acts. These two acts changed many pieces affecting payroll, especially the treatment of retirement accounts and student loan payments and the treatment of spouses. Another important piece of legislation is the burgeoning amount of pay transparency laws. We updated payroll-related legislation to reflect as many changes as possible before publication. We updated the U.S. Bureau of Labor Statistics' employment and salary information and updated COVID-19 pandemic changes regarding payroll and OSHA penalties. We updated ERISA guidelines about retirement funds that are sensitive to environmental, sustainability, and governance risks. We updated right-to-work laws and paid family leave. We included industry best practices for cybersecurity.

Chapter 2

Chapter 2 contains a table of state payday requirements to facilitate an understanding of statewide pay frequency laws. We updated the list of required employee data and updated data about paycard use and the rationale for the expansion of its use. We discussed the growing practice of flexible workplaces, which started during COVID-19 and has started becoming a norm in many companies.

Chapter 3


Chapter 3 contains an updated the Department of Labor ruling about gig economy workers. We clarified travel time with multiple stops per workday and added an example. We updated guidance about the use of subminimum wages, which has seen a legislative reduction in its use. We have clarified pay practices for on-call time and have included holiday and vacation pay examples using the payroll register. We continued to update the minimum wage tables and tipped minimum wage tables.

Chapter 4

We continue to expand the discussion of fringe benefits in Chapter 4. We explored specific fringe benefits that employers have offered during the pandemic. We added information on new benefits requested by employees. We added contribution limits for SIMPLE 401(k) and updated amounts for 2023. We also added guidance from the IRS about household employees.

Chapter 5

Chapter 5 expanded our explanation about using pages 3 and 4 of the 2020 (and later) Form W-4. We added clarification to the computation of Social Security tax for employees whose wages approach the annual wage base, which increased significantly for 2023. We discussed how employees who work from home might



be subject to different state and local taxes because of the change in their primary work location. We added tables to explain garnishment maximums by category. We updated information on the number of people who use online banking.

Chapter 6

In Chapter 6, we explained how the CARES Act provisions affect employer tax due dates. We discussed the changes to tax forms in 2023. We explored exclusions to FUTA for U.S. citizens who work for foreign employers. We updated the required periodic employer reporting forms.

Chapter 7

Chapter 7 explores the declining number of accountants and efforts to bring more people into the profession. We explored the use of artificial intelligence and how it could affect the payroll profession. We highlighted the need for payroll accountants as a vital part of business operations.

Appendix A: Comprehensive Payroll Project

In Appendix A, we continued to emphasize the completion of the payroll register and data transfer to both employees' earnings records and accounting entries. We included the

New Hire Report form for Nevada and updated the payroll register to reflect current practices. We included Stop & Checks in the Appendix to provide formative assessment opportunities.

Appendix C: Federal Income Tax Tables

We updated the percentage and the wage-bracket methods of determining federal income tax withholding to reflect the most current tax rates available. We have included Publication 15-T in this appendix.

Appendix D: State Income Tax Information

We updated the tax rates for each state in Appendix D.

Appendix F: Payroll Certification Information

We continued to correlate the learning objectives in this text with the topics included in payroll certification examinations offered by the National Association of Certified Professional Bookkeepers (NACPB), the American Institute of Professional Bookkeepers (AIPB), and the American Payroll Association (APA). We included the certification exam requirements and contact information for each certification organization.

Text Features

Chapter Opener

Each chapter opens by focusing on a payroll accounting topic related to real-world companies to set the stage for the chapter's topic.

Healthy Work-Life Policies Are the New Norm

The "Now Hiring" signs remain, but the unemployment rate in the United States is at a historic low. Employers seek employees, but the most recent crop of workers no longer wants to work for low wages or in demeaning work environments. They seek fulfilling jobs, both monetarily and culturally, and want bosses who respect their skills and future potential. This shift may seem like worker entitlement; however, it reflects the aftereffects of the COVID pandemic and a new breed of employees who know what they want, know who they are, and demand healthy work-life boundaries.

In response to employee demands, employers such as Nintendo and Microsoft, among many others, have included work-life balance offerings demonstrating respect for their employees. Nintendo explicitly expresses an attitude of partnership with its employees, an example of which is the acceptance of diversity and equality issues, which may not be a societal norm in some places in the world but is how the company chooses to treat its employees. Microsoft, Netflix, and Salesforce offer unlimited paid time off to salaried employees.

While some companies have experienced issues with staffing shortages, it is increasingly important to understand why the shortage is occurring and what can be done to balance employer needs and employee desires while following legal mandates and corporate mission and vision statements. Employees' demands for respectful, livable working conditions have also extended to pay transparency laws, flexible pay dates, and expanded benefit offerings, which have driven changes in contemporary workplaces. Employers are responding by offering higher pay and remote work opportunities. Other hiring tactics have included emphasizing professional development and career progression, promoting company culture, and benchmarking salary offers to similar jobs in the industry.

(Sources: Nintendo, Paychex, SHRM)

Which Law?



- | | |
|--|-----------------------------|
| 1. Requires employers to verify the employee's legal right to work in the United States. | a. COBRA |
| 2. Protects the rights of disabled workers. | b. ERISA |
| 3. Governs the management of retirement plans. | c. Civil Rights Act of 1991 |
| 4. Protects workers over age 40 from employment discrimination. | d. PRWOR |
| 5. Creates safe work environments for employees. | e. SOX |
| 6. Mandates equal pay for equal work. | f. ADEA |
| 7. Extends medical benefits for terminated employees. | g. HIPAA |
| 8. Ensures that child support obligations will be paid. | h. ADA |
| 9. Protects workers and families with preexisting medical conditions. | i. OSHA |
| 10. Enforces payment of monetary damages because of discrimination. | j. Equal Pay Act of 1963 |
| | k. IRCA |

Stop & Check

The Stop & Check feature allows students to review their understanding of the content just read. It also enables instructors to conduct formative assessments at multiple points throughout each chapter, testing the students' understanding informally and offering opportunities to expand on the material.

Trends to Watch

Each chapter contains a feature box that connects payroll-related recent events with industry trends that shape the future of the profession. These trends offer instructors more opportunities to expand upon chapter topics, fostering discussion and application.

Trends to Watch

LEGAL ENVIRONMENT

To say that the legal environment of payroll is continually evolving is an understatement. Since 2018, we have witnessed the following legal challenges:

- Increasing numbers of private employers and localities raise the minimum wage significantly to close the gap between the minimum wage and the living wage.
- Supplemental wage rate changes for payments of bonuses.
- State enforcement of predictive scheduling and fair/flexible scheduling laws on changing employees' schedules.
- Reframing the federal income tax structure, treatment for nonresident aliens, supplemental wage withholding rates, and inflation adjustments.
- An increase in the need for centralized and fully communicated company policies to meet remote workers' and companies' needs.

Future trends to watch include:

- A shift to complete digitalization of payroll processes, including partial or complete remote work options.
- Increased guidance about payroll tax impacts involving Indian tribal employees and student loan deferrals.
- A focus on employee retention could include unlimited paid time off without specific tracking of hours used.
- Increases in employees with multiple part-time jobs could lead to legislative changes involving "gig" employee classification and benefits.

End-of-Chapter Assessments

Students can demonstrate their understanding through assessments that complement the chapter's learning objectives. Each chapter has review questions, exercises, and problems, with the exercises and problems having two sets in each chapter (Set A and Set B). Each type of assessment is designed to measure student learning as follows:

- Questions for review are designed to check for students' remembrance of concepts.
- Exercises check for understanding and application of chapter concepts.
- Problems allow students to apply and analyze payroll accounting principles.

Exercises Set A

- E1-1A. Lupore Fabrics obtained a contract in Watts Mills, South Carolina, that involves the production of materials for military uniforms, a project contracted with the federal government for \$2,800,000. What laws govern the wages Lupore Fabrics pays its workers for this project? (Select all that apply.)
- LO 1-1, 1-2
1. Davis-Bacon Act
 2. Sarbanes-Oxley Act
 3. Walsh-Healey Act
 4. FLSA
- E1-2A. Dylan Piccirillo works as the payroll clerk for Centinix, a security company that hires many part-time and temporary workers who are paid hourly. What law(s) govern(s) the hiring or documenting of these workers?
- LO 1-1, 1-2
1. ADEA
 2. FLSA
 3. IRCA
 4. USERRA
- E1-3A. London Franco was dismissed from employment at Precision Dynamics because of a race-related issue. London sued Precision Dynamics.
- LO 1-1, 1-2

Critical Thinking

- CT1-1. You have been hired as a Dynozz Medical Software consultant, facing an IRS audit of its accounting records. During your review, you notice anomalies in the payroll system involving overpayments for labor and payments to terminated employees. What should you do?
- CT1-2. You are the accountant for Cryologic, a local nonprofit organization. You have been tasked with managing the payroll costs so that staffing levels can remain the same even if funding levels change. One consideration is outsourcing the payroll functions to a payroll processing company. What are some factors that should be considered in this decision? Which are these factors important?

Critical Thinking Exercises

Want to challenge your students further? The Critical Thinking exercises require students to consider complex real-world situations that build confidence and turn learning into mastery. These exercises offer possibilities for team presentations or class debates.

In the Real World: Scenario for Discussion

Each chapter contains a discussion scenario that is drawn from real-world events. These scenarios encourage the expansion of chapter content and allow students to apply their learning to real situations.

In the Real World: Scenario for Discussion

Domino's Pizza franchises in New York were sued by the state of New York for wage and hour violations at 10 stores. Under New York law, a corporation and a franchiser are joint employers if they meet certain employee control criteria. The state found that Domino's met the criteria.

Internet Activities

The Internet Activities at the end of each chapter offer students the chance to use their online navigation skills to expand their learning. These exercises attract tech-savvy learners, allowing them to form their understanding of payroll concepts on their terms.

Internet Activities

- 1-1. Using the website www.jstor.org, search for articles about payroll-related laws or relevant employment legislation. Once you find an article, summarize the article and explain how the legislation influenced contemporary payroll practices.
- 1-2. Visit the website of the American Payroll Association at www.americanpayroll.org. On the right side of the home page, you will find articles about recent developments in payroll practices and legislation. Choose an article and create a presentation to your class about how its content affects payroll practice.
- 1-3. Want to know more about the specifics of some of the concepts in this chapter? Check out these websites:



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Continuing Payroll Project: Prevesti Farms and Sugarhouse

Toni Prevesti is opening a new business, Prevesti Farms and Sugarhouse, a small company that will harvest, refine, and sell maple syrup products. In subsequent chapters, students will have the opportunity to establish payroll records and complete payroll information for Prevesti Farms and Sugarhouse.

Toni has decided that she needs to hire employees for the business to grow. Complete the application for Prevesti Farms and Sugarhouse's Employer Identification Number (Form SS-4) with the following information:

Continuing Payroll Project: Prevesti Farms and Sugarhouse

Starting with Chapter 1, each chapter has an integrated, continuing payroll project—about fictional company Prevesti Farms and Sugarhouse—that matches the chapter content and affords students a macro-level understanding of how each piece of payroll fits together.

Comprehensive Payroll Project: Wayland Custom Woodworking

The Comprehensive Payroll Project (Appendix A) allows students to track a quarter's worth of payroll transactions for a company. This Comprehensive Payroll Project offers instructors increased flexibility in teaching and assessment by offering a simulation equivalent to a full quarter of a fictitious company's payroll activities, including payroll transactions, pay processing, and tax form completion. The Comprehensive Payroll Project may be presented in different lengths—as short as one month or in its three-month entirety—to meet curricular needs. Instructors may assign this in connection with many book chapters or use it as a final project for their courses.

Appendix A

Comprehensive Payroll Project: Wayland Custom Woodworking

Wayland Custom Woodworking is a firm that manufactures custom cabinets and woodwork for business and residential customers. Students will have the opportunity to establish payroll records and complete a month of payroll information for Wayland.

Wayland Custom Woodworking is located at 12850 Old Highway 50, Glenbrook, Nevada, 89413, phone number 775-555-9877. The owner is Mark Wayland. Wayland's EIN is 91-7444533, and the Nevada Employer Account Number is E6462582020-6. Wayland has determined it will pay its employees on a semimonthly basis. Federal income tax should be computed using the *percentage* method for manual payrolls with Forms W-4 from 2020 or later.

Students will complete the payroll for the final quarter of 2023 and will file the fourth quarter and annual tax reports on the appropriate dates. At the instructor's discretion, students may complete a short version, which contains the payroll transactions beginning December 1. Directions for completion of the short version follow the November 30 transactions.

Rounding can create a challenge. For these exercises, the rate for the individuals is not rounded. Take the employee's salary and divide it by 2,080 (52 weeks at 40 hours per week) for full-time, nonexempt employees. Leave the hourly rate rounded to five decimal places. As shown in the next example, if the gross pay has been calculated, then divide it by the number of hours worked to get the net pay.

Connect for Payroll Accounting 2024

- **SmartBook® 2.0** A personalized and adaptive learning tool used to maximize the learning experience by helping students study more efficiently and effectively. SmartBook 2.0 highlights where in the chapter to focus, asks review questions on the materials covered, and tracks the most challenging content for later review. SmartBook 2.0 is available both online and offline.
- **End-of-chapter content** is a robust offering of review and question material designed to aid and assess the student's retention of chapter content. The end-of-chapter content is composed of both static and algorithmic exercises, problems, critical thinking exercises, and continuing payroll projects, which are designed to challenge students using McGraw Hill Education's state-of-the-art online homework technology. Guided example videos are also provided with select end-of-chapter problems, which help walk students through complex payroll processes. Instructors can also assign test bank questions to students in static and algorithmic versions.
- **Auto-graded payroll and tax forms** are integrated into Connect and are assignable. Students can complete the forms in these problems to gain a better understanding of how payroll forms are prepared in today's digital world.

- **Guided example videos** are also provided with select end-of-chapter problems, which help walk students through complex payroll processes. Instructors can also assign test bank questions to students in static and algorithmic versions.
- **Lecture videos** are new to this edition! There are three- to five-minute videos that accompany each learning objective per chapter. There is also an introduction/overview video for Appendix A and a continuing project at the end of each chapter.
- The **comprehensive payroll project** from Appendix A is available on Connect in an auto-graded format. Students will apply skills, such as preparing tax forms and payroll registers, to complete the payroll process for a company from start to finish. Instructors can choose from the full three-month version or the shorter one-month version for their Connect assignment.
- The **test bank** for each chapter has been updated for the ninth edition to stay current with new and revised chapter material, with all questions available for assignment through Connect. Newly available within Connect, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed or administered within an LMS. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs without requiring a download. Test Builder provides a secure interface for better content protection and allows just-in-time updates to flow directly into assessments.

Auto-Graded Forms

Complete this question by entering your answers in the tabs below.

Form W-4 Instructions

Complete Form W-4. NOTE: The instructions ordinarily found on the bottom of Form W-4 can be found on the second tab.

Form W-4 Employee's Withholding Certificate OMB No. 1545-0074

Department of the Treasury Internal Revenue Service

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. **2023**

• **File Form W-4 for your employer.**
 • **Your withholding is subject to review by the IRS.**

Step 1: Enter Personal Information

(a) First name and middle initial Last name (b) Social security number

Address (c) Do your name match the name on your social security card? (Tick to ensure you get credit for the earnings. Contact SSA at 800-772-1213 or go to www.ssa.gov.)

City or town, state, and ZIP code

(d) Single or Married filing separately
 Married filing jointly (or Qualifying widow(er))
 Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at www.irs.gov/wfa, and pin2023.

Step 2: Multiple Jobs or Spouse Works

On only one of the following:

(a) Use the estimator at www.irs.gov/wfa for most accurate withholding for this step (and Steps 3-4); or
 (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or
 (c) If there are only two jobs total, you may check this box. On the same or Form W-4 for the other job. This option is accurate for jobs with similar pay, otherwise, more tax than necessary may be withheld.

Tip: To be accurate, submit a 2023 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, see the estimator.

Comprehensive Payroll Project

Complete the Payroll Register for October 15.

PRR End Date: Company Name: Wayland Custom Woodworking

Check Date:

Name	Filing Status	Dependents	Hourly Rate or Periodic Wage	No. of Regular Hours	No. of Overtime Hours	No. of Holiday Hours	Commissions	Gross Earnings	Insurance	401(k)	Taxable Wages for Federal WHT	Taxable Wages for FICA
Anthony Chinone												
Mark Wayland												
Sylvia Peppinco												
Steven Cooper												
Leonard Hoop												
Student Success												
Totals												

Name	Gross Earnings	Taxable Wages for Federal WHT	Taxable Wages for FICA	Federal Tax	Social Security Tax	Medicare Tax	Union Dues	Net Pay	Check No.
Anthony Chinone									4212
Mark Wayland									4216
Sylvia Peppinco									4217
Steven Cooper									4218
Leonard Hoop									4219
Student Success									4220
Totals									



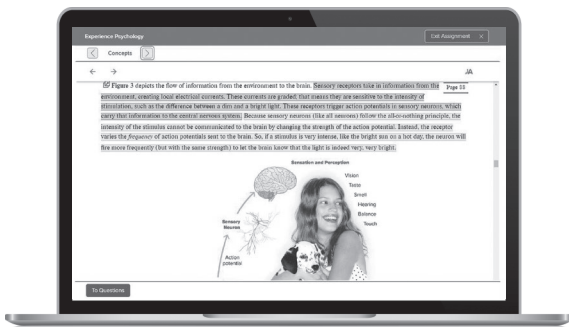
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Laptop: Getty Images; Woman/dog: George Doyle/Getty Images

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Christy M. Lefevers

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South Piedmont Community College

Richard Mandau

Piedmont Technical College

Gerald T. McFadden

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Roshelle Overton

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Denice Pardee

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Salt Lake Community College

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Suzette Reagan, CPP

Florida State College at Jacksonville

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*Jeanette Landin
Paulette Schirmer*

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Payroll Accounting 2024

1

Chapter One

Payroll Practices and System Fundamentals

Payroll systems are essential for job planning and strategic human resource management, cost management for products and services, and benefits analysis. A company's payroll system has historically connected human resources and accounting departments. In contemporary businesses, payroll has taken on a strategic role in company direction and plans. The continual evolution of technological tools to manage company resources, including monetary and human, provides opportunities and challenges to employers regarding employee access and private information protection. A well-designed payroll system is a critical element in company management. For this reason, an understanding of payroll foundations is imperative. This chapter will explore the need for a payroll system, legal requirements, ethical guidelines, best practices, and variations in payroll practices among different-sized companies.

LEARNING OBJECTIVES

After studying Chapter 1, you should be able to:

- LO 1-1** Identify Legislation That Pertains to Payroll and Business
- LO 1-2** Discuss the Legal Framework Specific to Payroll Accounting
- LO 1-3** Discuss the Ethical Guidelines for Payroll Accounting
- LO 1-4** Identify Contemporary Payroll Practices
- LO 1-5** Compare Payroll Processing Options for Different Businesses



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Healthy Work-Life Policies Are the New Norm

The “Now Hiring” signs remain, but the unemployment rate in the United States is at a historic low. Employers seek employees, but the most recent crop of workers no longer wants to work for low wages or in demeaning work environments. They seek fulfilling jobs, both monetarily and culturally, and want bosses who respect their skills and future potential. This shift may seem like worker entitlement; however, it reflects the aftereffects of the COVID-19 pandemic and a new breed of employees who know what they want, know who they are, and demand healthy work-life boundaries.

In response to employee demands, employers such as Nintendo and Microsoft, among many others, have included work–life balance offerings demonstrating respect for their employees. Nintendo explicitly expresses an attitude of partnership with its employees, an example of which is the acceptance of diversity and equality issues, which may not be a societal norm in some places in the world but is how the company chooses to treat its employees. Microsoft, Netflix, and Salesforce offer unlimited paid time off to salaried employees.

While some companies have experienced issues with staffing shortages, it is increasingly important to understand why the shortage is occurring and what can be done to balance employer needs and employee desires while following legal mandates and corporate mission and vision statements. Employees’ demands for respectful, livable working conditions have also extended to pay transparency laws, flexible pay dates, and expanded benefit offerings, which have driven changes in contemporary workplaces. Employers are responding by offering higher pay and remote work opportunities. Other hiring tactics have included emphasizing professional development and career progression, promoting company culture, and benchmarking salary offers to similar jobs in the industry.

(Sources: Nintendo, Paychex, SHRM)

Employment legislation is highly complex and dynamic. Large or small, employers must abide by the law and know when it changes. In Chapter 1, we will explore the basics of payroll systems, including legal and ethical issues involved with employee pay.

LO 1-1 Identify Legislation That Pertains to Payroll and Business



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Unlike many other types of accounting, payroll affects everyone in an organization. Payroll errors can lead to serious internal and external problems. Internal errors may cause a company to pay excessive wages for unneeded overtime, underpay employees, forego profits, employ the wrong number or types of workers during seasonal or workflow changes, or misclassify employees. To ensure operational effectiveness, managers use internal reports about labor usage, staffing levels, and employee compensation trends. Organizational decision-makers use these reports to control labor costs, hire additional employees to meet surge demands, and manage the cost of goods sold. Payroll errors can result in governmental fines, taxes, or legal charges related to labor law violations. Employers provide external reports to the Internal Revenue Service (IRS), state government tax departments, and many more agencies, depending upon the company's nature.

Compliance with payroll regulations is a complex, multifaceted process. The type and location of the company are the starting point, and a comprehensive view is vital to payroll compliance. The integration of automated technology assists payroll personnel by ensuring legal compliance, reducing human error, and facilitating business growth.

(Source: ADP)

According to the **U.S. Bureau of Labor Statistics**, as of 2021, employment in accounting jobs was expected to increase by 6 percent through 2031, which is the average growth for business professions. Salaries average \$47,459 for entry-level payroll clerks, \$91,842 for payroll supervisors, and \$112,988 for payroll managers, according to the 2023 salary guides available via www.salary.com.

The legislative framework governing employers' payroll systems is complex. Although several fundamental laws still exist, payroll and human resource laws reflect societal evolution. Note how some of these laws have been challenged or changed since their inception.

The **Equal Pay Act of 1963**, which extended the provisions of the **Fair Labor Standards Act (FLSA)**, mandated that males and females be paid equally for equal work. As of 2023, all 50 states have enacted legislation that clarifies and/or extends the original 1963 act. As of the end of 2022, pay transparency laws have been implemented in 17 states with the intent of promoting equal pay for equal work. Any employees who feel they have been paid unequally based on sex have legal options to rectify the situation:

- First, they should gather documentation regarding the differential and determine if other employees can substantiate the difference.
- Second, they should speak with their supervisor to question the pay differential.
- Should the supervisor be unwilling to discuss or adjust the pay discrepancy, an attorney may become a necessary third step.

This act was modified by the **Lilly Ledbetter Fair Pay Act of 2009**, which removed the 180-day statute of limitations on unequal treatment claims.

In 1979, Lilly Ledbetter, an employee of Goodyear Tire and Rubber Company, started at the same pay rate as males in the same position. Over time, management declined her raises based on negative reviews that Ms. Ledbetter later claimed were discriminatory. Under the provisions of the 1963 Equal Pay Act, the claimant had 180 days to file a complaint. Although the U.S. Supreme Court agreed with her discrimination claims, it ruled in favor of Goodyear because of the lack of timeliness of Ms. Ledbetter's filing. This ruling ultimately led to the Lilly Ledbetter Fair Pay Act of 2009.

In June 2022, Google, LLC, agreed to pay \$118 million in a class-action suit started in 2017 and involving 15,500 female employees. In *Ellis v. Google, LLC*, the company was required to submit to external verification of equality in hiring and pay practices for three years.

(Sources: U.S. EEOC; CNET)



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The ***Civil Rights Act of 1964*** prohibited discrimination based on race, creed, color, sex, and national origin. Since 1964, this act has been extended by Executive Order 11478 to protect people with AIDS, pregnant workers, people with different sexual orientations, and people with disabilities. In 2022, the ***Respect for Marriage Act*** legislated that all marriage, including same-sex and interracial, was legal and could not be banned in any state. This extension of the 1964 Civil Rights Act represented another step toward the legal protection of worker dignity.

The ***Age Discrimination in Employment Act of 1967 (ADEA)*** prevents mandatory retirement of older employees (older than age 40) and prohibits age-based discrimination in hiring.

An American Association for Retired Persons (AARP) survey conducted in 2022 reported that two out of three workers over age 50 have experienced age discrimination in their workplaces. Examples of age discrimination reported in this survey were unprofessional comments about age and being passed over for deserved promotions. Of the survey respondents, 93 percent reported that age discrimination was commonplace in their work environment.

In 2022, the ***U.S. Equal Employment Opportunity Commission (EEOC)*** sued Eli Lilly and Co. for illegally refusing the employment of older-age sales workers. The pharmaceutical company claimed its “40 percent early career” policy of hiring millennials for its sales force promoted increased sales and allowed people to obtain a good start to their careers. The EEOC sought to end this discriminatory practice. As of this writing, the case is in progress.

(Source: AARP, Reuters)

The ***Occupational Safety and Health Act of 1970 (OSHA)*** defined and enforced rules for healthy and safe working environments for employees. Employee safety programs and personal protective equipment represent an additional cost to the employer. Still, fines for noncompliance and payments made following workplace injuries are often far more costly: fines range from \$15,625 per violation (serious and other-than-serious) to \$156,259 per willful or repeated violation (2023 figures).

Serious OSHA violations often occur, with an average of approximately a dozen cases per month. Numerous COVID-19 related violations occurred during 2022 and resulted in employer fines for worker safety and health. OSHA published workplace COVID-19 regulations, summarized as follows:

(continued)

(concluded)

1. OSHA required employers to provide appropriate personal protective equipment (PPE) for employees, including protection for eyes, hands, and face. Special provisions of this requirement included a respiratory protection plan when respirators were required.
2. OSHA amended the general duty clause to require that employers provide a safe workplace that protects employees from physical harm to the greatest possible extent.
3. Controversy:
 - A. Mandatory COVID-19 vaccination policy with testing alternative
 - B. Monitoring of vaccination status
 - C. Maintaining documentation of vaccination
 - D. Written notice to employees regarding COVID-19
 - E. Enforcing masking and quarantine/isolation periods for exposed and infected employees per CDC guidelines

(Sources: OSHA; Porzio, Bromberg & Newman)

The ***Employee Retirement Income Security Act of 1974 (ERISA)*** regulates retirement and pension plans. ERISA has been extended by the ***Consolidated Omnibus Budget Reformation Act of 1985 (COBRA)***. During 2007–2009, some employee retirement funds’ values decreased, causing employees to postpone retirement. The Internal Revenue Service imposes limitations on retirement plan contributions, and those limits have shifted to reflect the need for employees to recoup losses sustained during a recession. Since that time, employee retirement benefits have shifted from being a financial burden to becoming an employee hiring and retention strategy. As of late 2022, ERISA-governed retirement plan participants could focus their investments on environmental, social, and corporate governance funds at their discretion, which reflected a change to prior rules.

In 2019, the ***Setting Every Community Up for Retirement Enhancement (SECURE) Act*** granted small employers tax incentives to implement an automatic retirement plan enrollment for their employees. Alternatively, the act allows small employers to form a group that would allow each business’s employees to have better access to retirement plans than the employer could offer by itself. Legislation in 2022 passed as part of the Consolidated Appropriations Act extended provisions of the SECURE Act, known as the ***SECURE 2.0 Act***.

The SECURE 2.0 Act had 92 new provisions that can be summarized in a few categories, many of which will be mandatory as of 2025 for employers with 10 or more employees. The list of provisions includes, but is not limited to, the following:

1. Automatic enrollment in retirement plans at a rate between 3 and 10 percent of their annual pay. Employees can opt out of this benefit, which differs from the current opt-in model, and may withdraw funds within 90 days of their first contribution at no penalty.
2. Automatic escalation of contributions at a rate of 1 percent per year up to a maximum of 10 to 15 percent of annual wages.
3. Employees 50 years of age and older may make post-tax “catch-up” contributions of up to \$7,500 in 2023 and up to \$10,000 as of 2025.
4. Starting in 2023, employees may elect to make contributions post-tax to avoid later taxation on retirement funds.
5. Effective in 2023, nonunion part-time employees who work a minimum of 500 hours for three consecutive years must be allowed to participate in their employer’s retirement plan.
6. Starting in 2024, employee student loan payments may be treated as contributions to the employee’s retirement plan.

7. Employees may make emergency savings plan contributions to their retirement plan and may elect to withdraw such contributions without penalty or need for emergency documentation.
8. As of 2027, low-income employees may be eligible for up to \$2,000 annual retirement savings match from the federal government. The federal matching contribution would be 50 percent of the employee's contribution and is phased out as employee income increases.

(Source: ADP)



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COBRA extended medical benefits for terminated employees at the employee's expense for up to 18 months post-employment by qualified employers. It should be noted that not all companies are subject to COBRA provisions and that states may offer "mini-COBRA" plans for companies with fewer than 20 employees. The repeal of the Defense of Marriage Act (DOMA) in 2013 forced employers to offer COBRA coverage to same-sex spouses, which has now been strengthened by the Respect for Marriage Act. As of 2021, terminated employees who opt not to enroll in COBRA plans could enroll in *Marketplace* plans or Medicaid for up to

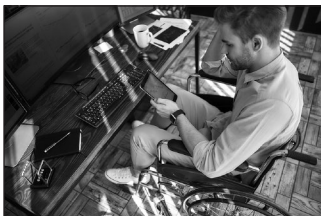
60 days post-termination. If employees choose not to use the COBRA plan immediately, they may enroll at the company's next enrollment period.

COBRA benefits currently extend to beneficiaries, including employees, dependent spouses, and children. Benefits are paid to beneficiaries in the event of reduced hours or separation of employment for any reason, excluding gross misconduct and upon the employee's death. If the company offers retiree benefits, COBRA coverage also extends to beneficiaries in Chapter 11 bankruptcy.

The *Immigration Reform and Control Act of 1986 (IRCA)* requires employers to verify that employees are legally able to work in the United States. Form I-9 is the most common payroll-related application of this law. Immigration and citizenship laws require collecting information within an I-9, and retention is three years from the date of hire or one year from the date of termination, whichever is longer.

Information collected on Form I-9 is monitored closely to ensure that the employee is legally authorized to work in the United States. Employers may also use the *E-Verify* system to confirm legal employment eligibility. Note that the E-Verify system does not replace the completion of the I-9 but does offer employers the opportunity to check legal employment eligibility rapidly via the Internet. The Department of Homeland Security issued guidance on extensions and flexibility with I-9 requirements in January 2022 due to the continued effects of COVID-19.

(Source: U.S. Citizenship and Immigration Services)



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The *Americans with Disabilities Act of 1990 (ADA)* extended the provisions of the Civil Rights Act of 1964 by ensuring that people with disabilities have the same opportunities as those without mental or physical impairment. This law applies to employers with 15 or more employees on the payroll, including full-time and part-time workers. The enactment of the *Americans with Disabilities Act Amendments Act (ADAAA)* in 2008 extended the definition of disability to include many disabilities. Final regulations on the ADAAA in 2011 clarified the definitions of disability and the required accommodations to include the following:

- The expansion of the definition of disability includes a lower standard of the definition of impairment.

- The determination of impairments requires the employee to be assessed individually.
- Except for corrective lenses, the determination of disability does not include devices that provide relief or mitigation of the condition, such as hearing aids.
- Impairments that occur periodically or episodically or that are in remission are still considered impairments.
- Any disability determination must not require extensive analysis.

The *Civil Rights Act of 1991* granted employees who have been discriminated against the chance to be paid monetary damages through legal proceedings. This act applies to American employers and American-controlled employers with international-based operations.

Workplace diversity and inclusion have become an increasing priority at workplaces during the last decade. As of 2022, Diversity for Social Impact posted its listing of the best workplaces for diversity and inclusion, sourced from the diversity and inclusion policies of thousands of companies worldwide. In the United States, the top three companies for diversity and inclusion were:

1. Disney
2. CarMax
3. Novartis

(Source: Diversity for Social Impact)



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The *Family and Medical Leave Act of 1993 (FMLA)* granted employees the right to take medical leave under reasonable circumstances without fear of job loss. The employee may take unpaid leave, but medical benefits must continue under FMLA provisions. Upon returning from family leave, the employer must provide an equivalent position with equivalent pay, benefits, and employment terms. The employer has many responsibilities under the FMLA that involves employee notification of benefits and processes while on leave.

As of 2023, 11 states have enacted paid family leave legislation: California, Colorado, Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island, Washington, and Washington, DC. Other states have voluntary opt-in insurance programs to provide an option for paid family leave. Hawaii provides temporary disability insurance, which is similar to paid family leave.

In 2017, legislators passed the *Tax Cuts and Jobs Act* in Washington, DC. This provided a tax credit to employers offering paid leave under the FMLA. Employers may be eligible for a credit of 12.5 percent up to 25 percent, whereas the employee's rate of payment is 50 percent or more of what the employee would normally be paid during the normal course of work for the company. Eligibility limits of the type of employer and employee exist under regulations (see Sec. §13403).

The Tax Cuts and Jobs Act (TCJA) has led to specific focus areas for employers. These areas of focus include:

- Controversy: When the TCJA provisions expire at the end of 2025, companies may need to refile tax returns, making record-keeping and changes made due to the TCJA enactment a critical function in payroll.
- International tax: For companies with an international presence, including employees, the TCJA may result in new tax liabilities.

- Compensation for executives: TCJA affected highly compensated employees' tax treatment and fringe benefits offered to workers. This has led to scrutiny of compensation plans and their legal compliance.
- State taxes: Because of TCJA provisions, taxes have increased for employees in some states. Since each state has different tax laws, and not all states have chosen to comply with TCJA provisions, state taxation has become increasingly complex.

(Source: AICPA)

The *Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)* governs military service members' rights regarding the length of military service, return to work, and accommodations for injured veterans. USERRA was amended to further address service members' rights in 2005. In 2011, USERRA was further amended by the Veterans Opportunity to Work Act, which allowed USERRA to recognize claims of a hostile work environment resulting from an individual's military status.

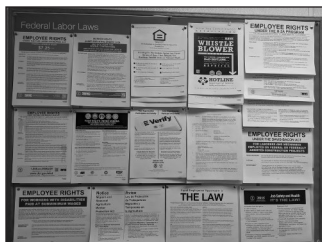
The U.S. Department of Labor investigates many cases involving service members' rights. Army veteran Lisa Slater returned to her job as a security officer, which she held for 13 years with her company, after deployment on active duty. However, upon her return to her employment, she found that she was classified as a new employee, which was a violation of USERRA. She received approximately \$20,000 in back wages, and her seniority was restored following arbitration.

(Source: U.S. DOL)

The *Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWOR)* mandated that employers file a new hire reporting form within 20 days after an employee initially commences work. This act protects children and needy families by enforcing child support obligations. The child support provisions of PRWOR were strengthened by the passage of the *Personal Responsibility, Work and Family Promotion Act of 2002*, which reauthorized PRWOR when it expired. PRWOR is still federally mandated as of 2023.

According to the Office of Child Support Enforcement (OSCE), collections supported approximately 18 percent of all children under age 18 in the United States and collected over \$29.5 billion for families as of the end of 2022. OSCE reported that employers collect approximately 63 percent of child and medical support through payroll deductions.

(Sources: Office of Child Support Enforcement)



Jeanette Landin

The *Health Insurance Portability and Accountability Act of 1996 (HIPAA)* protects workers and their families with preexisting medical conditions from discrimination based on those conditions. The Ebola outbreak in 2014 and the COVID-19 pandemic led to additional guidance about HIPAA rights and notifications to interested parties, including employers, during emergencies.