2020 Year End Planning

Charm City Payroll Association (CCPA)
November Virtual Meeting
November 13th, 2020

Disclaimer

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Today's Speakers

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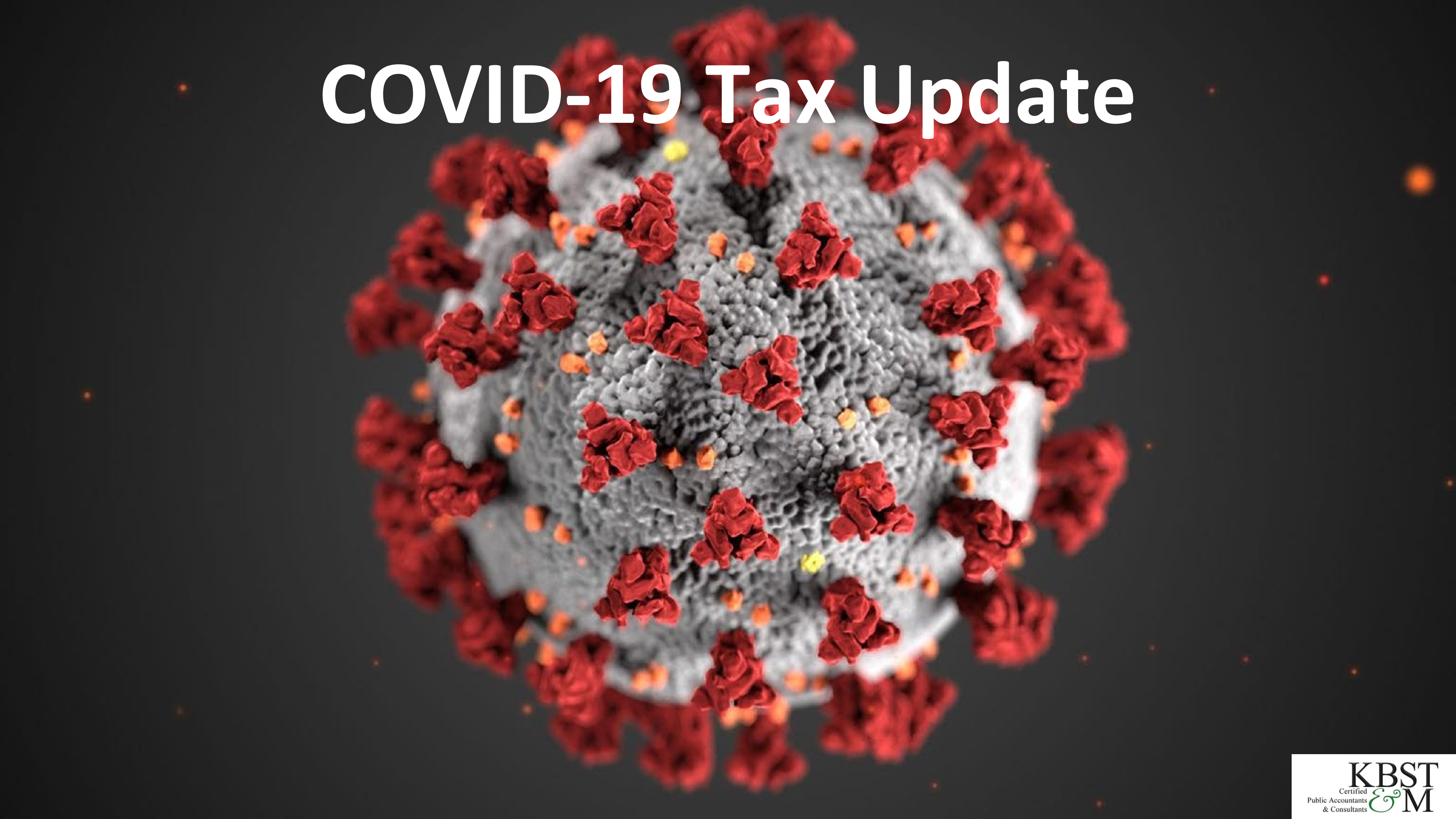
Agenda

- COVID-19 Tax Update
- IRS Final Guidance on Meals vs. Entertainment
- Other Payroll Credits
- Multistate Issues
- Employee Benefits
- Independent Contractors
- Quick Tips

COVID-19 Tax Update



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Taxability of COVID 19 Grants / Loans

	Income	**Expenses**
EIDL Grant	Include	Deduct
MD Grant	Include	Deduct
PPP Loan	Exclude Forgiveness Exclude principal to be repaid	Exclude Forgiven Expenses

Taxability of COVID 19 Grants / Loans

	Income	**Expenses**
EIDL Grant	$ 10,000	$ -
MD Grant	$ 10,000	$ -
PPP Loan	$ 150,000	Payroll $ 120,000 Rent $ 10,000 Utilities $ 10,000

Inflows & Outflows

EIDL Grant	+	10,000
MD Grant	+	10,000
PPP Loan	+	150,000
Payroll Expenses	-	(120,000)
Rent Expenses	-	(20,000)
Utilities Expenses	-	(10,000)
PPP Repayment	-	(10,000)
Cash Flow		10,000

Net Income

EIDL Grant	+	10,000
MD Grant	+	10,000
PPP Loan	+	0
Payroll Expenses	-	(10,000)
Rent Expenses	-	0
Utilities Expenses	-	
PPP Repayment	-	0
Net Income		10,000

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PPP Forgiveness - Covered Period

- 8 week - Before June 5, 2020
- 24 week – On or after June 5, 2020

- What is the alternative payroll period?

- Up to 24 weeks or 24 weeks?

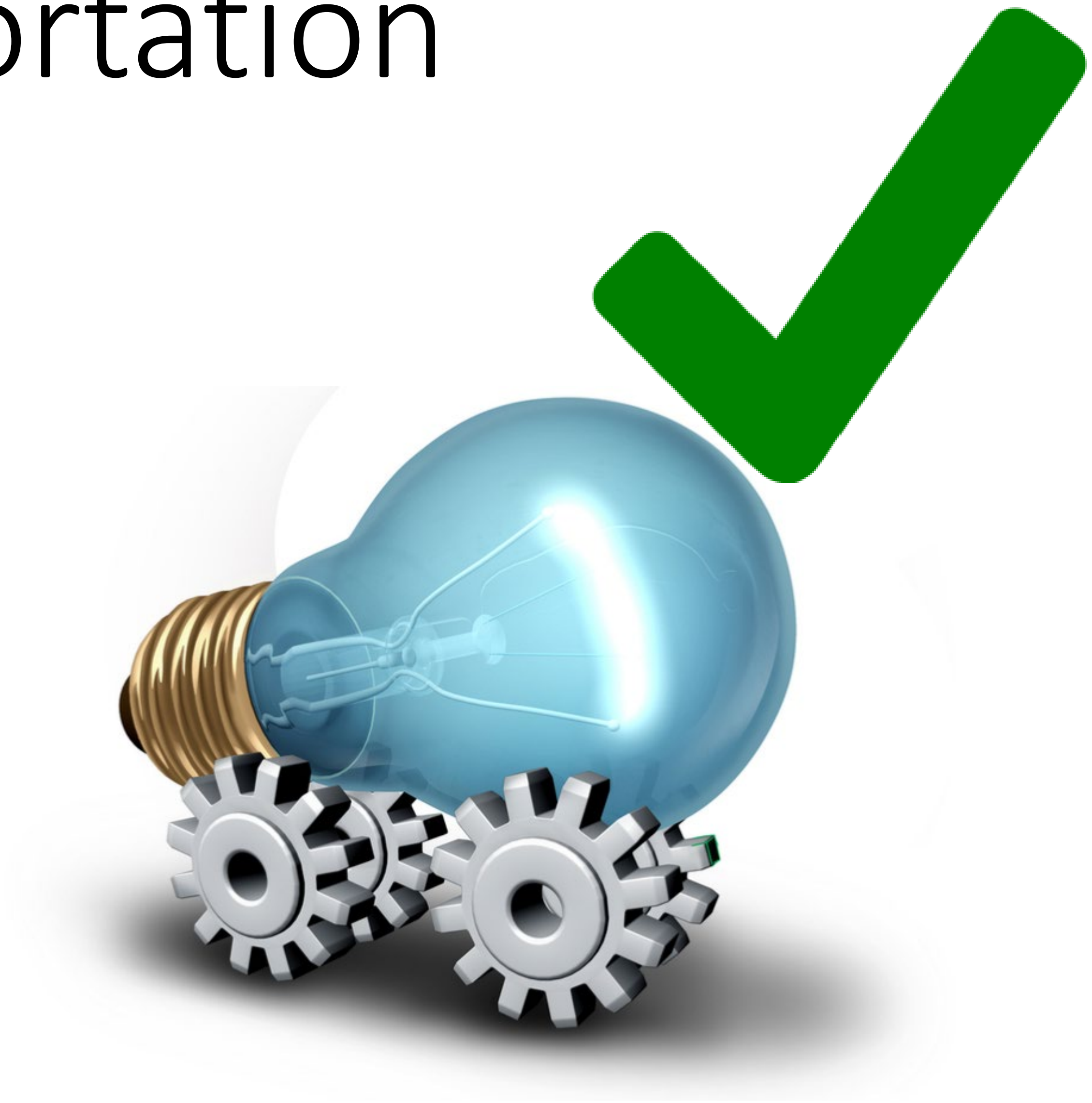
PPP Forgiveness Expenses

	8 Week		24 week	
	Owner	Employee	Owner	Employee
Salaries	15,385	15,385	20,833	46,154

- Employer paid portions of health insurance for employees
- Employer paid retirement contributions/matches for employees
- Interest expense on business loans backed by tangible property
- Rent and leases of tangible property
- Utilities - electricity, gas, water, telephone, internet and ….

  ….. transportation?

Transportation



Checklist for Using SBA Form 3508EZ

You (the Borrower) can apply for forgiveness of your Paycheck Protection Program (PPP) loan using this SBA Form 3508EZ if you can check at least one of the three boxes below. Do not submit this Checklist with your SBA Form 3508EZ.

☐ The Borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in the Borrower Application Form (SBA Form 2483).

☐ The Borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020 (for purposes of this statement, “employees” means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than $100,000);

AND

The Borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period. (Ignore reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020. Also ignore reductions in an employee’s hours that the Borrower offered to restore and the employee refused. See 85 FR 33004, 33007 (June 1, 2020) for more details.

☐ The Borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020 (for purposes of this statement, “employees” means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than $100,000);

AND

The Borrower was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to $100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		**Box 1**	**Box 2**	**Box 3**

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than $100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		**Box 4**	**Box 5**

Attach additional tables if additional rows are needed.

COVID Payroll Tax Credits

- CARES Act (Coronavirus Aid, Relief, and Economic Security Act) - 1 credit
  - COVID-19 Employee Retention Credit

- FFCRA PTO (Families First Coronavirus Response Act) - 2 Credits
  - Emergency Paid and Sick Leave Act (EPSLA)
  - Emergency Family and Medical Leave Expansion Act (Expanded FMLA)


CARES
ACT

COVID-19 Employee Retention Credit

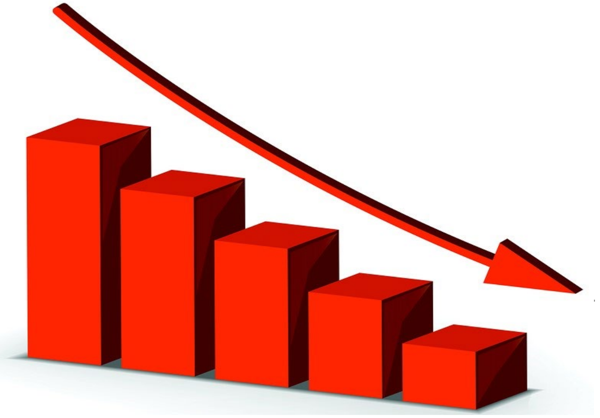
- If employer
  - Fully or partially suspended operations due to government orders limiting commerce, travel or group meetings - OR –
  - Experiences a significant decline in gross receipts during the calendar quarter

- Cannot take if received PPP loan
  - Unless PPP loan was paid back by May 14, 2020

Suspended operations

- Can be somewhat difficult to meet.
- Stay at home orders do not count.
- Forced to work remotely does not count
- Reduction in hours due to government mandate counts.

Decline in Gross Receipts



- Easier to pass

- Begins - during quarter in which receipts are less than 50% of 2019

- Ends - during quarter in which receipts are greater than 80% of 2019

Decline in Gross Receipts - Examples

	Q1	Q2	Q3	Q4
2019	100,000	120,000	110,000	130,000
2020	81,000	59,000	91,000	120,000
%	81%	49%	83%	92%
		Begin	End	

	Q1	Q2	Q3	Q4
2019	220,000	215,000	218,000	220,000
2020	105,000	145,000	190,000	200,000
%	48%	67%	87%	91%
	Begin		End	

Eligible Employees

- No owners (>50% ownership) or persons related to owners

- Only employees

Qualified Wages

- First $ 10,000 per employee
- **Paid** during March 13, 2020 - December 31, 2020
- Includes wages subject to FICA taxes
- Includes qualified health plan expenses
- No double dipping

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Qualified Wages - More than 100 employees

- Includes health insurance premiums for furloughed employees
- Includes reduced hours but full pay
- Does not include amounts paid under PTO and Holiday pay policies
- Does not include salary increases for hazard pay or reduction in hours

Taking the credit

- Credit is equal to half of each employees qualifying wages
- Claimed against employer portion of social security (and railroad) taxes
- On Form 941 (or 944/943 as applicable)
- What about the first quarter?

Advanced Access to Credit

- Employers can reduce employment tax deposits throughout the quarter
- Employment taxes that the employer can retain include:
- federal income tax withheld from employees
  - the employees' share of social security and Medicare tax
  - and the employer's share of social security and Medicare tax
- FFCRA comes first

Credit > than deposits = Form 7200

Form **7200** (March 2020) Department of the Treasury Internal Revenue Service

Advance Payment of Employer Credits Due to COVID-19

▶ Go to *www.irs.gov/Form7200* for instructions and the latest information.

OMB No. 1545-0029

Name (not your trade name) **Simply Soap, Inc.**	Employer identification number (EIN) **14-8761115**
Trade name (if any)	Applicable calendar quarter (check one) (2) ☑ April, May, June (3) ☐ July, August, September (4) ☐ October, November, December
Number, street, and apt. or suite no. If a P.O. box, see instructions. **321 Sudsy Lane**	
City or town, state, and ZIP code. If a foreign address, also complete spaces below. (See instructions.) **Waterloo, IN 48446**	
Foreign country name / Foreign province/county	Foreign postal code
Does a third-party payer file your employment tax return? (See instructions.) If "Yes," enter its name.	Third-party payer's EIN (if applicable)

Tip: File Form 7200 if you can't reduce your employment tax deposits to fully account for these credits that you expect to claim on your employment tax return for the applicable quarter. Don't reduce your employment tax deposits and request advanced credits for the same expected credits. You will need to reconcile your advanced credits and reduced deposits on your employment tax return. You can't request an advance payment of the credit for sick and family leave for self-employed individuals.

Part I Tell Us About Your Employment Tax Return

A Check the box to indicate which employment tax return form you file (or will file for 2020):
(1) ☑ 941, 941-PR, or 941-SS (2) ☐ 943 or 943-PR (3) ☐ 944 or 944(SP) (4) ☐ CT-1

B Is this a new business started on or after January 1, 2020? ▶ ☐ Yes ☑ No
If "Yes," skip line C unless you've already filed Form 941, Form 941-PR, or Form 941-SS for at least one quarter of 2020.

C Amount reported on line 2 of your most recently filed Form 941 (or wages reported on Schedule R (Form 941), column (c), by your third-party payer (see instructions)). If you file a different employment tax return, see instructions ▶ 140,000.00

D Enter the total number of employees you have. See instructions ▶ 25

Part II Enter Your Credits and Advance Requested

1	Total employee retention credit for the quarter. See instructions			1	22,500.00
2	Total qualified sick leave wages eligible for the credit and paid this quarter. See instructions			2	
3	Total qualified family leave wages eligible for the credit and paid this quarter. See instructions			3	
4	Add lines 1, 2, and 3			4	22,500.00
5	Total amount by which you have already reduced your federal employment tax deposits for these credits for this quarter	5	10,000.00		
6	Total advanced credits requested on previous filings of this form for this quarter	6			
7	Add lines 5 and 6			7	10,000.00
8	**Advance requested.** Subtract line 7 from line 4. If zero or less, don't file this form			8	12,500.00

Third-Party Designee
Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details. ☐ **Yes.** Complete below. ☑ **No**
Designee's name ▶ and phone number ▶
Select a 5-digit personal identification number (PIN) to use when talking to the IRS ▶

Sign Here
Under penalties of perjury, I declare that I have examined this form, including any accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature *Dana Wilson* Date 5/1/2020 Printed title **President**
Printed name Best daytime phone

Paid Preparer Use Only
Print/Type preparer's name | Preparer's signature | Date | PTIN | Check ☐ if self-employed
Firm's name ▶ Firm's EIN ▶
Firm's address ▶ Phone no.

How To File Fax your completed form to 855-248-0552.

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 56392D Form **7200** (3-2020)

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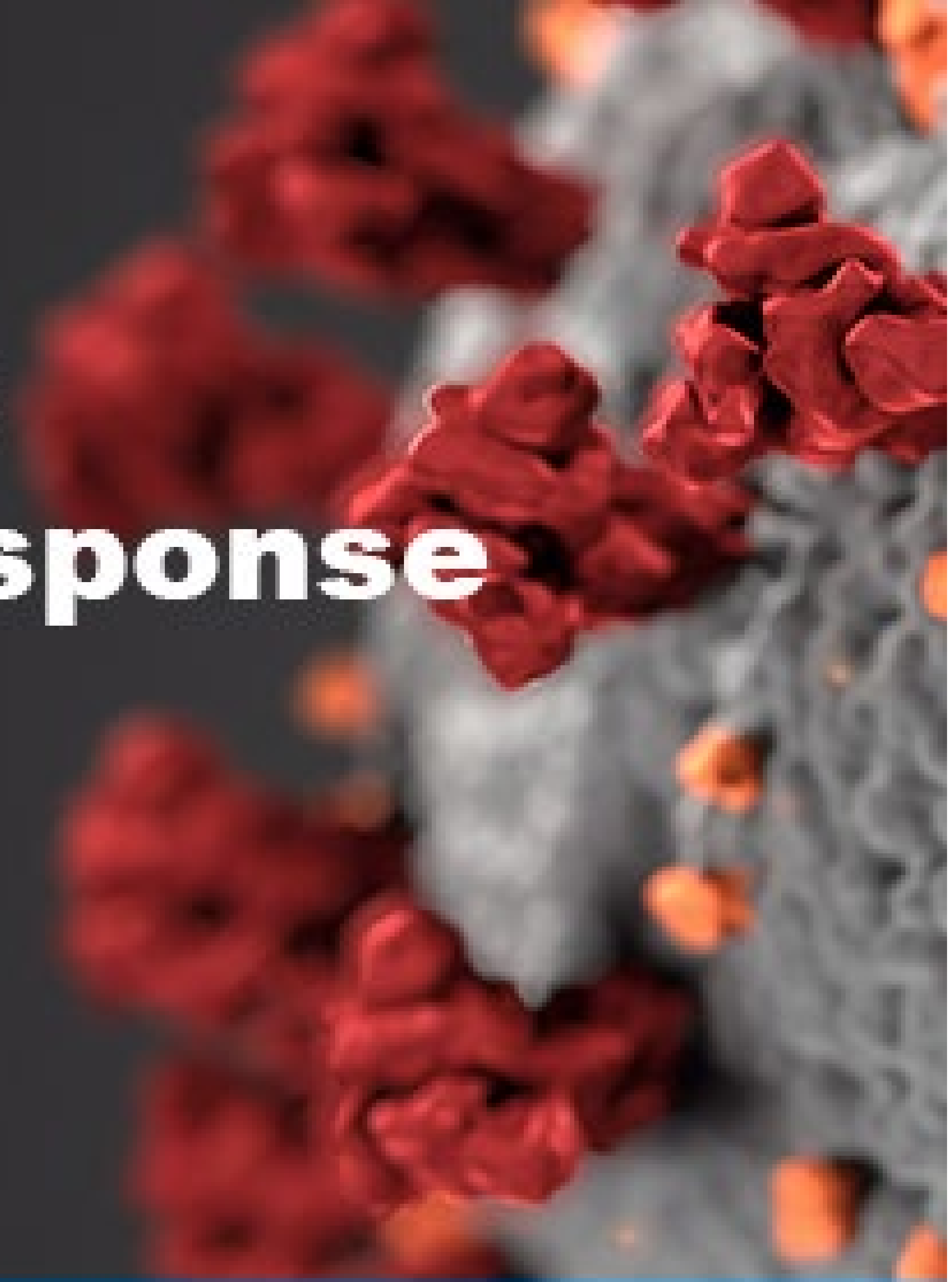
The **Family First Coronavirus Response Act** (FFCRA)



The FFCRA is

- Required PTO in addition to any PTO policies the employer already has in place

- Employers get fully refundable dollar-for-dollar tax credit against payroll taxes for the wages paid.

- Includes relief from employer social security taxes (not medicare)

What employers does FFCRA all apply to?

- Private employers with fewer than 500 employees
- Public employers of any size
- In effect from April 1, 2020 - December 31, 2020

Emergency Paid and Sick Leave Act (EPSLA)

- Entitles certain employees to take up to two weeks of paid leave

Emergency Family and Medical Leave Expansion Act (Expanded FMLA)

- Entitles certain employees to take up to 12 weeks of expanded family and medical leave

Emergency Paid and Sick Leave Act (EPSLA)

- **Benefit**: 80 hours (2 weeks) paid sick leave (Prorated for part-time)
- **Rate**:
  - Regular rate of pay for self care (cap $511/day)
  - 2/3 pay to care for family member (cap $200/day)
- **Reason for Leave:** Unable to work or telework because…
  - Subject to government quarantine/isolation order
  - Advised by healthcare provider to self-quarantine
  - Experiencing symptoms and seeking medical diagnosis or treatment
  - Caring for family member subject to quarantine, school closure
- **Use**: Available on 1st day of employment, employee entitled to use before any other employer-provided paid leave

Emergency Family and Medical Leave Expansion Act (Expanded FMLA)

- **Benefit**: 12 weeks PFML, job-protected (exc: <25 certain circumst)
- **Eligibility**: Employed for 30 days
- **Rate**: First 10 days not paid (covered by paid sick leave)
  - 2/3 of regular rate of pay (cap $200/day and $10,000 total)
- **Qualifying Need:** Unable to work or telework because…
  - Caring for child under 18 due to COVID-19-related school closure
- **Use**: Employee may choose to run other paid leave concurrently (i.e. to "top-off" pay)

No Carryovers or Payouts

April 1, 2020 - December 31, 2020

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FFCRA PTO

- Qualified Sick Leave Wages (I.E. FFCRA Time Off)
  - Are going to be reported in boxes 1, 3 and 5, and the employer must report to the employee the follow type and amount of wages that were paid, with each amount separately reported in either Box 14 of the W2 or on a separate statement:
    - Sick leave wages subject to the $511/day limit
    - Sick leave wages subject to the $200/day limit
    - Emergency family leave wages
- Sick Leave Credit
  - Available to individuals as if they were employees (Form 7202), so this reporting requirement prevents employees who are separately self-employed from double dipping

How Employee Requests:

- Employee must provide the following information to the employer:
- Employee's name
- Date(s) for which leave is requested
- Qualifying reason for the leave and support for the reason
- Statement that the employee is unable to work, including telework, because of the reason

DOL Temp. Reg. 826.100(a) & DOL FAQ 16

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Additional information if request is related to school or childcare closure

- Name of your child
- The name of the school, place of care, or childcare provider that has closed or become unavailable; and
- A statement that no other suitable person is available to care for your child

FFCRA Employer Exemptions

- Small business exemption

- Applies to providing emergency paid sick leave due to a child's school or place of care closure or childcare provider unavailability for COVID-19 related reasons.

FFCRA Employer Exemptions Cont.

- Health Care Providers -
- Emergency Responders -

Taking the credit

- Similar to Employer Retention Credit:
  - Is taken against taxes due on the 941 (or 944/943 as applicable)
  - Advanced payment can be requested by filing Form 7200

IRS Final Guidance on §274 Meals vs. Entertainment

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Meals vs. Entertainment

- IRS Final Regulations Issued Oct 9, 2020
- Section 274(a)(1)(A) disallows a deduction for entertainment expenditures.
  - There used to be an exception for business related entertainment expenditures.
  - The TCJA removed the exception

Meals vs. Entertainment Cont.

- Not all entertainment is non-deductible
  - Nine general exceptions
    - 1) Food and beverages for employees on employer's business premise
    - 2) Treated as employee compensation
    - 3) Reimbursed expenses
    - 4) Recreation expenses for employees
    - 5) Business meetings of employees, stockholders, agents or directors
    - 6) Meetings of business leagues (board meetings)
    - 7) Items available to general public
    - 8) Entertainment sold to customers (bona fide transaction)
    - 9) Provided to a non-employee where income would be recognized by that non-employees (prizes and awards)

Meals vs. Entertainment Cont.

- Controversies - that have been clarified
  - Food & beverages provided at an entertainment activity
  - Travel meals still per diem rate
  - Food industry

Other Payroll Credits

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Section 45S:
Employer Credit for Paid Family and Medical Leave

- Jan 1, 2018 - Dec 31, 2020
- Employers can qualify for a tax credit if they pay wages to while the employee is on family and medical leave (FMLA leave)
- This is similar to, but separate from, any of the COVID credits
- No double dipping

FMLA Leave

Family and medical leave

is leave for [IRC Sec. 45S(e)(1)]—

1. birth, adoption, or fostering of a child or to care for that child;
2. care for a spouse, child, or parent with a serious health condition;
3. employee's serious health condition that makes the employee unable to perform the functions of their position;
4. qualifying need arising when a spouse, child, or parent is a member of the Armed Forces on covered active duty (or has been notified of a call or order to covered active duty); or
5. care for a spouse, child, or parent who is a covered veteran or member of the Armed Forces with a serious injury or illness.

Section 45S:
Employer Credit for Paid Family and Medical Leave Cont.

- Eligible employees
  - Full-time employee
  - Part-time employee
  - Full time vs. part time

Section 45S:
Employer Credit for Paid Family and Medical Leave Cont.

Employee's normal weekly wage:	$	1,000	$	1,000	$	1,000	$	1,000	
Employer provided FMLA weekly wage:	$	490	$	500	$	700	$	1,000	
Percentage of normal wage:		49%		50%		70%		100%	
Base Credit		0.00%		12.50%		12.50%		12.50%	
Increases for above 50%		0.00%		0.00%		5.00%		12.50%	=(Wage % - 50% x 0.25)
Total Credit Amount (max 25%)		0.00%		12.50%		17.50%		25.00%	
Calculation of weekly credit amount									
Wages Paid		490		500		700		1,000	
Credit percentage		0.00%		12.50%		17.50%		25.00%	
Credit amount	$	-	$	62.50	$	122.50	$	250.00	

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Eligible Wages

- All compensation paid and benefits
- State insurance funds do not count towards wages
- Paid leave under an employer's short-term disability program is added to wages

Written Policy Requirements

- How to provide the notice
- Exceptions to providing notice

Section 45S: Employer Credit for Paid Family and Medical Leave

- Reported on From 8994

Form **8994**
Department of the Treasury
Internal Revenue Service

Employer Credit for Paid Family and Medical Leave

► Attach to your tax return.
► Go to *www.irs.gov/Form8994* for instructions and the latest information.

OMB No. 1545-2282
2019
Attachment Sequence No. **994**

Name(s) shown on return	**Identifying number**

A Do you have a written policy providing for at least 2 weeks of annual paid family and medical leave for your qualifying employee(s) to whom wages are paid (prorated for any part-time employees)? See instructions.
☐ **Yes.**
☐ **No.** Stop. Do not file Form 8994 (see instructions for an exception that may apply to a partnership or S corporation).

B Does the written policy provide paid family and medical leave of at least 50% of the wages normally paid to a qualifying employee? See instructions.
☐ **Yes.**
☐ **No.** Stop. Do not file Form 8994 (see instructions for an exception that may apply to a partnership or S corporation).

C Did you pay family and medical leave to at least one qualifying employee during the tax year? See instructions.
☐ **Yes.**
☐ **No.** Stop. Do not file Form 8994 (see instructions for an exception that may apply to a partnership or S corporation).

D If you employed at least one qualifying employee who was not covered by the Family and Medical Leave Act, did you include in your written policy and otherwise comply with "non-interference" language? See instructions.
☐ **Yes.**
☐ **No.** Stop. Do not file Form 8994 (see instructions for an exception that may apply to a partnership or S corporation).

1	Enter the total paid family and medical leave credit figured for wages paid during your tax year to your qualifying employee(s) while on family and medical leave (if you use the Paid Family and Medical Leave Credit Worksheet, the total from column (d)). See instructions for the adjustment you must make to your deduction for salaries and wages	**1**	
2	Employer credit for paid family and medical leave from partnerships and S corporations (see instructions)	**2**	
3	Add lines 1 and 2. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 4j	**3**	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 37804G Form **8994** (2019)

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Work Opportunity Tax Credit

W.O.T.C
WORK OPPORTUNITY TAX CREDIT

- Can be claimed by employers on an elective basis for a portion of first year wages paid to employees who fall into certain targeted groups (e.g., economically disadvantaged, disabled persons, or certain veterans)
- First day of work on or before 12/31/2020

Work Opportunity Tax Credit Cont.

- Groups
  - Qualified IV-A recipient
  - Qualified ex-felon
  - Vocational rehabilitation referral
  - Qualified SNAP recipient
  - Qualified SSI recipient
  - Long-term assistance recipient
  - Qualified veteran - various qualifications

Work Opportunity Tax Credit Cont.

- Qualified veteran
  - Received SNAP
  - Service-connected disability and is hired not more than one year
  - Service-connected disability and who was unemployed for at least six months
  - Unemployed for at least four weeks
  - Unemployed for at least six months

Work Opportunity Tax Credit Cont.

- Use Form 8850 to certify individuals. Due to state workforce agency no later than 28th day after work begins
- In general
  - First Year
  - Second year
- Several categories have more available
  - $12,000
  - $14,000
  - $24,000
- Certain criteria make less available
- Related employees do not count

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Reporting credit

- For profit entity - Form 5884
- Tax-exempt - Form 5884-C

Form **5884**

(Rev. December 2016)
Department of the Treasury
Internal Revenue Service

Work Opportunity Credit

▶ Attach to your tax return.
▶ Information about Form 5884 and its separate instructions is at *www.irs.gov/form5884*.

OMB No. 1545-0219
Attachment Sequence No. **77**

Name(s) shown on return	Identifying number

1	Enter on the applicable line below the total qualified first- or second-year wages paid or incurred during the tax year, and multiply by the percentage shown, for services of employees who are certified as members of a targeted group.		
a	Qualified first-year wages of employees who worked for you at least 120 hours but fewer than 400 hours . $ ______ × 25% (0.25)	1a	
b	Qualified first-year wages of employees who worked for you at least 400 hours . . . . $ ______ × 40% (0.40)	1b	
c	Qualified second-year wages of employees certified as long-term family assistance recipients . . . . $ ______ × 50% (0.50)	1c	
2	Add lines 1a, 1b, and 1c. See instructions for the adjustment you must make to salaries and wages	2	
3	Work opportunity credit from partnerships, S corporations, cooperatives, estates, and trusts (see instructions)	3	
4	Add lines 2 and 3. Cooperatives, estates, and trusts, go to line 5. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 4b	4	
5	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)	5	
6	Cooperatives, estates, and trusts, subtract line 5 from line 4. Report this amount on Form 3800, Part III, line 4b	6	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13570D Form **5884** (Rev. 12-2016)

Form **5884-C**

(Rev. March 2018)
Department of the Treasury
Internal Revenue Service

Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans

▶ File this form separately; do not attach it to your return.
▶ Information about Form 5884-C and its instructions is at www.irs.gov/form5884c.

Name (not trade name) shown on Form 941 or other employment tax return	Employer identification number
Kids Charities	13-1231325

Trade name (if any)

Number, street, and room or suite no. If a P.O. box, see instructions.
123 Charity Lane

City or town, state, and ZIP code
Norfolk, VA 23501

1 Is the organization a qualified tax-exempt organization (an organization described in section 501(c) and exempt from tax under section 501(a))? (see instructions) . . . . ☒ Yes ☐ No
If "Yes," go to line 2. If "No," do not file this form; the organization cannot claim this credit.

2 Check a box to indicate the employment tax return the organization filed to report wages paid to a qualified veteran:
a ☒ Form 941 b ☐ Form 941-PR c ☐ Form 941-SS d ☐ Form 943 e ☐ Form 943-PR
f ☐ Form 944 (or 944(SP)) g ☐ Form 944-PR h ☐ Form 944-SS

3 Check a box or boxes to indicate the employment tax period for which the organization is claiming this credit (see instructions):
a Check year: ☐ 2011 ☐ 2012 ☐ 2013 ☐ 2014 ☐ 2015 ☐ 2016 ☐ 2017 ☐ 2018 ☒ 2019 ☐ 2020
b Check quarter (if applicable): ☐ 1: January, February, March ☐ 2: April, May, June ☐ 3: July, August, September ☒ 4: October, November, December

4a	See instructions and enter the total qualified first-year wages paid through the end of the employment tax period indicated on line 3 to all employees certified as qualified veterans who began working for you on or after November 22, 2011, and who worked for you for at least 400 hours (as of the date you file this form) . . .	4a	23,040		
b	Multiply line 4a by 26% (0.26)			4b	5,990
5a	See instructions and enter the total qualified first-year wages paid through the end of the employment tax period indicated on line 3 to all employees certified as qualified veterans who began working for you on or after November 22, 2011, and who worked for you for at least 120 hours but fewer than 400 hours (as of the date you file this form) . . .	5a			
b	Multiply line 5a by 16.25% (0.1625)			5b	
6	Add lines 4b and 5b			6	5,990
7	Enter the total amount of credits claimed on line 11 (minus any amounts reported on line 12) of any Forms 5884-C filed for prior employment tax periods (see instructions) . . .			7	4,306
	Note: *If line 7 is greater than line 6, skip lines 8 through 11 and go to line 12. Otherwise, go to line 8.*				
8	Subtract line 7 from line 6			8	1,684
9	Enter total taxable social security wages and tips reported on the return indicated on line 2 for the period indicated on line 3 (see instructions) . . .			9	35,484
	Note: *If you filed a corrected return (for example, Form 941-X) for the period indicated on line 3, enter the amount as corrected.*				
10	Multiply line 9 by 6.2% (0.062)			10	2,200
11	**Credit claimed for the employment tax period indicated on line 3.** Enter the smaller of line 8 or line 10. This is the amount that will be refunded to you. Stop here, sign, and mail this form to the address below (see instructions) . . .			11	1,684
12	If line 7 is greater than line 6, subtract line 6 from line 7. This is the amount you owe. Sign and mail this form to the address below with your payment for this amount (see instructions) . . .			12	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer is based on all information of which preparer has any knowledge.

Sign Here Daytime telephone number
Martin Fowler — Signature of officer | CFO — Title | 2/2/2020 — Date

Paid Preparer Use Only
Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN
Firm's name ▶ | Firm's EIN ▶
Firm's address ▶ | Phone no.

Send Form 5884-C to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201

For Paperwork Reduction Act Notice, see instructions. Cat. No. 38030C Form **5884-C** (Rev. 3-2018)

Earned Income Credit

- Refundable tax credit available to taxpayers with earned income who meet certain requirements

Earned Income Credit and Required Notices

- Under IRC Sec. 32, a refundable tax credit is available to taxpayers with earned income who meet certain requirements, including adjusted gross income (AGI) thresholds. The earned income credit(EIC) is available to certain low-income and moderate-income taxpayers whether or not they have a qualifying child.
- Required Notices
  - Employers must notify employees who have no income tax withheld that they may be able to claim a tax credit
  - Exception - if employee claims exemption from withholding on W4, then does not need to be notified
- Satisfying requirement
  - Notice appears on back of copy B of the official W2
  - If not using official W2, check back of it for notice
  - If no notice, give them Notice 797

Tax Year 2020

Qualifying Children Claimed

If filing	Zero	One	Two	Three
Single, Head of Household, or Widowed	$15,820	$41,756	$47,440	$50,954
Married Filing Jointly	$21,710	$47,646	$53,330	$56,844

Investment Income Limit
Investment income must be $3,650 or less for the year.

Maximum Credit Amounts
The maximum amount of credit for Tax Year 2020 is:

- $6,660 with three or more qualifying children
- $5,920 with two qualifying children
- $3,584 with one qualifying child
- $538 with no qualifying children.

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Earned Income Credit Cont.

- Required Notices
  - Employers must notify employees who have no income tax withheld that they may be able to claim a tax credit
  - Exception

Earned Income Credit and Required Notices Cont.

- Satisfying requirement
  - Notice appears on back of copy B of the official W2
  - If not using official W2, check back of it for notice
  - If no notice, give them Notice 797

Notice to Employee

Do you have to file? Refer to the Instructions for Forms 1040 and 1040-SR to determine if you are required to file a tax return. Even if you don't have to file a tax return, you may be eligible for a refund if box 2 shows an amount or if you are eligible for any credit.

Earned income credit (EIC). You may be able to take the EIC for 2020 if your adjusted gross income (AGI) is less than a certain amount. The amount of the credit is based on income and family size. Workers without children could qualify for a smaller credit. You and any qualifying children must have valid social security numbers (SSNs). You can't take the EIC if your investment income is more than the specified amount for 2020 or if income is earned for services provided while you were an inmate at a penal institution. For 2020 income limits and more information, visit *www.irs.gov/EITC*. See also Pub. 596, Earned Income Credit. **Any EIC that is more than your tax liability is refunded to you, but only if you file a tax return.**

Qualified Small Business Payroll Tax Credit for Increasing Research Activities

- Qualified small businesses are allowed to take a portion of the Research Credit as a credit against payroll taxes
- We are going to be focusing on specifics to the payroll tax credit election

Qualified Small Business Payroll Tax Credit for Increasing Research Activities Cont.

- Qualified Research
  - Research for which expenses may be treated as section 174 expenses.
    - technological in nature, intended for use in developing a new or improved business component
    - Substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved
      - function,
      - performance,
      - reliability, or
      - quality.
  - When is the research credit not allowed?

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Qualified Small Business Payroll Tax Credit for Increasing Research Activities Cont.

- Qualifying small business - in existence for 5 years or less
  - Corporation (including an S corporation) or partnership which
    - Can pass a two-part gross receipts test
  - Sole Proprietaries if
    - If the sole proprietorships aggregates gross receipts for the test
  - Non-profit not eligible
- Calculated on Form 6765 for income tax return
- Calculated on Form 8974 for payroll tax credit

Qualified Small Business Payroll Tax Credit for Increasing Research Activities Cont.

- Calculated on Form 8974 for payroll tax credit

Form **8974:** **Qualified Small Business Payroll Tax Credit for Increasing Research Activities** 950817
(Rev. December 2017) Department of the Treasury — Internal Revenue Service OMB No. 1545-0029

Employer identification number (EIN) 74 - 3221441

Name (not your trade name) Windsor Enterprises

The credit from Part 2, line 12, will be reported on (check only one box):
- [X] Form 941, 941-PR, or 941-SS
- [ ] Form 943 or 943-PR
- [ ] Form 944 or 944(SP)

Calendar year 2020 You must select a quarter if you file Form 941, 941-PR, or 941-SS.

Report for this quarter . . .
Check only one box.
- [ ] 1: January, February, March
- [ ] 2: April, May, June
- [X] 3: July, August, September
- [ ] 4: October, November, December

Part 1: **Tell us about your income tax return.**

	(a) Ending date of income tax period	(b) Income tax return filed that included Form 6765	(c) Date income tax return was filed	(d) EIN used on Form 6765	(e) Amount from Form 6765, line 44, or if applicable, the amount that was allocated to your EIN	(f) Amount of credit from column (e) taken on a previous period(s)	(g) Remaining credit (subtract column (f) from column (e))
1	12 / 31 / 2019	1120	4 / 6 / 2020		100,000.00	0.00	100,000.00
2	/ /		/ /		.	.	.
3	/ /		/ /		.	.	.
4	/ /		/ /		.	.	.
5	/ /		/ /		.	.	.
6	Add lines 1(g) through 5(g) and enter the total here						100,000.00

Part 2: **Determine the credit that you can use this period.**

7	Enter the amount from Part 1, line 6(g)	7	100,000.00
8	Enter the amount from Form 941 (941-PR or 941-SS), line 5a, Column 2; Form 943 (943-PR), line 3; or Form 944 (944(SP)), line 4a, Column 2	8	130,000.00
9	Enter the amount from Form 941 (941-PR or 941-SS), line 5b, Column 2; or Form 944 (944(SP)), line 4b, Column 2	9	0.00
10	Add lines 8 and 9	10	130,000.00
11	Multiply line 10 by 50% (0.50). Check this box [ ] if you're a third-party payer of sick pay or check this box [ ] if you received a Section 3121(q) Notice and Demand. See the instructions before completing line 11	11	65,000.00
12	**Credit.** Enter the smaller of line 7 or line 11. Also enter this amount on Form 941 (941-PR or 941-SS), line 11; Form 943 (943-PR), line 12; or Form 944 (944(SP)), line 8	12	65,000.00

For Paperwork Reduction Act Notice, see the separate instructions. www.irs.gov/Form8974 Cat. No. 37797C Form **8974** (Rev. 12-2017)

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Multistate Issues

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Unemployment Taxes

- Answer: Determining which state to pay SUI
  - Four factor tiered test
    - Services Localized
    - Base of Operations
    - Direction and Control
    - Residence

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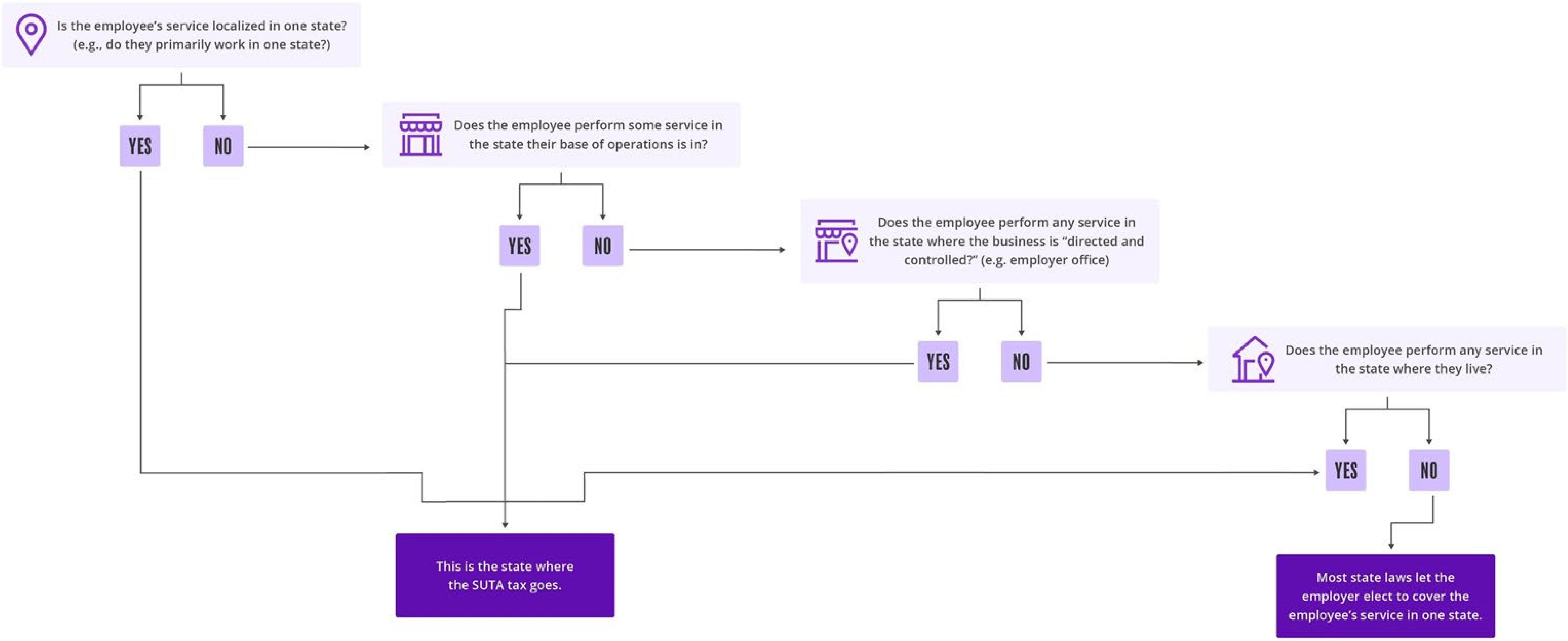
STATE UNEMPLOYMENT DETERMINATION FLOWCHART



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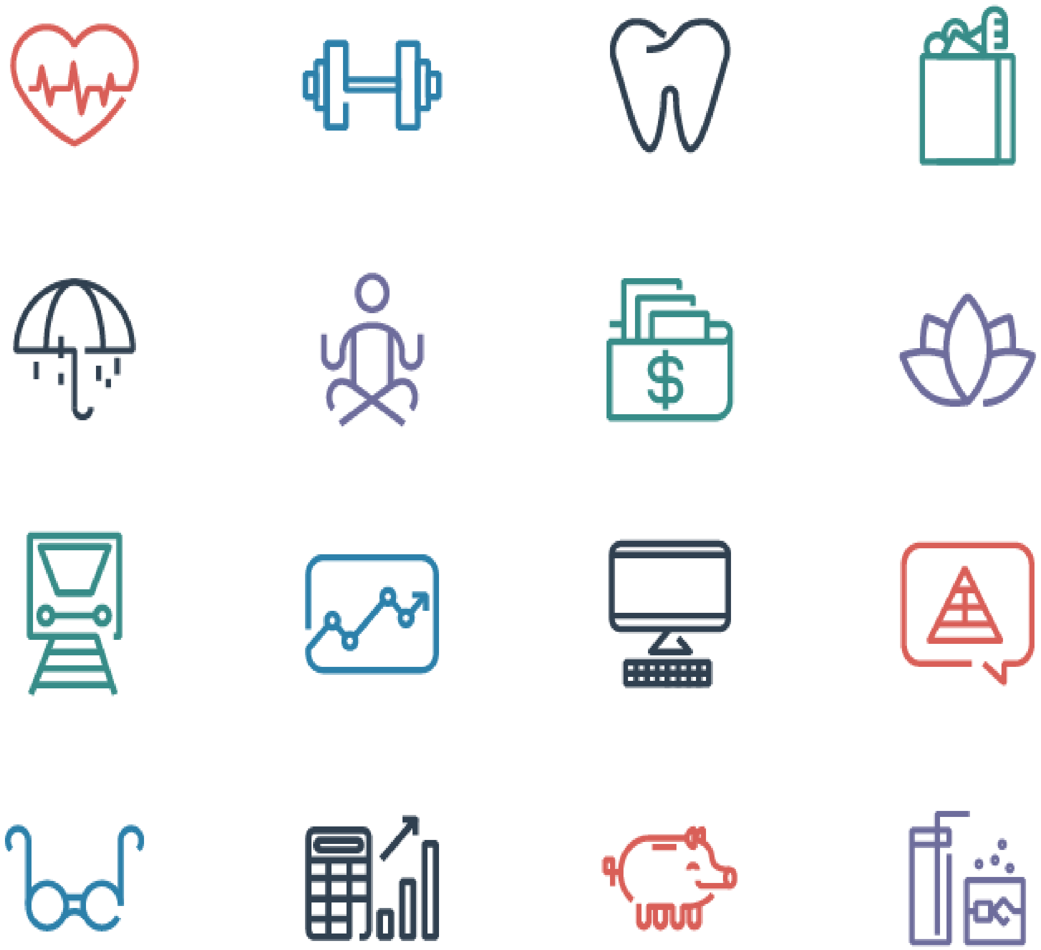
Unemployment Taxes Cont.

- What if employee moves?
- Credits and Reciprocity

If you're a resident of...	and you work in...	Submit this exemption form to your employer
California, Indiana, Oregon, or Virginia	Arizona	WEC
Anywhere other than District of Columbia	District of Columbia	D-4A
Iowa, Kentucky, Michigan, or Wisconsin	Illinois	IL-W-5-NR
Kentucky, Michigan, Ohio, Pennsylvania, or Wisconsin	Indiana	WH-47
Illinois	Iowa	44-016
Illinois, Indiana, Michigan, Ohio, Virginia, West Virginia, or Wisconsin	Kentucky	42A809
District of Columbia, Pennsylvania, Virginia, or West Virginia	Maryland	MW 507
Illinois, Indiana, Kentucky, Minnesota, Ohio, or Wisconsin	Michigan	Per Revenue Administrative Bulletin 2017-13, employers can create their own form or employees can provide a letter.
Michigan or North Dakota	Minnesota	MWR
North Dakota	Montana	MT-R
Pennsylvania	New Jersey	NJ-165
Minnesota or Montana	North Dakota	NDW-R
Indiana, Kentucky, Michigan, Pennsylvania, or West Virginia	Ohio	IT-4NR
Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia	Pennsylvania	REV-419
District of Columbia, Kentucky, Maryland, Pennsylvania, or West Virginia	Virginia	VA-4
Kentucky, Maryland, Ohio, Pennsylvania, or Virginia	West Virginia	WV/IT-104 R
Illinois, Indiana, Kentucky, or Michigan	Wisconsin	W-220

Employee Benefits



Exclusion for Certain Employer Payments of Student Loans

- In general - They are reportable as wages in box 1, and subject to all employment taxes
- Exception - Qualified Educational Assistance Programs (Qualified EAPs)

Exclusion for Certain Employer Payments of Student Loans Cont.

- Qualified EAPs
  - Eligibility
    - Must apply to a classification of employees
    - Must not favor highly compensated employees or their dependents
    - Not more than 5% of total assistant payments may be provided to 5% or more owners or shareholders, including their spouses and dependents
    - The program cannot be an option between the programs benefit and another benefit

Exclusion for Certain Employer Payments of Student Loans Cont.

- Eligible assistance
  - Up to $5,250 per employee for
    - Educational expenses - including, but not limited to, tuition, fees, and similar payments, books, supplies, and equipment
    - Student loan principal and/or interest paid to employee or lender before Jan 1, 2021
  - Does not include
    - Tools or supplies which may be retained by employees
    - Meals, lodging, transportation
    - Sports, games or hobbies

Inclusion of Certain OTC Medical Products as Qualified Medical Expense

- OTC Drugs and Menstrual Care Products. The CARES Act removes the prescription requirement for over-the-counter (OTC) drug reimbursements that previously applied to health FSAs, HRAs, and other accident and health plans, as well as to HSAs
- In addition, menstrual care products will now qualify as medical care for purposes of reimbursement or tax-free distribution
- These changes generally apply to expenses incurred after December 31, 2019; in the case of HSAs, they apply to amounts paid after that date


INDEPENDENT CONTRACTOR
FULL-TIME EMPLOYEE

Independent Contractor vs. Employee

- Independent contractors and employees are treated differently in several ways, including:
  - Independent contractors complete Form W-9, while employees complete Form W-4
  - Independent contractors may be issued Form 1099-NEC, while employees receive a W-2
  - No withholding is required from an independent contractor, but employees have income and FICA taxes withheld

Why is Proper Worker Classification Important?

- Worker classification affects how a worker pays their federal income tax, social security and Medicare taxes – and how they file their tax return
- Misclassifying an employee as an independent contractor can have significant tax consequences
- If the IRS reclassifies an independent contractor to an employee during an examination, it can collect the income and FICA taxes attributable to payments reclassified as wages from the employer

Common Law Rules

- The common law rules focus on three key areas to determine how much control the payer has over the worker. These areas are:
  - Behavioral control
  - Financial control
  - Relationship of the parties

Behavioral Control

- Behavioral control considers whether the payer has the legal right to direct and control not just what must be done, but how it must be done. The more control that exists, the more likely the worker’s an employee
- Factors to consider when looking at behavioral control include the type and degree of instruction given, the presence of a formal and regular evaluation process, and the type and amount of training provided

Behavioral Control Examples

- Here are some examples of instructions a company provides workers. These instructions demonstrate a desire to control the manner the worker must do a task
  - Is the worker told when and where to do the work?
  - Does the worker provide his own tools or are they provided for him?
  - Is there a dress code the worker must follow?
  - Is the worker told where to purchase supplies?
  - Is certain work required to be completed by a specific individual?
  - Can the worker hire others to assist with the work?
  - Does the worker have to follow a particular sequence to complete a task?

Financial Control

- Financial control is the second factor. This considers whether the business has the right to control the economic aspects of the worker's job

Financial Control Factors

- Here are some factors to help determine whether a company has financial control over the worker. The six categories are:
  - Significant investment
  - Expense reimbursement
  - Opportunity for profit or loss
  - Services available to the market
  - Method of payment
  - Responsibility for fixing problems

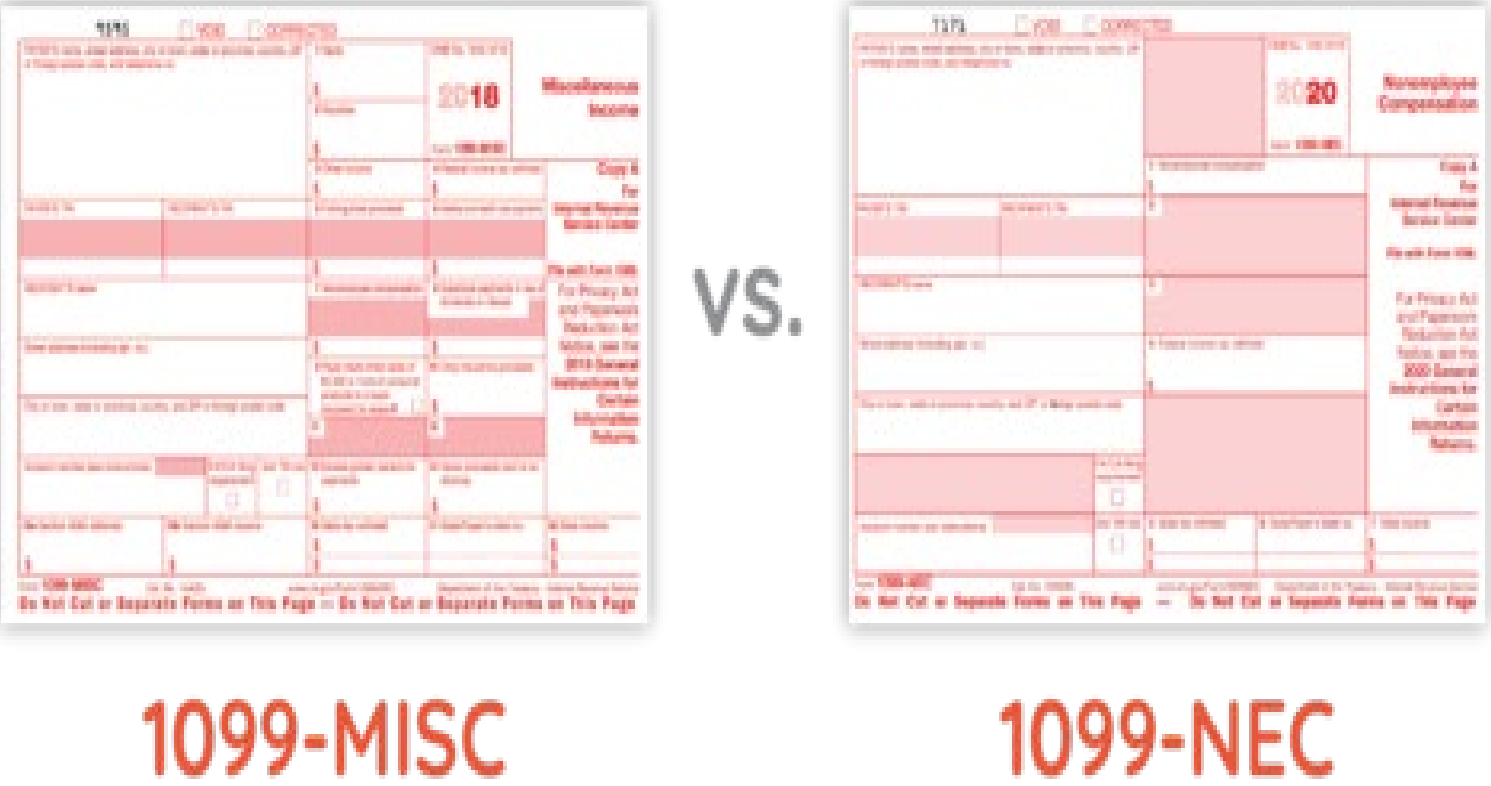
Relationship of the Parties

- The third key factor’s the relationship of the parties. This factor tries to determine what the parties intended and how they perceived their relationship. How did the worker obtain the job (bid, application, employment agency, or other)?

Relationship of the Parties Categories

- Here is how to determine the relationship of the parties involves consideration of the following categories:
  - Written contracts
  - Employee type benefits (such as a pension plan, insurance, and vacation pay)
  - Permanency of relationship
  - Ability to be terminated
  - Degree to which the work performed is a key aspect of the business

1099-MISC vs. 1099-NEC?



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What’s Changed – and Why it Matters

- In a move that will impact business owners and tax professionals across the nation, the IRS has released the 2020 Form 1099-NEC. The new form replaces Form 1099-MISC for reporting nonemployee compensation (in Box 7), shifting the role of the 1099-MISC for reporting all other types of compensation. As a result of the new 1099-NEC and redesigned 1099-MISC, the overall process for reporting nonemployee compensation is changing for the 2020 tax year

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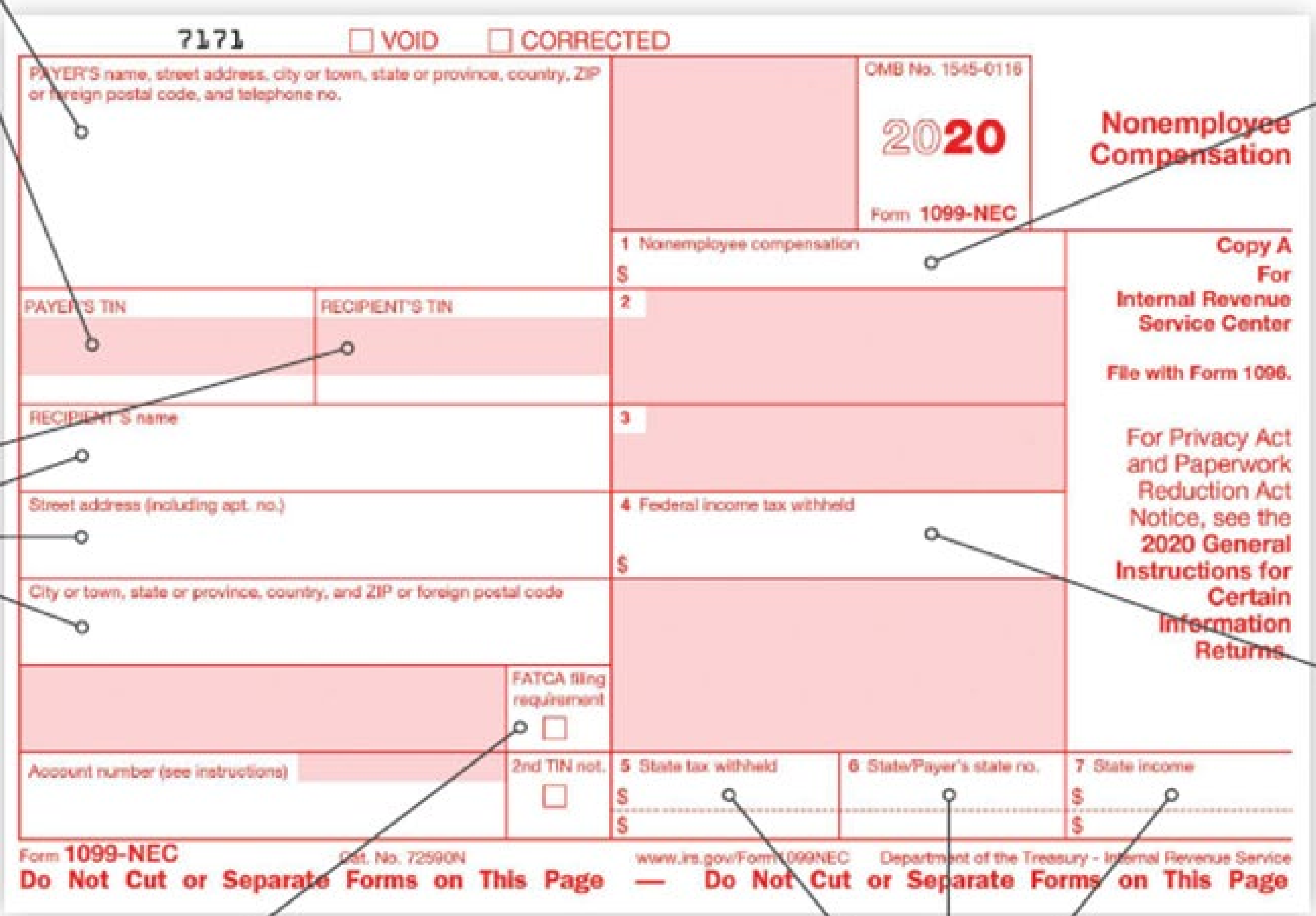
2020 Instructions for Form 1099-NEC

- The new 1099-NEC (NEC stands for Non-Employee Compensation) is based on an old form that has been out of use since 1982. To use the “reinstated” 1099-NEC properly, you need to understand what is considered nonemployee compensation. Previously reported on Box 7 of the 1099-MISC, the new 1099-NEC will capture any payments to nonemployee service providers, such as independent contractors, freelancers, vendors, consultants and other self-employed individuals (commonly referred to as 1099 workers)

Reportable Payments

- According to the IRS, a combination of these four conditions distinguishes a reportable payment:
  - It is made to someone who is not your employee
  - It is made for services in the course of your trade or business
  - It was made to an individual, partnership, estate, or, in some cases, a corporation
  - Payments were $600 or more for the calendar year

Payer's information:
Name, address, telephone number and TIN


7171 VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

OMB No. 1545-0116

2020

Form 1099-NEC

Nonemployee Compensation

1 Nonemployee compensation
$

PAYER'S TIN | RECIPIENT'S TIN

2

RECIPIENT'S name

3

Street address (including apt. no.)

4 Federal income tax withheld
$

City or town, state or province, country, and ZIP or foreign postal code

FATCA filing requirement

Account number (see instructions)

2nd TIN not.

5 State tax withheld
$
$

6 State/Payer's state no.

7 State income
$
$

Copy A
For
Internal Revenue Service Center

File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the **2020 General Instructions for Certain Information Returns.**

Form 1099-NEC Cat. No. 72590N www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Box 1:
Nonemployee compensation if you paid this person $600 or more during the year

Recipient's information:
Name, address, and TIN

Box 4:
Any federal income tax withheld

FATCA filing requirement:
To be checked for assets held in foreign countries

Boxes 5, 6 and 7:
If applicable, state taxes withheld, state identification number and amount of earned income in the state

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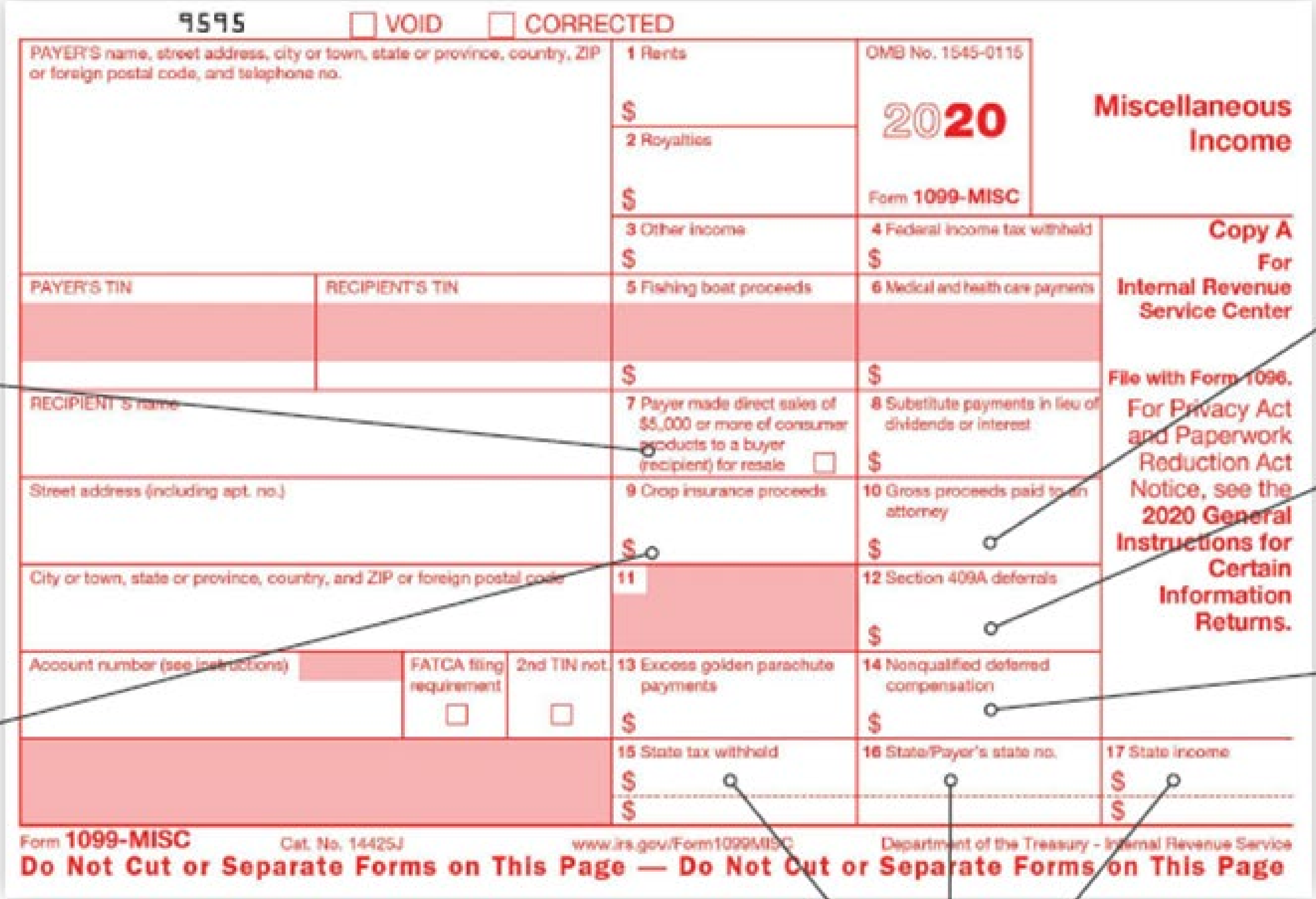
Filing and Submitting Form 1099-NEC

- Distribute to recipients by January 31. (For 2021, the date is Feb. 1, since Jan. 31 falls on a Sunday)
- File with the IRS by Jan. 31 (again, Feb. 1 in 2021) through paper or electronic filing
- As part of the Taxpayer First Act, many businesses will no longer be able to submit paper forms. For tax year 2020, the electronic filing threshold is 100 forms. Which means any business with 100 forms or more are required to e-file

2020 Instructions for Form 1099-MISC

- Because nonemployee compensation reporting has been removed from Form 1099-MISC for the 2020 tax season and beyond, the IRS has redesigned Form 1099-MISC
- The biggest change is Box 7, which was previously used for reporting nonemployee compensation. The revised form includes other changes to the box numbers for reporting miscellaneous compensation



9595 VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

1 Rents $

2 Royalties $

OMB No. 1545-0115

2020

Form 1099-MISC

Miscellaneous Income

3 Other income $

4 Federal income tax withheld $

Copy A For Internal Revenue Service Center

PAYER'S TIN | RECIPIENT'S TIN

5 Fishing boat proceeds $

6 Medical and health care payments $

File with Form 1096.

RECIPIENT'S name

7 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale

8 Substitute payments in lieu of dividends or interest $

For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.

Street address (including apt. no.)

9 Crop insurance proceeds $

10 Gross proceeds paid to an attorney $

City or town, state or province, country, and ZIP or foreign postal code

11

12 Section 409A deferrals $

Account number (see instructions)

FATCA filing requirement

2nd TIN not.

13 Excess golden parachute payments $

14 Nonqualified deferred compensation $

15 State tax withheld $ $

16 State/Payer's state no.

17 State income $ $

Form 1099-MISC Cat. No. 14425J www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Box 7:
Direct sales of $5,000 or more

Box 9:
Crop insurance proceeds

Box 10:
Gross proceeds to an attorney

Box 12:
Section 409A deferrals

Box 14:
Nonqualified deferred compensation

Boxes 15, 16 and 17:
If applicable, state taxes withheld, state identification number and amount of earned income in the state

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Filing and Submitting Form 1099-MISC

- Distribute to recipients by January 31. (For 2021, the date is Feb. 1, since Jan. 31 falls on a Sunday)
- File with the IRS by Feb. 28 (For 2021, the date is Mar. 1, since Feb. 28 falls on a Sunday) through paper or electronic filing
- As part of the Taxpayer First Act, many businesses will no longer be able to submit paper forms. For tax year 2020, the electronic filing threshold is 100 forms. Which means any business with 100 forms or more are required to e-file


QUICK
TIPS

Record Retention

State Income Tax — Retention of Employer Records

Generally, the minimum retention period begins to run from the later of the date the taxes or returns are due, paid or filed.

Most states with an income tax withholding requirement, require employers to maintain records of the following kinds of information:

- employee name and address, social security number, and occupation
- employer's copy of Forms W-2
- the amounts and dates of wage, bonus and other compensation payments, and tax withheld
- records of employer tax deposits
- records of periods and location of employment
- employee withholding exemption certificates (such as Forms W-4)

Generally, states will allow these tax records to be maintained on magnetic tapes, diskettes, and CD-ROM, as well as on microfilm, instead of retaining them as space-consuming paper records. Employers should check the specific requirements of each state where they do business.

Minimum Retention Period By State (in Years)

Alabama	5	Montana	5
Alaska	N/A	Nebraska	3
Arizona	4	Nevada	N/A
Arkansas	6	New Hampshire	N/A
California	4	New Jersey	5
Colorado	4	New Mexico	4
Connecticut	4	New York	4
Delaware	4	North Carolina	3
Dist. of Col	5	North Dakota	4
Florida	N/A	Ohio	4
Georgia	4	Oklahoma	4
Hawaii	3	Oregon	5
Idaho	3	Pennsylvania	4
Illinois	4	Puerto Rico	5
Indiana	3	Rhode Island	4
Iowa	5	South Carolina	**
Kansas	3	South Dakota	N/A
Kentucky	4	Tennessee	N/A
Louisiana	3	Texas	N/A
Maine	4	Utah	3
Maryland	3	Vermont	**
Massachusetts	3	Virginia	3
Michigan	6	Washington	N/A
Minnesota	8	West Virginia	5
Mississippi	3	Wisconsin	4
Missouri	4	Wyoming	N/A

N/A indicates that the state has no state income tax withholding requirement.

**indicates that the state has no records-retention provision.

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State Unemployment Compensation Insurance — Retention of Employer Records

The states are not uniform as to when the minimum retention periods listed below begin to run, but often the period begins at the end of the month following the quarter to which the record relates.

Most states require employers to maintain records of the following kinds of information, whether or not the employer is liable under the state's unemployment compensation law — the employee's name and address, social security number, dates of hire/separation/re-hire, payment dates for cash and non-cash wages, and the dates and hours worked.

Such records must be open for inspection by state unemployment officials at any reasonable time. Employers should check the state's employment handbook for specific requirements.

Minimum Retention Period By State (in Years)

Alabama	5	Montana	5
Alaska	5	Nebraska	4
Arizona	4	Nevada	4
Arkansas	5	New Hampshire	6
California	4	New Jersey	5
Colorado	5	New Mexico	4
Connecticut	4	New York	4
Delaware	4	North Carolina	6
Dist. of Col	5	North Dakota	5
Florida	5	Ohio	5
Georgia	7	Oklahoma	4
Hawaii	5	Oregon	3
Idaho	3	Pennsylvania	4
Illinois	5	Puerto Rico	5
Indiana	5	Rhode Island	4
Iowa	5	South Carolina	5
Kansas	5	South Dakota	4
Kentucky	6	Tennessee	7
Louisiana	5	Texas	3
Maine	4	Utah	3
Maryland	5	Vermont	4
Massachusetts	4	Virginia	4
Michigan	6	Washington	4
Minnesota	8	West Virginia	4
Mississippi	5	Wisconsin	6
Missouri	3	Wyoming	4

Federal Requirements — Retention of Employer Records

Internal Revenue Service	Any records relating to payments made to employees, employer tax reports and deposits — covering **Federal income tax withholding, social security, medicare and FUTA taxes.** For example: • employee's name, address, occupation and social security number • date of each wage payment made to the employee (including tips) • wages subject to withholding for Federal income tax, social security and medicare taxes, employee's Form W-4, employee's hire and termination dates • tip reporting records • any fringe benefits provided to the employee • copies of all Federal tax returns filed, Copy D of employee Form W-2, and Forms 940, 941, 943, and 1099-R.	at least **4 years** after the payment, deduction of taxes or due dates of returns

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U.S. Dept. of Labor (Fair Labor Standards Act)	Records must be kept on all employees, and must be retained for either two or three years, as illustrated below: • employee's name, home address, date of birth (if under 19), gender and occupation • regular rate of pay and its calculation • hours worked each weekday and workweek • straight-time earnings, and overtime earnings • inclusions and exclusions from wages (such as bonus, withheld taxes, etc.) • date of payment and the period covered	at least **3 years** from date of last data entry
	• basic employment and earnings records, time cards, piecework records • records substantiating add-itions or deductions from wages, such as wage assignments, garnishments	at least **2 years** from date of last data entry

Immigration Refonn and Control Act	INS Form I-9 (Employment Eligibility Verification Form) must be signed by the new-hire and the employer, and be readily available upon request.	at least **3 years** from date of hire or **1 year** after ter-milnation
Occupational Safety and Health Act (OSHA)	Log & Summary of Occupational Injuries and Illnesses, briefly describing recordable cases of injury and illness, extent and outcome of each incident, and summary totals for calendar year.	at least **5 years** after end of year to which records relate
Employee Retirement Income Security Act (ERISA)	Records providing basis for all required plan descriptions or reports, or necessary to certify any related information, including vouchers, worksheets, receipts and applicable resolutions.	not less than **6 years** after filing date of documents, based on the information they contain
	Records pertaining to each employee-participant in the plan for detenninations of benefits that are due or may become due	as long as relevant

Americans With Disabilities Act	Any personnel or employment record made or kept by employer, including application forms and records concerning hiring, promotion, demotion, transfer, layoff or termination, rates of pay or other terms of compensation, and selection for training or apprenticeship	at least **1 year** after the date record was made or personnel action taken, whichever is later
Age Discrimination in Employment Act	Payroll or other records containing each employee's name, address, date of birth, occupation, rate of pay, and compensation earned per week	at least **3 years**
	Personnel or employment records relating to (for example) job applications, promotion, demotion, transfer, physical exam results, and job-placement test results.	at least **1 year** after date of personnel action to which record relates

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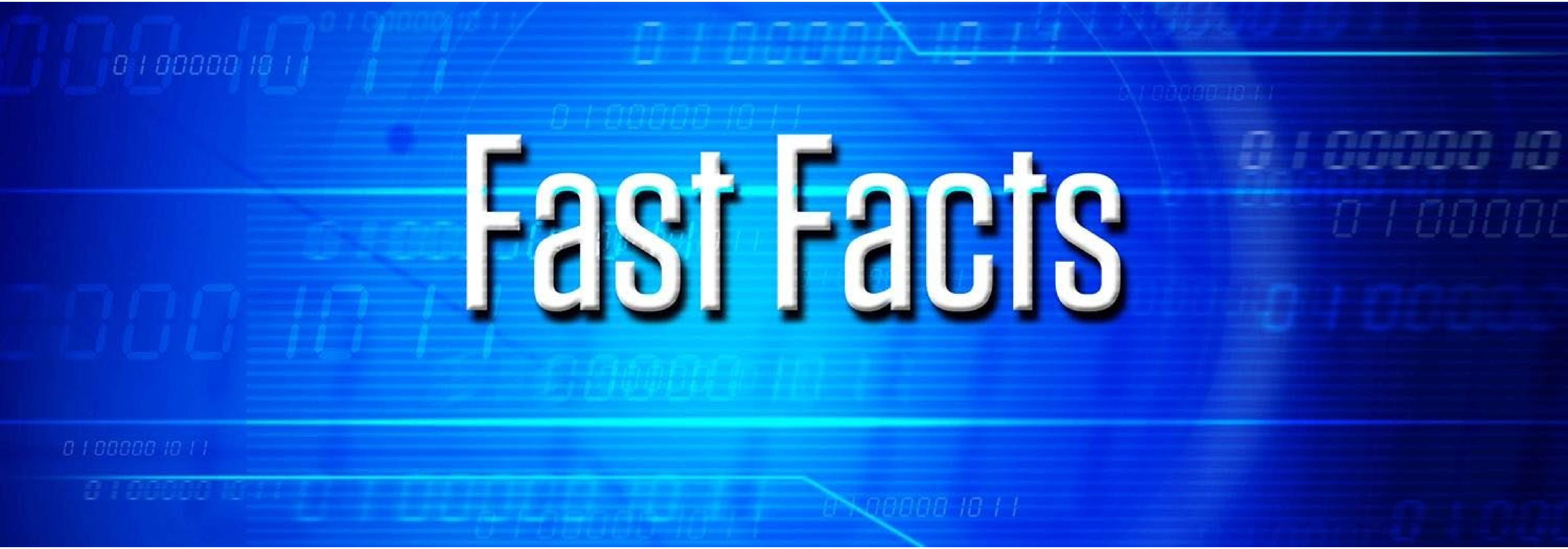

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PENSION PLAN LIMITATIONS

INTERNAL REVENUE SERVICE	2020	2019	IRC REF.
Salary Deferral (pretax) Limits			
• §401(k)/§403(b)/SEP	$ 19,500	$ 19,000	§402(g)(1)
• SIMPLE Plans	$ 13,500	$ 13,000	§408(p)(2)(E)
• State/local govt.; tax exempts	$ 19,500	$ 19,000	§457
-- §401(k) catch-up contributions	$ 6,500	$ 6,000	§414(v)(2)(B)(i)
-- Other catch-up contributions	$ 3,000	$ 3,000	§414(v)(2)(B)(ii)
Section 415 Annual Benefits Limits			
• Defined benefit plans	$ 230,000	$ 225,000	§415(b)(1)(A)
• Defined contribution plans	$ 57,000	$ 56,000	§415(c)(1)(A)
Compensation Limits			
• Qualified plans	$ 285,000	$ 280,000	§401(a)(17)
• Collectively bargained	$ 285,000	$ 280,000	§401(a)(17)
• Governmental plans	$ 425,000	$ 415,000	§401(a)(17)
Highly Compensated Levels			
• At any time 5% owner	No limit	No limit	§414(q)(1)(A)
• Any employee	$ 130,000	$ 125,000	§414(q)(1)(B)
• One of top-paid employees	Optional	Optional	§414(q)(1)(B)
Key Employee Levels			
• Highly compensated	$ 185,000	$ 180,000	§416(i)(1)(A)(i)
• 10 highest paid employees with largest interest	N/A	N/A	§416(i)(1)(A)(ii)
• 5% owner	No limit	No limit	§416(i)(1)(A)(iii)
• 1% owner	$ 150,000	$ 150,000	§416(i)(1)(A)(iv)
SEP Plans			
• Mandatory plan participation	$ 600	$ 600	§408(k)(2)(C)
• Compensation amount	$ 285,000	$ 280,000	§408(k)(3)(C)
-- Collectively bargained	$ 285,000	$ 280,000	§408(k)(3)(C)
ESOP			
• Threshold for exception to 5-yr. distribution requirement	$ 1,150,000	$1,130,000	§409(o)(1)(C)(ii)
• Incremental amt. for distribution	$ 230,000	$ 225,000	§409(o)(1)(C)(ii)
Control Employees			
• Private sector			
-- Board or shareholder-appointed or elected official	$ 115,000	$ 110,000	Reg. §1.61-21(f)
-- Any employee	$ 230,000	$ 225,000	Reg. §1.61-21(f)
• Governmental employee	$ 160,100	$ 156,000	Reg. §1.61-21(f)

SOCIAL SECURITY (OASDI) & MEDICARE (HI) TAX

Year	Fund	Wage Limit	Max. Rate	Tax
2020	OASDI	$137,700	6.20%	$8,537.40
	HI		2.35%*	No limit
	HI	All wages	1.45%**	No limit
2019	OASDI	$132,900	6.20%	$8,239.80
	HI		2.35%*	No limit
	HI	All wages	1.45%**	No limit

* *The employee HI rate is 1.45% on all wages plus an additional 0.9% on wages over $200,000.*

** *The employer HI rate is 1.45% on all wages.*

FEDERAL UNEMPLOYMENT TAX

Wage Limit	Rate	Maximum Credit	Deposit Rate
$7,000	6.0%	5.4%	0.60%

TAX-FREE COMMUTING BENEFITS (PER MONTH)

	2020	2019
Employee Parking	$ 270	$ 265
Transit Passes/Van Pools	$ 270	$ 265
Bicycle	$ 0	$ 0

FEDERAL MILEAGE RATES

	2020	2019
Business mileage	57.5¢	58.0¢
Moving	17.0¢	20.0¢
Charitable	14.0¢	14.0¢
Medical	17.0¢	20.0¢

FEDERAL MINIMUM WAGE

$7.25 per hour

LUXURY CAR

Vehicles not eligible for cents-per-mile rule*

If vehicle placed in service in 2020	Value cannot exceed . . .
Autos	$50,400
Trucks and Vans	$50,400

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STATE UI TAXABLE WAGE BASE			SUPPLEMENTAL WAGE WITHHOLDING RATES
STATE	2020	2019	
AL	$ 8,000	$ 8,000	5% or add to regular wages.
AK*	$41,500	$39,900	No state tax.
AZ	$ 7,000	$ 7,000	Compute same as regular wages.
AR**	$ 7,000	$10,000	6.6%
CA	$ 7,000	$ 7,000	(3), 6.6%, 10.23% on bonuses and options.
CO*	$13,600	$13,100	4.63% or add to regular wages.
CT	$15,000	$ 15,000	(3)
DE(4)	$16,500	$ 16,500	(3)
DC	$ 9,000	$ 9,000	(3)
FL	$ 7,000	$ 7,000	No state tax.
GA	$ 9,500	$ 9,500	2% to 5.75% depending on employee's income.
HI*	$ 48,100	$46,800	Add to regular wages.
ID*	$ 41,600	$ 40,000	6.925% or add to regular wages.
IL**	$ 12,740	$ 12,960	4.95%
IN	$ 9,500	$ 9,500	3.23%
IA*	$ 31,600	$30,600	6% or add to regular wages.
KS	$14,000	$ 14,000	5% or add to regular wages.
KY*	$10,800	$ 10,500	5% only income tax rate.
LA	$ 7,700	$ 7,700	Determine same as regular wages.
ME	$12,000	$ 12,000	5%
MD	$ 8,500	$ 8,500	Rates vary by locality.
MA	$15,000	$ 15,000	5%
MI(1)	$ 9,000	$ 9,000	4.25%
MN*	$35,000	$34,000	6.25%
MS	$14,000	$14,000	(3)
MO**	$ 11,500	$ 12,000	(3) or flat 5.4%
MT*	$ 34,100	$ 33,000	6% or add to regular wages.
NE(2)	$ 9,000	$ 9,000	5%
NV*	$32,500	$ 31,200	No state tax.
NH	$14,000	$14,000	No state tax.
NJ*	$35,300	$34,400	(3)
NM*	$25,800	$ 24,800	4.90%
NY*	$ 11,600	$ 11,400	9.62% (NYC, 4.25%; Yonkers, 1.61135%).
NC*	$25,200	$ 24,300	5.35% or add to regular wages.
ND*	$ 37,900	$ 36,400	1.84%
OH**	$ 9,000	$ 9,500	3.50%
OK*	$18,700	$ 18,100	(3), flat rate is 5%.
OR*	$ 42,100	$ 40,600	8%
PA	$10,000	$ 10,000	3.07%
PR	$ 7,000	$ 7,000	Add to regular wages.
RI(2)*	$24,000	$ 23,600	5.99%
SC	$ 14,000	$ 14,000	Treat as regular wages (7% maximum).
SD	$ 15,000	$ 15,000	No state tax.
TN	$ 7,000	$ 7,000	No state tax.
TX	$ 9,000	$ 9,000	No state tax.
UT*	$36,600	$ 35,300	(3)
VT*	$ 16,100	$ 15,600	30% of federal withholding.
VA	$ 8,000	$ 8,000	(3) or 5.75%
VI*	$28,900	$26,500	N/A
WA*	$52,700	$49,800	No state tax.
WV	$ 12,000	$ 12,000	(3) or 3% to 6.5% based on annual wages.
WI	$ 14,000	$ 14,000	(3) or 4% to 7.65% based on annual wages.
WY*	$26,400	$25,400	No state tax.

*Increase ** Decrease

(1) The Michigan taxable wage based for delinquent and reimbursing employers is $9,500.

(2) The 2020 taxable wage base is increased for employers assigned the highest tax rate ($24,000 for Nebraska; $25,500 for Rhode Island).

(3) Add to regular wages, compute tax on total, and subtract tax withheld from regular wages.

(4) The Delaware taxable wage base is $16,500 through Oct. 29, 2020.

DISABILITY WAGE BASES

2020

California	$ 122,909
Hawaii	$ 1,119.44 (weekly)
New Jersey	$ 35,300
New York	Employee's weekly wage
Puerto Rico	$ 9,000
Rhode Island	$ 72,300

2019

California	$ 118,371
Hawaii	$1,088.08 (weekly)
New Jersey	$ 34,400
New York	Employee's weekly wage
Puerto Rico	$ 9,000
Rhode Island	$ 71,000

INFORMATION AIDS

INTERNAL REVENUE SERVICE

General Info	1-800-829-4933
Forms	1-800-829-3676
Information Reporting Hotline	1-866-455-7438
EFTPS Customer Service	1-800-555-4477
	1-800-945-8400
Internet Homepage	www.irs.gov

SOCIAL SECURITY ADMINISTRATION

General Info	1-800-772-1213
Wage Reporting Questions	1-800-772-6270
Electronic W-2 Reporting	1-888-772-2970
Internet Homepage	www.ssa.gov

† *Based on info available as of February 5, 2020.*

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2021 SOCIAL SECURITY CHANGES

	2020	2021
Maximum Taxable Earnings		
Social Security (OASDI only)	$137,700	$142,800
Medicare (HI only)	No Limit	

Payroll Gross Up

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Gross-Up Computation Worksheet

1) Enter net amount to be received by the employee	1)	
2) Enter 100%	2)	
3) Enter total tax % paid by employer (that is, FICA% + FIT% + State%)	3)	
4) Subtract line 3 from line 2	4)	
5) Gross wage (divide line 1 by line 4)	5)	
6) Amount to withhold (multiply line 5 by line 3)	6)	

Proof: Gross wage (line 5) – withholding (line 6) = net wage (line 1).

Example:
In 2019, ERK Corporation pays Leonard a $200 cash bonus and also pays his tax liability on the bonus. Assume Leonard's FICA tax rate is 7.65%, supplemental wage withholding rate is 22% and state income tax rate is 7%. *The worksheet is filled out as follows:*

Line 1	$ 200.00					
Line 2	100.00%					
Line 3	7.65%[1]	+	22.00%	+ 7%	=	36.65%
Line 4	100.00%	–	36.65%		=	63.35%
Line 5	$ 200.00	÷	63.35%		=	$ 315.71
Line 6	$ 315.71	×	36.65%		=	$ 115.71

Proof:	Gross Wage	FICA	FIT	State	Net
	$315.71	$24.15[2]	$69.46	$22.10	$200.00

[1] If wages exceed $200,000 the FICA rate increases to 8.55%.

[2] $200 × 7.65% ÷ 63.35%

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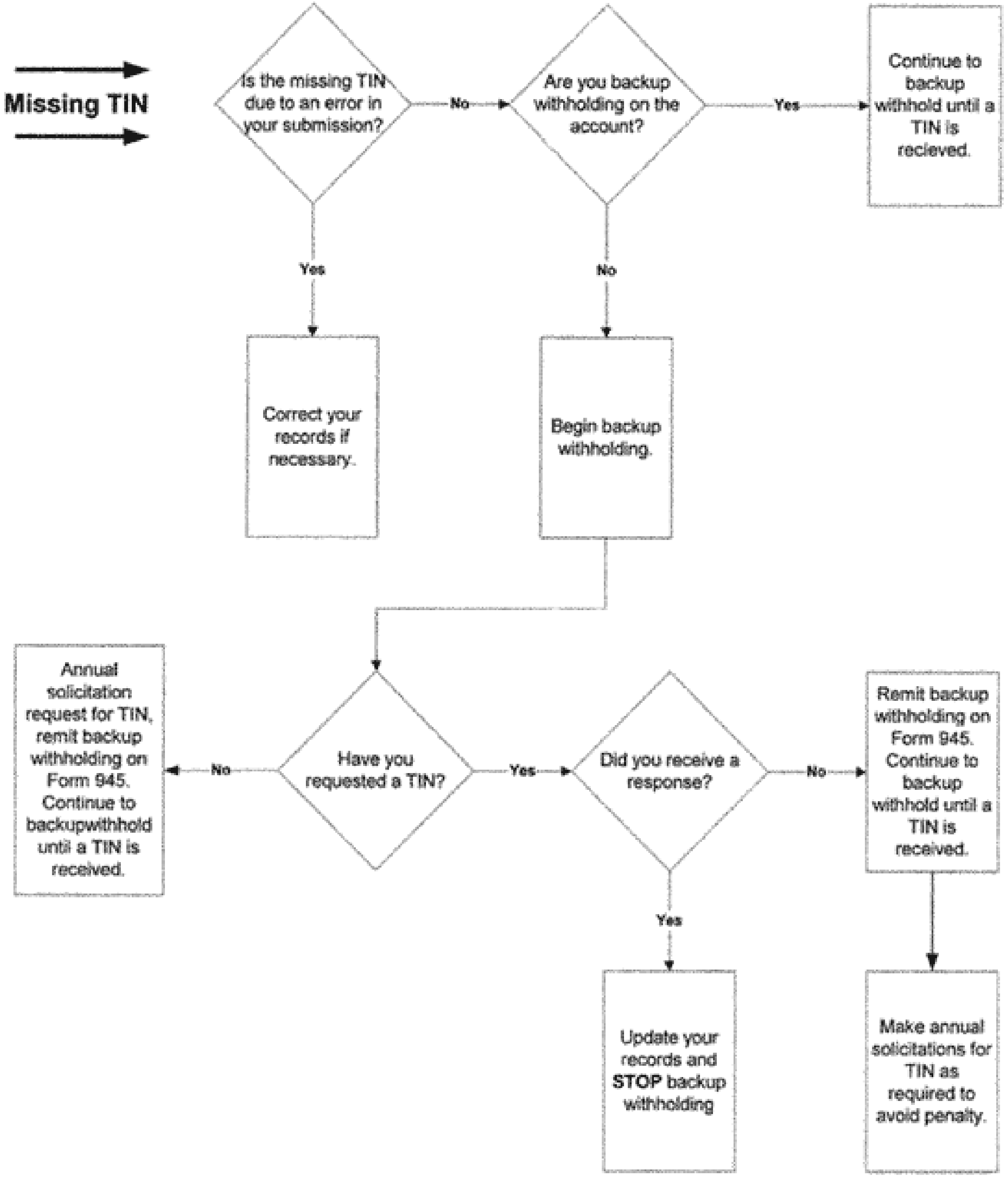
How to Handle Missing TIN(s)

TIN

Taxpayer Identification Number



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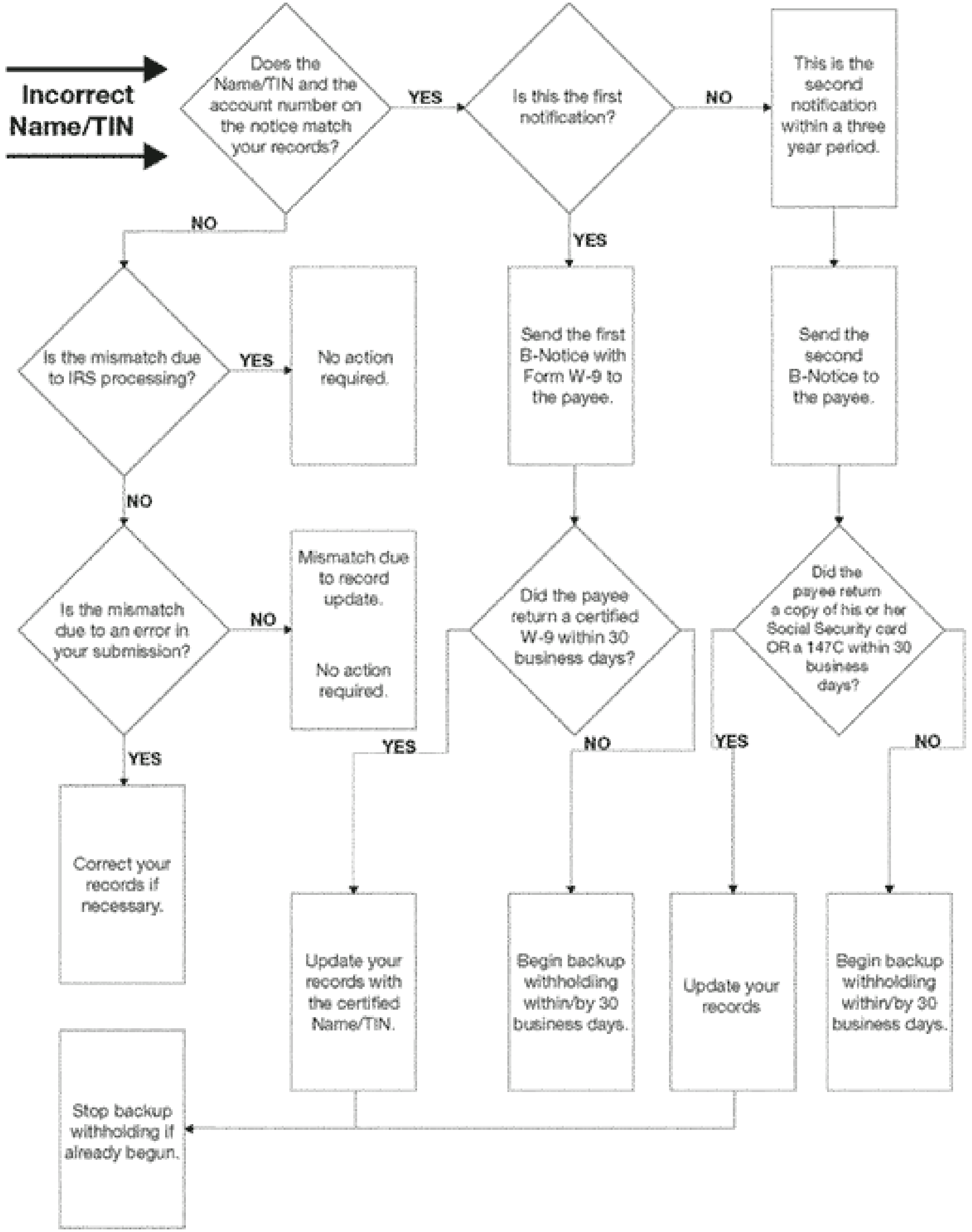

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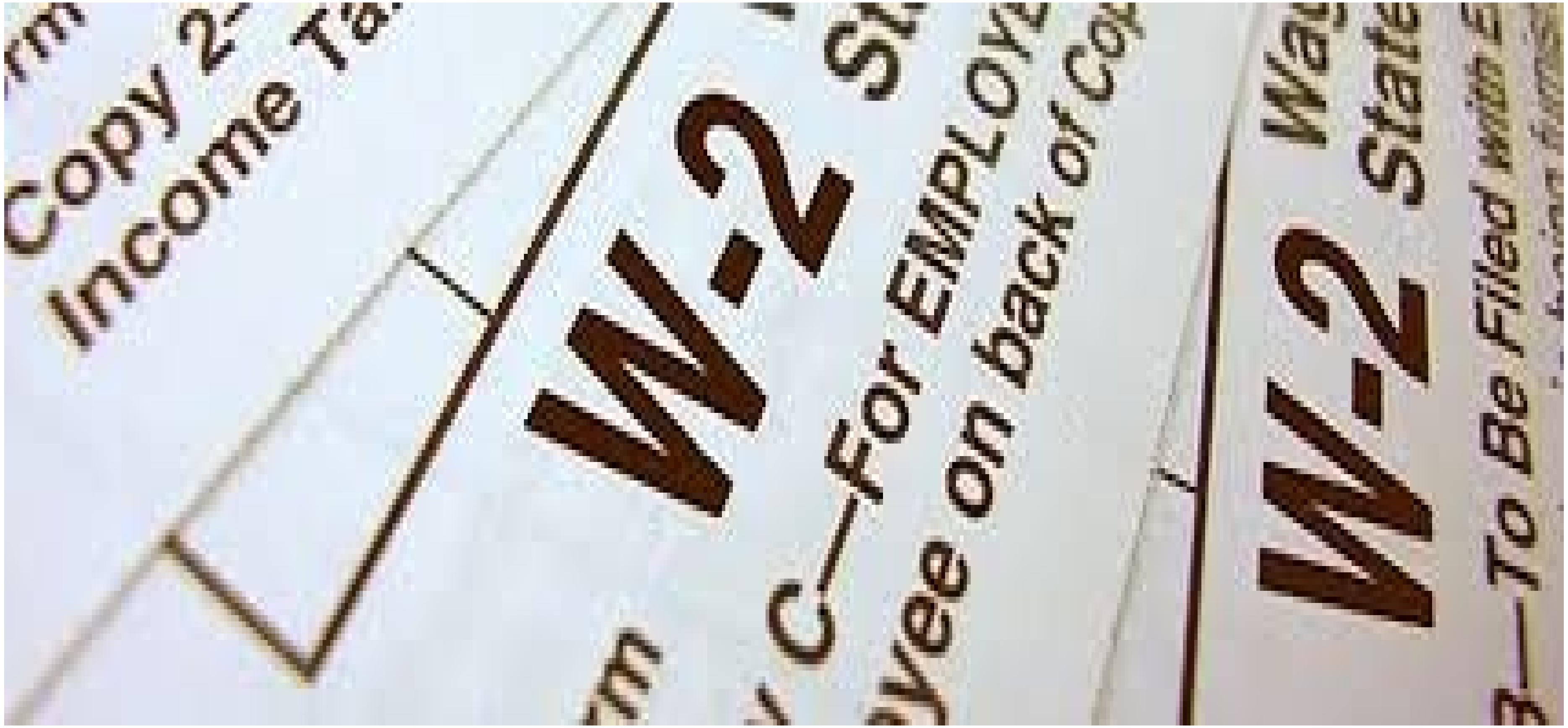
IRS new ruling for Truncating SSNs on W-2s



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Truncating SSNs on W-2s

- To help protect employees from identity theft, the Internal Revenue Service (IRS) has announced it will truncate Social Security Numbers (SSNs) on copies of the Form W-2
  - This includes copies that are provided to employees to report third party sick pay and group-term life insurance. SSNs, however, should **not be truncated** on the employer filing copies of the Form W-2
  - The first five digits of truncated SSNs will be replaced with either an asterisk (*) or an X. For example, a truncated SSN would appear as either ***-**-1234 or XXX-XX-1234

Year End Checklist

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2020 Payroll Year-End Checklist

October

Form year-end committee to include:

- ☐ Departments that touch year-end process
- ☐ Service provider representatives

Hold first year-end committee meeting:

- ☐ Review prior year-end issues; current year and upcoming policy changes; and calendar of processing, due dates, and holidays for year-end and the new year
- ☐ Receive updates from information technology and human resources information-systems departments on implementing Publication 15-T, *Federal Income Tax Withholding Methods 2021 tables*
- ☐ Ensure systems can process revised Forms 941 used for second half of 2020

Preview current-year Forms W-2 and employee data, to include:

- ☐ Verifying Earned Income Credit statement is properly on employee copies
- ☐ Running mock year-end for Form W-2, *Wage and Tax Statement*, with third-quarter data. Verify that:
  - ☐ No one has negative amounts in any Form W-2 field
  - ☐ Social Security numbers are verified (identifying those without)
  - ☐ Social Security numbers are not truncated
  - ☐ Total wages on mock Forms W-2 reconcile with Form 941, *Employer's Quarterly Federal Tax Return*
  - ☐ Bank reconciliations are up to date
- ☐ Look for 2021 Social Security wage base and pension plan limit announcements

November

- ☐ Gather all pertinent information and analyze the Q2, Q3 employee retention credits already taken and any adjustments to be made to previously filed returns
- ☐ Analyze any sick pay and extended FMLA credits due
- ☐ Analyze any employer portion of Social Security tax deferral taken in previous quarters
- ☐ Meet with Accounts Payable on payments and noncash items deemed taxable that may not yet be recorded in payroll system, including deceased employee wages from prior year paid to estate; process in November and December
- ☐ Identify, develop, and schedule any unique or special year-end reports
- ☐ Gather facts, calculate income amounts, and impute into pay in November and December noncash fringes under the Special Accounting Rule (e.g., personal use of company car)
- ☐ Collect 2021 information, such as Social Security wage base, deferral limits, and other threshold amounts for the new year
- ☐ Identify any state changes to withholding methods
- ☐ Gather data on employee workplace location changes and state withholding balancing and adjustments for multistate withholding allocations

December

Meet with:

- ☐ Information technology and/or third-party providers on implementing withholding changes and all new tax updates
- ☐ Accounts Payable: Request data on payments since last meeting requiring taxation
- ☐ HR/Benefits: Get information on new and updated policies for 2021
- ☐ HR/Benefits: Schedule testing of Form W-2, Box 12, special codes
- ☐ Benefits: Update 2021 benefit deduction tables for new amounts; verify that third parties have updated tables

Do:

- ☐ Ensure service providers that are calculating tax withholding are ready for 2021 changes
- ☐ Message employees on requirements to claim exempt tax withholding status for 2021
- ☐ Determine if any estimated tax deposits for adjusted payrolls are needed and coordinate if necessary with third-party provider
- ☐ Verify that the service provider has been informed of any state unemployment experience notices
- ☐ Test 2021 calculations and Form W-4 self-service changes
- ☐ Communicate to employees how deferred amounts of the employee portion of Social Security tax are to be collected in 2021

Don't:

- ☐ Accept any personal checks from employees to be applied to year-to-date tax withholding buckets

2020 Payroll Year-End Checklist

January

Verify:

- ☐ Tax withheld using new formulas on first pay for 2021
- ☐ Late-December information (e.g., third-party sick pay) is transferred and managed
- ☐ All payroll bank account reconciliations are up to date
- ☐ All federal, state, and local tax returns balance to summarized tax reports and ongoing reconciliations
- ☐ All Form 941 credits related to the FFCRA and CARES Act have been properly calculated and accounted for
- ☐ Payroll system coding changes for possible substantial revisions to Form 941 in 2021 and extra withholding for employee portion of deferred Social Security tax

Review Form W-2 distribution process:

- ☐ With any service provider tasked with distributing and filing the forms
- ☐ For electronic filing with employees, ensure acceptance by employees and send a notice to them when forms are available on secure site
- ☐ To ensure any special state notification of the Earned Income Credit related to Form W-2 filing is adhered to for California, Illinois, Louisiana, Maryland, New Jersey, Texas, and Virginia

Communicate to employees any changes for the new year, including:

- ☐ Social Security wage base, 401(k) limits, tax rate, withholding, etc.
- ☐ 2021 Form W-4 is required for all new hires and for employees who need to make adjustments
- ☐ 2021 reminder to employees about employee portion of Social Security deferral repayment

File:

- ☐ All Forms W-2 or equivalents with employees and jurisdictions by their due dates
- ☐ Fourth-quarter Form 941 (by Feb. 1 if balance due; Feb. 10 if no balance due)
- ☐ Form 941 Schedule D if any mergers or acquisitions occurred in 2020
- ☐ Any third-party sick pay recap form (Form 8922)
- ☐ Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, on same schedule as fourth-quarter Form 941

February

- ☐ File fourth-quarter Form 941 and annual Form 940 by Feb. 10 if no additional amounts are due
- ☐ Message employees (again) about claiming "exempt" from income tax withholding; exempt status needs to be renewed by Feb. 16. If a new Form W-4 has not been received, update the employee record to single, using standard withholding
- ☐ Follow up with service providers to verify that all returns were filed in a timely manner
- ☐ Ensure any further prior-year returns due in February are filed in a timely manner

March

State unemployment insurance:

- ☐ Verify service provider is informed of any state unemployment insurance experience notices
- ☐ Verify that new wage bases and rates are included in payroll system

Year-end debriefing meeting:

- ☐ Discuss successes, failures, and outstanding issues with year-end team
- ☐ Document lessons learned for use in the next year-end season
- ☐ Highlight processes that went well and suggested improvements
- ☐ Celebrate the end of year-end

Questions and Answers

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Thank You for Attending!

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Stay Safe and Healthy

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