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2016 Year-End Guide

**Table of Contents**

Introduction – page 2  
Check List – page 3  
Harpers Holiday Schedule – page 3  
Year-End Schedule – page 4  
Year-End Training – page 5  
Year-End Topics – page 6  
Additional Year-End Topics – page 9



As another year is coming to a close we would like to thank you, our clients, for your continued loyalty. We appreciate you choosing Harpers Payroll to support your payroll needs.

To help with the additional responsibility and work that comes with Year-End we have prepared a guide to help promote a successful Year-End. The complete guide can be found on our website at

<http://www.harperspayroll.com/downloads/yearendguide.pdf>

**Key Dates:**

- November 11<sup>th</sup> (Friday)\* – Bank Holiday (Harpers Open)
- November 24<sup>th</sup> (Thursday)\* - Thanksgiving Day - Closed
- November 25<sup>th</sup> (Friday) – The day after Thanksgiving Day – Closed
- December 23<sup>rd</sup> (Friday) – Closed 12:00pm-1:00pm – Company Luncheon
- December 26<sup>th</sup> (Monday)\* – Christmas Day (observed) – Closed
- January 2nd (Monday)\* – New Year’s Day (observed) – Closed

**Bank Holidays:** \*Reminder: Veteran’s, Thanksgiving, Christmas and New Year’s Day are bank holidays so please consider this when preparing and submitting payroll on the holiday weeks. Please allow 48 hours from processing date to check date to ensure timely funding of direct deposit into your employees’ accounts.

**Payroll Deliveries:** Please be aware that delivery delays may occur due to higher than normal delivery volume during the short holiday weeks. Alternative delivery options such as Client Pick-Up (at Harpers office), Federal Express or UPS overnight or priority service are available if needed to meet your needs.

**Year-End Processing Schedules:**

Schedule 1 – Last Day for Adjustments is Thursday, December 29<sup>th</sup>. W2s will begin to be processed and delivered between January 4<sup>th</sup> and January 19<sup>th</sup>.

Schedule 2 – Last Day for Adjustments is Tuesday, January 10<sup>th</sup>. W2s will begin to be processed on January 12<sup>th</sup> for delivery by January 27<sup>th</sup>.

Schedule 2 is recommended for any client that expects to have additional 2016 adjustments after December 29<sup>th</sup> (cutoff for Schedule 1).

Effective 2016, the IRS, along with the majority of state agencies, has changed the filing deadline of Year-End forms W2 and 1099 from March 31<sup>st</sup> to January 31<sup>st</sup>. As a result of this accelerated timeline, in order to ensure timely quarterly and annual filings any changes or corrections submitted after January 10<sup>th</sup> will result in amended files and additional fees. Please ensure all of your 2016 payroll and Year-End transactions are entered timely.

**IMPORTANT INFORMATION FROM THE IRS:** Please be aware that the employer is ultimately responsible for the timely filings and payments of employment taxes for your employees, even if you have authorized a third party to file your returns and make your payments. You may contact the IRS online at [www.irs.gov](http://www.irs.gov) or call 800-829-4933. The IRS recommends that employers enroll in and use EFTPS (Electronic Federal Tax Payment System) to confirm payments made on their behalf. Enroll online at [www.eftps.gov](http://www.eftps.gov) or call 800-555-4477.

Please contact your Client Service Representative at 508-753-2385 with any questions.

Happy Holidays!

Best Regards,  
Jay Hanson  
Executive Vice President

**Check List**

- ✓ Verify active and terminated employees' addresses, social security numbers, date of birth and gender.
  - Harpers can submit your employee data electronically to SSA for SSN verification
  - Gender is becoming increasingly important as tax agencies require statistical data based on this information.
- ✓ Verify all calendar check dates for the end of 2016 and for the 2017 calendar year
- ✓ Determine if your business will have any type of fringe benefit or 3<sup>rd</sup> party sick pay that must appear on the 2016 W2.
- ✓ Verify 1095C ACA coding is complete by December 30<sup>th</sup>.

**Harpers Holiday Schedule**

**Key Dates:**

November 11<sup>th</sup> (Friday)\* – Bank Holiday (Harpers Open)  
November 24<sup>th</sup> (Thursday)\* - Thanksgiving Day - Closed  
November 25<sup>th</sup> (Friday) – The day after Thanksgiving Day – Closed  
December 23<sup>rd</sup> (Friday) – Closed 12:00pm-1:00pm – Company Luncheon  
December 26<sup>th</sup> (Monday)\* – Christmas Day (observed) – Closed  
January 2<sup>nd</sup> (Monday)\* – New Year's Day (observed) – Closed

**Bank Holidays:** \*Reminder: Veteran's, Thanksgiving, Christmas and New Year's Day are bank holidays so please consider this when preparing and submitting payroll on the holiday weeks. Please allow 48 hours from processing date to check date to ensure timely funding of direct deposit into your employees' accounts.

**Payroll Deliveries:** Please be aware that delivery delays may occur due to higher than normal delivery volume during the short holiday weeks. Alternative delivery options such as Client Pick-Up (at Harpers office), Federal Express or UPS overnight or priority service are available if needed to meet your needs.

**Holiday Schedule Guidelines**

- ✓ **Timely Direct Deposits** – *submit payroll by 2:00 PM two business days prior to check date*
  - Banking holidays may have an impact on the availability of funds for your employees
- ✓ **Deliveries** done via courier are scheduled to be completed by 5:00 PM the day after submission
  - Harpers does not guarantee a time for delivery other than by 5:00 PM.
  - If you have concerns regarding delivery times you may consider using alternative delivery methods such as UPS Overnight, FedEx Overnight or Pickup
- ✓ **Harpers Payroll is closed on Friday, November 25<sup>th</sup>**
  - Please plan accordingly if you normally transmit or pickup on Friday
  - Delivery of payrolls is not impacted



### Year-End Processing Schedule

Harpers Payroll Services has designed two Year-End schedules to accommodate the different needs and circumstances of our client base. The schedules are as follows:

#### **Schedule 1:**

Last date for processing Year-End Adjustments	Dec 29
Last Payroll Pay Date of 2016	Dec 31
Distribute W2's	Jan 4-20
Distribute Qtr4 Quarterlies	Jan 16-27

#### **Schedule 2:**

Last date for processing Year-End Adjustments	Jan 10
Distribute W2's	Jan 12-27
Distribute Qtr4 Quarterlies	Jan 16-27

If you elect Schedule 2 – please be aware of the following items:

- ✓ You will receive an email confirming that you have elected Schedule 2. If you do not receive this confirmation, you have not been placed on Schedule 2. Please contact your Client Service Representative immediately to resolve.
- ✓ Once all adjustments have been processed and verified for accuracy, notify your Client Service Representative so that the Year-End processing can begin on your account. If you do not contact us, your account will automatically be closed out to begin the Year-End processing on January 10<sup>th</sup> at 2:00 PM.
- ✓ Any penalties and interest assessed on late payments as a result of Year-End adjustments is the client responsibility and not the responsibility of Harpers Payroll Services.

Electing Schedule 2 will allow your organization additional time to prepare Year-End adjustments for benefits such as: Group Term Life, Car Allowances, and other fringe benefits. These type of benefits are typically considered taxable compensation to the employee by the IRS (Federal), most States and Localities. Delaying these adjustments after an employee's last paycheck for the year could potentially impact the ability to deduct the required taxes from the employee. Adjustments processed after December 30<sup>th</sup> could result in an assessment of Penalties and Interest. Harpers Payroll Services will not be responsible for penalty and interest of late adjustment. Any resulting tax liability will be considered late if processed after 2:00 PM on December 30<sup>th</sup>, the deadline for Schedule 1 adjustments.

If it is anticipated that adjustments will be required after December 29<sup>th</sup>, we recommend you elect Schedule 2.

If it is determined that additional adjustments are necessary after your Year-End processing has begun (the official closing date for your elected schedule has passed) a minimum fee of \$200.00 will apply and a W2C may be required. Please contact your Client Service Representative to assist you.

#### **New IRS Deadline:**

As an employer, you must furnish a W-2 for 2016 compensation to an employee by January 31, 2017. This deadline has not changed. However, there is a new deadline for transmittal of copies of W-2s to the Social Security Administration.

In the past, IRS Form W-3, *Transmittal of Wage and Tax Statements*, along with copies of W-2s, were required by February 28 (or March 31, if submitted the forms electronically). The PATH Act, signed into law last December, changed the deadline for the 2017 filing season for 2016 forms. Form W-3 must be filed with the Social Security Administration by the same date as W-2s are furnished to employees: January 31. This deadline applies whether filing by paper or electronically.



As a result of this accelerated time line, and in order to ensure timely filings of all quarterly and annual returns, any changes/corrections submitted after January 10<sup>th</sup> will result in amended filings and additional fees. Please plan accordingly to ensure all of your 2016 payroll transactions are entered before December 29<sup>th</sup>. Common Year-End payroll transactions would include, but not limited to, third party sick pay, manual checks, voided checks, SCorp, GTL, and other fringe benefits.

### **Year-End Training**

To help with continual education and preparation for Year-End Harpers Payroll Service will be providing Year-End Webinar Training Sessions Monday through Friday beginning **Tuesday, November 1st through Friday, December 9<sup>th</sup>**. There will be three sessions per day most days. The Year-End Webinar schedule is noted below. To participate in a virtual training session please email [customerservice@harperspayroll.com](mailto:customerservice@harperspayroll.com). The participant login instructions will be forwarded.

#### **Year-End Daily Webinar Schedule:**

9:00am – Monday thru Friday  
11:00am – Monday through Friday  
3:00pm – Monday through Thursday

For those that were not able to attend an ACA Webinar, the 11am Webinars will cover the ACA Training previously held. This will be covered at the end of the Year-End Webinar allowing individuals to drop off the call.

- No Webinars scheduled for 3pm on November 23<sup>rd</sup> and December 9<sup>th</sup>
- No Webinars scheduled on November 24<sup>th</sup> (Thanksgiving) and November 25<sup>th</sup> (Harpers closed)

Additionally, as communicated last February, in an effort to enhance the level of service to our clients we introduced an **Email Support Team**. This team continues to be responsible for responding to emails sent to our general email box [customerservice@harperspayroll.com](mailto:customerservice@harperspayroll.com) offering quick solutions to general payroll related questions that do not require phone interaction.

The feedback has been positive. This added contact type has not eliminated our dedicated client service model or our service phone team. Our clients continue to have access to their dedicated Client Service Representative via phone interaction for more involved inquires that may require follow up.

### Year-End Topics

Items that may generate an adjustment run include but are not limited to the following:

- Manual and voided checks not entered into payroll
- Earning or deduction coding discrepancies
- Bonus or Adjustment Payrolls
- Health Premium Reporting on W2's
- Affordable Care Act Reporting (ACA – 1094/1095C Forms)
- Third Party Sick Pay
- COBRA
- Employer contribution to an HSA plan
- Group Term Life Insurance (GTL) \*\*
- Personal use of company vehicle \*\*
- Employee Business Expense reimbursements \*\*
- Company paid: health club membership, parking, transportation, etc. \*\*
- Awards, gifts, etc. \*\*
- Auto Allowance \*\*
- S-Corp Benefits\*\*

\*\* This type of adjustment must be entered on a payroll when the employee is being paid to avoid tax out-of-balances on the 941. All adjustment runs done after December 30, 2016 may result in additional penalty and interest.

#### **Health Premium Reporting on W2's**

Effective 2014 employers that report 250 or more W2's in a calendar year are required to report the total cost of health care premiums on the W2's. If you have 250 or more W2's in 2016, contact your Client Service Representative for further guidance and instructions.

#### **Affordable Care Act (ACA) Reporting – Filing of Forms 1094/1095C**

Effective 2015 organizations with 50 or more full-time equivalent employees are required to report and file 1094/1095C forms.

**ACA Reporting Services** help you collect and monitor the data you need in order to:

Determine Applicable Large Employer Status

- Evaluate Plan Affordability
- Monitor and Identify Full-Time Employees
  - Track average hours worked by employee
- File 1094C & 1095C Forms
  - 1094C Transmittal form
  - 1095C Employee Statement for each full time employee

As you may realize ACA Compliance and Reporting is an on-going task. Employee level coding for the 1095C Form will need to be completed by the last payroll in December. We recommend you not wait until the already busy December time frame to do your ACA coding and integrate coding of your employees in the payroll cycle process.

Attached is an "ACA Reference Card" to help guide you with common employee level coding. It is important to pay attention to new hires and terminated employees ensuring they have accurate termination dates as well as updating dependent changes, if self-insured.



It is important to update the ACA Status Tab for Full Time Benefit Eligible Employees. This will help with “bulk” updates. We can help “bulk” updates if you provide the lowest cost individual coverage and your benefits year. This information can be emailed to [customerservice@harperspayroll.com](mailto:customerservice@harperspayroll.com).

For those that were not able to attend an ACA Webinar, the 11am Webinars will cover the ACA Training previously held. This will be covered at the end of the Year-End Webinar allowing individuals to drop off the call.

**Employee Level Coding Common Examples:**

**For Months that the employee was offered insurance and accepted**

Offer of Coverage	1E (Plan with MEC providing min value offered to EE, dependent, and spouse)
Employee Share	Lowest rate offered (Employees Monthly amount)
Employer Relief	2C (employee enrolled in coverage offered)
Self Insurance	No (Unless you are self-insured, then this would be YES)

**For Months that the employee was offered insurance and declined coverage**

Offer of Coverage	1E (Plan with MEC providing min value offered to EE, dependent, and spouse)
Employee Share	Lowest rate offered (Employees Monthly amount)
Employer Relief	None- N/A
Self Insurance	No

**For Months that the employee was not offered insurance because they were not employed**

Offer of Coverage	1H (No offer providing minimal essential coverage)
Employee Share	0.00
Employer Relief	2A (Not Employed)
Self Insurance	No

**For Months that the employee was not offered insurance because they were in waiting period**

Offer of Coverage	1H (No offer providing minimal essential coverage)
Employee Share	0.00
Employer Relief	2D (Employee in a section 4980H(b) Limited Non-Assessment Period)
Self Insurance	No

Status for Employees in Limited Non-Assessment Period must match the time frame. (This is the Probation period).

Status should reflect two lines. Example: if an employee was hired Feb 21<sup>st</sup> and you have a 90 probation period there status on the ACA tab should reflect as below:

**1<sup>st</sup> Status Line:**

Full Time	Start Date 2/1/2016	End date 5/31/2016
Limited Non-Assessment Period box checked		

**2<sup>nd</sup> Status Line:**

Full Time	Start Date 6/1/2016	End Date 12/31/2100
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Your limited non-assessment period may vary depending on the length that your new employees must wait to be eligible for insurance.

### Common Reporting Issues:

- Coverage no Status
  - If the coverage is valid, there must be a valid status line
  - If the coverage is not valid, it must be deleted
- Status no Coverage
  - If the status is valid, there must be valid coverage information
  - If the status is not valid, it must be deleted
- Overlapping dates (status/coverage)
  - Dates need to be corrected if they are overlapping months or years
- Term status no term date
  - A term date should be populated for any employee with a termination status
- Hire, Rehire and term dates must be correct
  - This is how the counts are determined, so in order for the counts to be correct, the dates need to be correct (in chronological order)
- Hire and term dates cannot be the same
  - Should make the term date the next day
- Cannot have "--" in name or address fields
  - Remove the "--" and replace with a single dash
- Probation – 2D, must have a status with limited non-assessment period checked off
  - If an employee has an employee relief code of 2D, which designates a probation period, there must be a line on the ACA Status screen with the same dates and limited non-assessment period checked off.
- Master employee must be chosen for ALL duplicate EE's regardless if they are ACA eligible or not

### Self-Insured Clients:

- Dependents must have a valid SSN or date of birth for Self-Insured client
- A valid SSN or date of birth must be entered for all dependents on self-insured clients

### Third Party Sick Pay

Third party sick pay must be reported to the IRS and Social Security Administration during the same tax year that the employee received the disbursement. Employers receive a copy of each disbursement when the employee is paid by the third party vendor. We strongly recommend that third party sick pay be entered into payroll when received. At a minimum it should be entered on a quarterly basis in order for the tax liability to be reported and paid during the correct liability period. The third party sick pay carrier will send an annual reconciliation of benefits, but unfortunately this usually arrives to the client after the filing deadlines of the IRS. The annual reconciliation can be compared to payroll reports to ensure accuracy. If any of your employees received a disbursement from a third party sick policy in 2016, those disbursements must be posted to payroll no later than December 30, 2016. Make sure your third party sick pay vendor knows that you need the data to report on your payroll or to Harpers Payroll Services. Late reporting of income and tax deposits due to late receipt of information from your vendor is not an acceptable explanation to the IRS.

Please make sure that you are aware of your filing requirements when entering third party sick pay into payroll. There are several different methods accepted for reporting Third Party Sick Pay, and it will be necessary to know who will be responsible for issuing the W2 for the wages paid by the vendor. In some instances the vendor issues the W2's and the employer is only responsible for reporting the wages and paying the employer portion of taxes. This information is extremely important to ensuring accurate filings. Please contact your client service representative for assistance.



### **Bonus or Adjustment Payrolls**

Please notify Harpers in advance of changes to your processing dates and any special instructions for additional payrolls. Due to the substantial increase in adjustment and bonus payrolls Harpers receives from clients in November and December, for Harpers to maintain the high level of client service that you are accustomed to, we require that all clients adhere to the following specifications:

- ✓ Your normal payroll transmission time is a minimum of 2 business days before check date.
- ✓ Due to time constraints, all adjustments must be completed before your last payroll of the year. Remember, no matter how early you submit your adjustment or bonus payrolls; the check date activates the money movement from your account.

**Note:** Your bonus or adjustment payroll, either by itself or in combination with a payroll with the same filing period, may generate federal tax liabilities in excess of \$100K. The tax deposit becomes due the next business day after the check date. Please make sure all payrolls are submitted on time so tax deposits can be paid within federal and state guidelines.

### **Additional Year-End Topics**

#### **Company Policy Changes**

Changes to company policies that are intended to affect payroll in 2017 should be emailed to your Harpers Client Service Representative or [customerservice@harperspayroll.com](mailto:customerservice@harperspayroll.com) no later than November 30, 2016. These changes include but are not limited to: pay frequencies, insurance rate changes, time off policies, general ledger, 401k, etc. This gives our Client Service Team time to set-up and test changes before implementation. We cannot guarantee the implementation of policy changes for the first payroll of 2017 on requests received after November 30, 2016.

#### **Fair Labor Standards Act Fact Sheet: Final Rule to Update the Regulations Defining and Delimiting the Exemption for Executive, Administrative, and Professional Employees – May 2016**

In 2014, President Obama directed the Department of Labor to update and modernize the regulations governing the exemption of executive, administrative, and professional (“EAP”) employees from the minimum wage and overtime pay protections of the Fair Labor Standards Act (“FLSA” or “Act”). The Department published a notice of proposed rulemaking on July 6, 2015, and received more than 270,000 comments. On May 18, 2016, the Department announced that it will publish a Final Rule to update the regulations. The full text of the Final Rule will be available at the Federal Register Site.

Although the FLSA ensures minimum wage and overtime pay protections for most employees covered by the Act, some workers, including bona fide EAP employees, are exempt from those protections. Since 1940, the Department’s regulations have generally required each of three tests to be met for the FLSA’s EAP exemption to apply: (1) the employee must be paid a predetermined and fixed salary that is not subject to reduction because of variations in the quality or quantity of work performed (“salary basis test”); (2) the amount of salary paid must meet a minimum specified amount (“salary level test”); and (3) the employee’s job duties must primarily involve executive, administrative, or professional duties as defined by the regulations (“duties test”). The Department last updated these regulations in 2004, when it set the weekly salary level at \$455 (\$23,660 annually) and made other changes to the regulations, including collapsing the short and long duties tests into a single standard duties test and introducing a new exemption for highly compensated employees.

This Final Rule updates the salary level required for exemption to ensure that the FLSA’s intended overtime protections are fully implemented, and to simplify the identification of overtime-protected employees, thus making the EAP exemption easier for employers and workers to understand and apply. Without intervening action by their employers, it extends the right to overtime pay to an estimated 4.2 million workers who are currently exempt. It also strengthens existing overtime protections for 5.7 million additional white collar salaried workers and 3.2 million salaried blue collar workers whose entitlement to overtime pay will no longer rely on the application of the duties test.

### **\* Key Provisions of the Final Rule \***

The Final Rule focuses primarily on updating the salary and compensation levels needed for EAP workers to be exempt. Specifically, the Final Rule:

Sets the standard salary level at the 40th percentile of earnings of full-time salaried workers in the lowest-wage Census Region, currently the South, which is \$913 per week or \$47,476 annually for a full-year worker;

Sets the total annual compensation requirement for highly compensated employees (HCE) subject to a minimal duties test to the annual equivalent of the 90th percentile of full-time salaried workers nationally, which is \$134,004; and

Establishes a mechanism for automatically updating the salary and compensation levels every three years to maintain the levels at the above percentiles and to ensure that they continue to provide useful and effective tests for exemption.

Additionally, the Final Rule amends the salary basis test to allow employers to use nondiscretionary bonuses and incentive payments (including commissions) to satisfy up to 10 percent of the new standard salary level. The Final Rule makes no changes to the duties tests.

### **Effective Date**

The effective date of the Final Rule is **December 1, 2016**. The initial increases to the standard salary level (from \$455 to \$913 per week) and HCE total annual compensation requirement (from \$100,000 to \$134,004 per year) will be effective on that date. Future automatic updates to those thresholds will occur every three years, beginning on January 1, 2020.

### **Standard Salary Level**

The Final Rule sets the standard salary level at the 40th percentile of weekly earnings of full-time salaried workers in the lowest-wage Census Region, currently the South (\$913 per week, equivalent to \$47,476 per year for a full-year worker).

The standard salary level set in this Final Rule addresses our conclusion that the salary level set in 2004 was too low given the Department's elimination of the more rigorous long duties test. For many decades the long duties test—which limited the amount of time an exempt employee could spend on nonexempt duties and was paired with a lower salary level—existed in tandem with a short duties test—which did not contain a specific limit on the amount of nonexempt work and was paired with a salary level that was approximately 130 to 180 percent of the long test salary level. In 2004, the long and short duties tests were eliminated and the new standard duties test was created based on the short duties test and was paired with a salary test based on the long test.

The effect of the 2004 Final Rule's pairing of a standard duties test based on the short duties test (for higher paid employees) with a salary test based on the long test (for lower paid employees) was to exempt from overtime many lower paid workers who performed few EAP duties and whose work was otherwise indistinguishable from their overtime-eligible colleagues. This has resulted in the inappropriate classification of employees as EAP exempt who pass the standard duties test but would have failed the long duties test.

The Final Rule's salary level represents the most appropriate line of demarcation between overtime-protected employees and employees who may be EAP exempt and works appropriately with the current duties test, which does not limit non-EAP work.

The Department also is updating the special salary level for employees in American Samoa (to \$767 per week) and the special "base rate" for employees in the motion picture industry (to \$1,397 per week).

### **HCE Total Annual Compensation Requirement**

The Final Rule sets the HCE total annual compensation level equal to the 90th percentile of earnings of full-time salaried workers nationally (\$134,004 annually). To be exempt as an HCE, an employee must also receive at least the new standard salary amount of \$913 per week on a salary or fee basis and pass a minimal duties test. The HCE annual compensation level set in this Final Rule brings this threshold more in line with the level established in 2004 and will avoid the unintended exemption of large numbers of employees in high-wage areas who are clearly not performing EAP duties.

### **Automatic Updating**

The Final Rule includes a mechanism to automatically update the standard salary level requirement every three years to ensure that it remains a meaningful test for distinguishing between overtime-protected white collar workers and bona fide EAP workers who may not be entitled to overtime pay and to provide predictability and more graduated salary changes for employers. Specifically, the standard salary level will be updated to maintain a threshold equal to the 40th percentile of weekly earnings of full-time salaried workers in the lowest-wage Census Region. Similarly, the Final Rule includes a mechanism for automatically updating the HCE compensation level to maintain the threshold equal to the 90th percentile of annual earnings of full-time salaried workers nationally. The Final Rule will also automatically update the special salary level test for employees in American Samoa and the base rate test for motion picture industry employees. The Department will publish all updated rates in the Federal Register at least 150 days before their effective date, and also post them on the Wage and Hour Division’s website. Regularly updating the salary and compensation levels is the best method to ensure that these tests continue to provide an effective means of distinguishing between overtime-eligible white collar employees and those who may be bona fide EAP employees. Experience has shown that these earning thresholds are only effective measures of exempt status if they are kept up to date.

### **Inclusion of Nondiscretionary Bonuses and Incentive Payments**

For the first time, employers will be able to use nondiscretionary bonuses and incentive payments (including commissions) to satisfy up to 10 percent of the standard salary level. Such payments may include, for example, nondiscretionary incentive bonuses tied to productivity and profitability. For employers to credit nondiscretionary bonuses and incentive payments toward a portion of the standard salary level test, the Final Rule requires such payments to be paid on a quarterly or more frequent basis and permits the employer to make a “catch-up” payment. The Department recognizes that some businesses pay significantly larger bonuses; where larger bonuses are paid, however, the amount attributable toward the standard salary level is capped at 10 percent of the required salary amount.

The Final Rule continues the requirement that HCEs must receive at least the full standard salary amount each pay period on a salary or fee basis without regard to the payment of nondiscretionary bonuses and incentive payments, and continues to permit nondiscretionary bonuses and incentive payments (including commissions) to count toward the total annual compensation requirement. The Department concludes that permitting employers to use nondiscretionary bonuses and incentive payments to satisfy the standard salary amount for HCEs is not appropriate because employers are already permitted to fulfill almost two-thirds of the total annual compensation requirement with commissions, nondiscretionary bonuses, and other forms of nondiscretionary deferred compensation.

### **Duties Tests**

The Final Rule is not changing any of the existing job duty requirements to qualify for exemption. The Department expects that the standard salary level set in this Final Rule and automatic updating will work effectively with the duties test to distinguish between overtime-eligible workers and those who may be exempt. As a result of the change to the salary level, the number of workers for whom employers must apply the duties test to determine exempt status is reduced, thus simplifying the exemption. Both the standard duties test and the HCE duties test remain unchanged.

For additional information, visit the Wage and Hour Division Website: [www.wagehour.dol.gov](http://www.wagehour.dol.gov)

### **Massachusetts (MA) Mandatory Sick Law**

If you haven’t set up your accrual for Massachusetts Sick Law, for assistance in setting up a sick time accrual code contact your Client Service Representative or reply to [customerservice@harperspayroll.com](mailto:customerservice@harperspayroll.com) .

Effective July 1, 2015, most employers are required to provide **up to 40 hours of paid or unpaid sick time per calendar year** to employees, as follows:

- Employers that employ **11 or more employees** must provide **paid** sick time.

- Note: All employees performing work for compensation on a full-time, part-time or temporary basis are to be counted.
- All employees not entitled to paid sick time under the law are generally entitled to **unpaid sick time**.

#### Accrual of Sick Time

- Employers generally must provide a **minimum of one hour of earned sick time for every 30 hours worked** by an employee.
- An employee begins accruing earned sick time starting with his or her date of hire or July 1, 2015, whichever is later.
- An employee is not entitled to use accrued earned sick time until the **90th calendar day** following commencement of his or her employment. On and after this 90 day period, an employee may use earned sick time as it accrues.
  - Note: An employer may allow the accrual of earned sick time at a faster rate, or the use of mandatory sick time at an earlier date.
- Employees may carry over up to 40 hours of unused sick time to the next calendar year, but may not use more than 40 hours in a calendar year.
- Employees who are exempt from overtime requirements under the federal Fair Labor Standards Act are assumed to work 40 hours in each work week for purposes of earned sick time accrual, unless their normal work week is less than 40 hours-in which case earned sick time will accrue based on that normal work week.
- Employers are not required to pay out unused earned sick time upon the separation of employment.

#### Use of Sick Time

- Earned sick time must be provided by an employer for an employee to:
  - Care for the employee's child, spouse, parent, or parent of a spouse, who is suffering from a physical or mental illness, injury, or medical condition that requires home care, professional medical diagnosis or care, or preventative medical care;
  - Care for the employee's own physical or mental illness, injury, or medical condition that requires home care, professional medical diagnosis or care, or preventative medical care;
  - Attend the employee's routine medical appointment or a routine medical appointment for the employee's child, spouse, parent, or parent of spouse; or
  - Address the psychological, physical or legal effects of domestic violence (as defined under state law).
- If an employee misses work for a reason eligible for earned sick time, but agrees with the employer to work the same number of hours or shifts in the same or next pay period, the employee does not have to use earned sick time for the missed time, and the employer does not have to pay for that missed time.
- Employers are prohibited from requiring such an employee to work additional hours to make up for missed time, or to find a replacement employee.

#### Employer and Employee Requirements

- When the use of earned sick time is foreseeable, the employee must make a good faith effort to provide notice of this need to the employer in advance of the use of the earned sick time.
- An employer may generally require certification when an earned sick time period covers more than 24 consecutively scheduled work hours.
- An employer may not require that the documentation explain the nature of the illness or the details of the domestic violence.
- An employer is prohibited from delaying the taking of earned sick time or delaying pay for the period in which earned sick time was taken (for employees entitled to paid sick time) on the basis that the employer has not yet received the certification.
- Nothing in the law may be construed to require an employee to provide as certification any information from a health care provider that would be in violation of the federal Social Security Act or Health Insurance Portability and Accountability Act (HIPAA).

Note: The law does not override employers' obligations under any contract, collective bargaining agreement, or employee benefit program or plan in effect on July 1, 2015 with more generous provisions than those in the earned sick leave law. Employers that have their own policies providing as much paid time off, usable for the same purposes and under the same conditions as the law, are not required to provide additional paid sick time.

### **Banking Changes**

It is important to notify Harpers timely of any banking changes for your company.

### **2017 Payroll Calendar**

Your payroll calendar automatically updates each time you process payroll. A one year calendar is kept at all times. This means that as you process a check date, your scheduling rules set-up in our system will add a new check date one year in advance. Currently the calendar year 2016 has been produced through early November 2016. At the end of December, if you need to review the calendar set-up for 2017, please contact your Client Service Representative via email and the calendar will be printed and emailed to you. If changes are required or if known bonus/commission payroll dates are to be added, please note them on the calendar and return them to your Client Service Representative.

### **W2 Printing**

We will produce multiple W2's for any employee that has paid taxes in more than one state or local jurisdiction during the year. All W2's will be filed with the Social Security Administration electronically for all clients.

### **Correcting W2 data**

Harpers Payroll Service emphasizes the importance of verifying all employee demographic information for Year-End. Please review all employee information carefully. Fax and Autopay clients should send any changes with payroll before your last payroll of the year. Verifying employee Social Security Numbers is extremely important to the employee and you, the employer. Correct numbers as well as names will ensure accurate Federal (SSA), State unemployment reports, accurate records for your employees' retirement and will avoid possible penalties for you.

### **Social Security Numbers (SSN) and W2 Reporting**

According to the Internal Revenue Service (IRS) "General Instructions for Forms W-2" the following is noted:

"If you do not provide the correct employee name and SSN on Form W-2, you may owe a penalty unless you have reasonable cause. For more information, see Publication 1586, Reasonable Cause Regulations & Requirements for Missing and Incorrect Name/TINs (SSN)".

#### **SSN:** Social Security Number

- An SSN will NEVER begin with 000-XX-XXXX, 666-XX-XXXX or a range of 900-999-XX-XXXX
- The fourth and fifth digits will never be 00 (XXX-00-XXX is an example of an invalid SSN)
- The last four digits will never be 0000 (XXX-XX-0000 is an example of an invalid SSN)

The IRS further states: "Do not accept an ITIN in place of an SSN for employee identification or for work. An ITIN is only available to resident and nonresident aliens who are NOT ELIGIBLE for U.S. employment and need identification for other tax purposes."

#### **ITIN:** Individual Taxpayer Identification Number

- An ITIN begins with a "9"
- It's format is similar to an SSN 9XX-XX-XXXX



**Deferred Comp/Retirement Plan Box 13 box on the W2**

(1) Any employee that contributes to a deferred compensation plan by payroll deduction will have the Retirement Plan box marked on their W2 automatically. This process is transparent to you, our client.

(2) If your company has a qualified pension plan that does not run through payroll, the Retirement Plan box should be marked for any individual that you have made contributions. This is not automated. It is the employer's responsibility to indicate what applies in these circumstances. The "retirement plan" box is located on the employees' miscellaneous tab in the employee module. Fax clients must notify us in writing before the W2's are printed if they need these boxes marked.

**1094/1095C Printing**

If you have opted in to our ACA Services, we will produce 1094/1095C Forms for any Full-Time Equivalent (FTE) employee regardless of whether or not the individual had health insurance withheld.

**W2 Billing and 1094/1095C Billing**

W2 and 1094/1095C billing will appear on your last invoice in January 2017. In some instances, you may see the billing on an invoice before the receipt of the actual W2's.

**Year-End Client package will include the following:**

- ✓ One set of pressure sealed employee W2's.
- ✓ One set of employer W2's (four to a page).
- ✓ Includes Total Record (in lieu of Form W3).
- ✓ One set of pressure sealed employee 1095C.
- ✓ One set of employer 1095Cs

**Additional Year-End Services Offered:**

- ✓ W2s on CD
- ✓ 1095Cs on CD

We will begin shipping W2's and 1099's on or about January 4, 2017. W2 reprints will be processed after all first run W2's are completed. There will be an additional charge for W2 reprints resulting from late adjustment runs, as well as name, address, and social security number changes.

Wage reporting errors will require amendments to the IRS and State taxing agencies. Harpers will file amendments per the clients' request. The total of all W2's and W2C's must equal the total of all 941's & 941-X's filed for the calendar year. The smallest variance will generate a notice from the SSA and other tax agencies.

**1099M and 1099R**

Harpers can provide employee/employer copies of forms 1099M and 1099R. All information pertaining to 1099's must be submitted no later than your last payroll processing in December 2016. All 1099's will be sent directly to the client for distribution to the recipient.

Harpers Payroll Service does not provide Form 1096, Annual and Transmittal as these forms are filed electronically and therefore not required. If we are printing the recipient copies of form 1099M or 1099R, we will file your 1099M and 1099R forms with the IRS on your behalf.

Taking time now to address above items will assure a smooth Year-End and avoid late tax deposits and penalties. Harpers Payroll Service will begin processing quarter end and Year-End returns after your last regularly scheduled check date for December 2016.

Regards,  
Harpers Client Service Team