



Year End Payroll and Payroll Related Issues

A Reminder from Sax Macy Fromm & Co., PC

Dear Clients and Friends of the Firm:

Certain information to be properly reported needs to be included in the year end payroll tax returns and forms. This information is being provided to you as a reminder to gather the required information and provide it to your payroll service provider prior to the year end so that it is properly reported.

Health Insurance for Subchapter Corporations

Health insurance payments on behalf of the owners/stockholders of an S corporation are deemed to be a taxable benefit. Therefore, the total health insurance premiums paid during 2009 on behalf of each owner/stockholder should be included in each individual's W-2 as wages (in box 1) but not for Social Security or Medicare wages. It also needs to be reflected in box 14 of the W-2 as health insurance. This benefit also needs to be included in the 941 and 940 gross wage figure. It will not result in any additional payroll taxes to be paid.

Excess Group Term Life Insurance

If you provide group term life insurance for your employees and it exceeds \$50,000 in coverage, the cost of the excess is subject to income tax, Social Security tax, and Medicare tax. It also needs to be properly reflected in the W-2 and other year end payroll tax reporting.

Third Party Sick Pay

A portion of the disability benefits paid to employees during 2009 must be reported on the payroll tax returns. If this was not done during the first three quarters, it must be reported on the year end payroll tax forms including the W-2, 941, and 940.

Review any information that you have already received to determine if you may have had an employee collect disability payments during the year. If so you can expect to receive a statement from the third party payer (including the NJ Department of Labor). This statement may not arrive until some time in January, 2010. You are still required to include the required information in your payroll tax returns for 2009, so if you are using a payroll service make sure to alert them that this adjustment needs to be processed before they complete the W-2 forms.

COBRA

If you had any former employees paying health insurance through COBRA payments during 2009, there may be a credit available to be taken on the form 941. If you have not taken this credit previously in 2009, you must do so on the fourth quarter form 941 to avail the company of this credit.

For further information, please contact Alan S. Isaacs, CPA at aisaacs@smf-cpa.com.

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