APPENDIX D
APPLICATION NOTES

The following notes are intended as a guide to help you use the many special features found in DATASMITH Payroll more effectively.

Because of the versatility of DATASMITH Payroll, there usually is more than one way to handle each problem. So just because we didn't suggest the particular method you are using doesn't mean that it is "wrong". Our objective here is to suggest <u>one</u> way to handle each of the situations described.

IMPORTANT CAUTION: **The following examples may not be applicable to your specific situation.** Always consult a tax advisor who is familiar with your pay and benefit plan to make sure your payroll is set up properly. Test your setup with some sample data, and print (at least) sample paychecks, Current Reports, and W-2's to confirm proper operation.

PAY ADVANCES OR LOANS

In all cases below, the Advance Accumulator is used to hold the balance of the loan. Any nonzero Loan balance appearing in Employee's the Advance Accumulator will be printed on the Employee's paycheck stub.

TO RECORD A PAY ADVANCE OR LOAN TO AN EMPLOYEE

During Periodic Entry add a Special Pay item with a code of "K". This denotes a non-taxable amount distributed to the employee, and this amount will be added to the Employee's Advance Accumulator. Alternatively, the loan balance may be entered directly into the Employee's Advance Accumulator (Employee Data Entry Screen #2).

IF THE LOAN IS TO BE REPAID BY A REGULAR DEDUCTION

Set up a Loan Repayment deduction in the Company record coded with an "I". In the Employee record, show the amount to be deducted each pay period (this can be a flat dollar amount, an amount per hour, or a percentage of Gross Pay). In this case, the amount used to repay the loan will be taxed at the time the deduction is taken. DATASMITH Payroll will automatically limit the deduction amount to the Advance Accumulator balance in order to prevent overpayment of the loan.

IF THE LOAN IS TO BE REPAID BY IRREGULAR DEDUCTIONS

Use a Special Deduction (negative Special Pay) coded with an "I" to record the amount of each repayment. In this case, no deduction is set up in the Employee record. The amount used to repay the loan will be taxed at the time the deduction is taken. When this method is used, it is the responsibility of the operator to assure that the loan is not overpaid.

IF THE LOAN IS REPAID IN CASH

Enter the new balance into the Employee Record directly. There is no tax assessed in this case: nor does the amount of the transaction appear on the Employee's paycheck stub (although the new Loan balance will appear if it is nonzero).

CAFETERIA PLAN HANDLING

In this discussion, a "Cafeteria Plan" is understood to mean a plan whereby certain benefits can be selected by the Employee, up to a limiting dollar amount. It is further understood that the Plan is designed so that these benefits receive a favorable tax treatment: they are usually either tax exempt, or subject to all taxes except FICA.

Recommended handling includes use of the Auxiliary Accumulator to hold the Cafeteria Plan balance available to each employee, and using code "S" (pre-tax) deductions to document use of this benefit. To assure proper taxation of benefits for a plan which may include several differently-taxed components, the employer can put the benefit amount into the Auxiliary Accumulator via fully-taxable payments. Taxes are then reduced or adjusted by putting the proper tax code on each of several Benefit deductions. By use of the Auxiliary Accumulator, the Cafeteria Plan Balance will appear on the Employee's Paycheck Stub.

To assure availability of relevant totals during the composition of W-2's at year end, **each component of the Plan which may be subject to separate reporting should be isolated in either a Deduction or a Pay Category.**

THE BENEFIT AMOUNT

Set up a User Defined Pay Category entitled "CAF PLAN" (or any title you choose), set up as Tax Code S and using REGULAR handling (you may also wish to consider using OTHER handling instead).

To make the benefit available in uniform increments throughout the year, set up the amount of the benefit for each pay period as an Auxiliary Pay item in each affected Employee record.

To make the entire benefit available in a lump sum, edit the pay record of each affected employee during Periodic Entry for the first pay period of the year to include a line for pay category "CAF PLAN" in the proper lump-sum amount.

Alternatively, the maximum annual benefit amount may also be entered into the Employee's Record in the Auxiliary Accumulator (Employee Record), and then included in the Salary or Hourly Wage or Salary figure appearing in the Employee's Record.

These two methods (separate benefit item/including benefit in salary) will result in different equivalent hourly rates for special or irregular pay items, used to calculate the Overtime pay rate (at time-and-a half), and to correctly allocate costs to Sick Pay, Vacation, and other pay types.

DISTRIBUTING & TAXING THE BENEFITS

If the benefit is to be distributed by level payments, set up one or more Cafeteria Plan Deductions coded with an "S" or "T" (Tax Exempt or All-Except-FICA) as appropriate. In the Employee record, show the amount to be allocated to each benefit item each pay period (this can be a flat dollar amount, an amount per hour, or a percentage of Gross Pay). In this case, the amount used to pay the benefit will be deducted from Gross Pay before any taxes are assessed at the time the deduction is taken. DATASMITH Payroll will automatically limit the deduction amount to the Auxiliary Accumulator balance in order to prevent overpayment of the benefit. An advantage of using this method is that DATASMITH Payroll can report the Company-wide Benefit Amount by Benefit Type each pay period.

> With the Direct Deposit option, amounts excluded from the regular paycheck by this method can be automatically included in the Payroll Deduction deposit for each Employee. If benefits are to be paid to a Benefit Provider and not the Employee, the Payroll Deduction deposit account can be the Benefit Provider's account.
>
> For employees not using Direct Deposit, checks should be periodically issued to the benefit provider for the amount shown deducted from taxable Gross Pay.

If the employee is reimbursed for out-of-pocket Cafeteria Plan expenditures, the reimbursement may be entered as a Tax Code "C" (Exempt, because applicable taxes have already been paid) Special Payment amount and included in the next pay check.

If benefits are distributed to the employee as needed, you can use Special Deductions (negative Specials) coded "S" or "T" as appropriate during Periodic Entry to document use of the Cafeteria Plan Benefit. In this case, no deduction is set up in the Employee record, and detailed documentation of each benefit payment is kept outside of Payroll.

> Another way to handle this type of "ad hoc" plan is to use a code "C" or "D" User-Defined Pay category to include the benefit amount in the employee's paycheck directly. In this case, the Auxiliary Accumulator would not be used to automatically limit the total benefit amount, but the amount(s) actually paid would be accumulated and reported for each employee in one or more Pay Categories.

TERMINATIONS

In many cases, if an employee suddenly resigns or is fired, it is desirable to give the employee his or her last paycheck on the spot.

In this case, manually calculate the employee's pay, including any vacation time due, and pay the employee with a hand-written check.

When entering hours with Periodic Entry for the next pay period, do not include any information for the employee receiving the hand-written check.

After the payroll has been calculated for the rest of the employees, enter the information from the hand written check using the "MANUAL CHECK" program. Be sure to enter the employee's manually written check number to prevent a duplicate check from being printed. Change the employee's "status code" to "terminated" after the payroll has been Initialized to prevent further processing of this employee.

Note that the employee record of a terminated employee remains in the file until Year End Update processing: this allows the system to print a W-2 for this employee at the appropriate time. The Year End Update process removes all "terminated" employees from the file in preparation for the new year.

If the employee being terminated is a seasonal employee, you may want to change the employee's status code to "laid off" instead of "terminated." The employee records of "laid off" employees will remain in the file after Year End Update, but the employees will not be processed until the operator changes their status to "active."

SHIFT PREMIUMS

In this discussion, a "Shift Premium" is understood to mean a supplementary amount added to the Regular pay of selected employees. Since a "Shift Premium" is supplementary pay rather than pay for additional work, the "Shift Premium" does not alter the total hours worked. The amount of the "Shift Premium" may be based on a percentage of Regular pay, an amount per hour, or a fixed dollar amount.

ESTABLISH A SHIFT PREMIUM PAY CATEGORY

In the Company Record, establish a User Defined Pay Category for the Shift Premium:

> The Name of the category <u>must</u> begin with a "+" in order to prevent the item from contributing to total hours worked. For example, you could call it "+SHIFT PRM"

> The Rate associated with the category will depend upon how you want the amount of the premium to be calculated. If the calculation method is different for different employees,

SET UP THE EMPLOYEE RECORDS

EXAMPLE 1: $0.50 per hour shift premium.

Company Record Setup

```
        Name:           +2nd SHIFT
        Rate:           0
        Tax Code:       A
        Handling Code: 1
```

Employee Record Setup

```
        Pay Category:  14
        Amount:    .50
        Auxiliary Salary Item Control:  $
        Job/Department:     {not used: leave blank or zero}
```

EXAMPLE 2: 10% shift premium

Company Record Setup

```
Name:            +SHIFT PRM
Rate:            0
Tax Code:        A
Handling Code:   1
```

Employee Record Setup

```
Pay Category:  14
Amount:        10
Auxiliary Salary Item Control:  %
Job/Department:     {not used: leave blank or zero}
```

ESTABLISHING JOB-BASED PAY

COMPANY RECORD SETUP

In the Company Record, establish a User Defined Pay Category for each job which has a job-based hourly rate.

> The Name of the category <u>must</u> begin with a "@" to cause the system to interpret the associated "default rate" as an hourly rate instead of a factor to be multiplied by the employee's regular rate. For example, you could call it "@DRIVER"

SOLVING CHURCH PAYROLL PROBLEMS

THE PROBLEMS:

1. Because of the special treatment given members of the Clergy by U.S. tax laws, their gross pay typically consists of several components such as Salary, Manse or Housing Allowance, Car Allowance, Pension Fund Contributions, etc. It is important that each of these components is reported separately to the employee so that he has all the data necessary to complete his Federal and State tax returns.

2. In order to make efficient use of available personnel, Churches often use part-time personnel in more than one job: each job may carry its own rate of pay.

Both of the above problems complicate the data entry and determination of the employee's gross pay, which is the first step in calculating the paycheck amount. When such situations occur regularly, DATASMITH Payroll's User Defined Pay Categories and Hours Transfer Facility can help assure that these employees are paid correctly with minimum chance of error.

EXAMPLE 1: Ministerial pay

THE PROBLEM: Minister working as independent contractor with two pension plans.

The Reverend Dr. Goode, Employee ID "RDG", is an independent contractor employed by his Church. He receives monthly compensation consisting of the following items:

```
Salary:                  $1200
Housing Allowance:        $900
Car Allowance:            $200
Central Pension Fund:     $800
```

In addition, Dr. Goode contributes $200 per month of his Salary to a 403(B) (Qualified Pension) Plan, which is matched by the Church to make a total contribution of $400.

SOLUTION:

In the Company file, establish **User-Defined Pay Categories** as follows:

```
                 Default   Tax
          Title          Rate   Code      Handling
          =======================================
     9.   HOUSNG ALW       0      C       REGULAR
    10.   CAR ALLOW        0      C       REGULAR
    11.   CENTR PENS       0      A       NON CASH
    12.   403B MATCH       0      C       REGULAR
```

In the Employee file, a $400 per month 403(B) plan deduction is established for Dr. Goode. In the Company file, the 403(B) plan deduction is established as a Code C (before-tax) deduction.

In addition, in order to <u>Automatically</u> pay all four components of Dr. Goode's salary, Auxiliary Automatic Salary Entries are established in the Employee file as follows:

```
    Primary Salary Category: REGULAR    Primary Salary Amount: 1200

       Category            Gross Amt      Control
       ----------          ---------      -------
    1. HOUSNG ALW           900.00           $
    2. CAR ALLOW            200.00           $
    3. CENTR PENS           800.00           $
```

When the operator answers "Y" to the "Pay Salaries Automatically?" question during Periodic Entries, Dr. Goode will automatically receive his entire 5-component compensation. Since each amount is handled by a separate Pay Category, there will be individual YTD totals for each component recorded in Dr. Goode's Employee Record.

EXAMPLE #1: SAMPLE MONTHLY CURRENT PAYROLL REPORT

```
Midwest Congregation
PAYROLL REPORT FOR PERIOD ENDING  12- 1-01                              PAGE 1



===============================================================================

Rev. Dr. Goode                       Emp. # RDG            Check #         0
           Hours      Rate     Gross 123-45-6789           Current    Year
REGULAR    173.33   SALARY  1,200.00 GROSS                1,600.00 3,200.00
CENTR PENS   0.00   SALARY    800.00 NON CASH               800.00 1,600.00
NON ADJUSTED GROSS          2,000.00 HOUSNG ALW C           900.00+
403B PLAN                    -400.00 CAR ALLOW  C           200.00+
ADJUSTED GROSS              1,600.00 403B MATCH C           200.00+
------------------------------------
VACATION AVAILABLE          80.00 Hrs NET PAY             2,100.00

------------------------------- 12- 1-01 ----------------------------------
```

EXAMPLE #2: Church Worker

THE PROBLEM: Employee working multiple jobs at different rates:

Wanda Worker (employee ID "WLW") is employed by a small church as a part-time Church Secretary for 20 hours/week at $7/hour. She also teaches classes for

10 hours/week at $5/hour. She contributes $3.15 per week to an optional group Insurance plan, and is paid weekly.

SOLUTION #1:

In the Employee file, a $3.15 per pay period Insurance plan deduction is established for Wanda Worker. In the Company file, the Insurance plan deduction is established as a Code C (before-tax) deduction.

Using EDLIN or your favorite line editor or Word Processor, create a text file named HOURS.PAY containing the components of Wanda Worker's normal weekly pay as shown:

```
1,"WLW",1,20,7,0,0
```

The first line pays 20 hours at $7/hour under the REGULAR pay category. The second line pays 10 hours at $5/hour under the OTHER pay category. With this solution, pay is accumulated under the generic headings "REGULAR" and "OTHER" along with YTD hours in each category in the Employee's Record. This solution has the advantage that the "normal" hours entered from HOURS.PAY can be edited to reflect actual hours worked with no necessity for manual pay calculation.

EXAMPLE #2, SOLUTION #1:
SAMPLE WEEKLY CURRENT PAYROLL REPORT

```
Midwest Congregation
PAYROLL REPORT FOR PERIOD ENDING  12- 1-01                          PAGE 2


===============================================================================

Wanda Worker                             Emp. # WLW            Check #        0
          Hours      Rate     Gross 333-44-8765             Current      Year
REGULAR   20.00      7.00    140.00 HOURS                     30.00     30.00
OTHER     10.00      5.00     50.00 GROSS                    190.00    190.00
----------------------------------- KANSAS                    0.30      0.30
                                    FICA TAX                 14.27     14.27
                                    Insurance  A              3.15      3.15

                                    NET PAY                 172.28

------------------------------- 12- 1-01 ---------------------------------
```

SOLUTION #2:

The employee file setup is the same as for Solution #1.

Using EDLIN, Note Pad, Text Pad, or your favorite line editor or Word Processor, create a text file named HOURS.PAY file as shown:

```
2,"WLW","Secretary",140,"A",0,""
2,"WLW","Teaching",50,"A",0,""
```

The first line pays $140 for secretarial work and the second line pays $50 for teaching. This solution has the advantage that the pay descriptions can be very specific, and up to five different jobs per pay period can be handled in this manner. The disadvantage is that there is no hours accumulation, and any adjustments to gross pay would have to be figured manually and entered as either corrections to the "normal" pay or as additional positive or negative special pay items.

EXAMPLE #2, SOLUTION #2: SAMPLE WEEKLY CURRENT PAYROLL REPORT

```
Midwest Congregation
PAYROLL REPORT FOR PERIOD ENDING  12- 1-01                          PAGE 1


================================================================================

Wanda Worker                          Emp. # WLW           Check #         0
          Hours      Rate      Gross 333-44-8765           Current      Year
Secretary                     140.00 GROSS                  190.00    190.00
Teaching                       50.00 KANSAS                   0.30      0.30
------------------------------------ FICA TAX                14.27     14.27
                                     Insurance  A             3.15      3.15

                                     NET PAY                172.28


------------------------------  12- 1-01 --------------------------------
```

IMPORTANT NOTE: The tax treatments shown above are for illustration of the power and versatility of DATASMITH Payroll only. As examples, they may or may not be appropriate to your State, Tax Year, Pension Plan, and/or the employment status of your Minister and other personnel. You should have <u>your specific situation</u> reviewed by your local tax expert.