

Year-End Tax Adjustments

The following tax adjustments may apply to your district. If you have any questions pertaining to W-2 form adjustments, please contact Business Advisory Services.

The Social Security rate remains unchanged, but has a new maximum earnings of \$94,200 in 2006. The Medicare rate has not changed. The State Disability insurance rate for 2006 is .8%. The SDI taxable wage limit remains at \$79,418.

- Group-Term Life Insurance

If a district pays for life insurance for its employees with a face value in excess of \$50,000, the premium attributable to the value over \$50,000 is reportable compensation to the employee and is to be shown as such on the W-2 form.

If applicable, the attached table on page 4 may be used to calculate the reportable amounts. This compensation is also subject to any applicable Social Security and/or Medicare.

Adjustments for group-term life insurance should be processed on the November or December end-of-month payroll.

- Dependent Group-Term Life Insurance

Internal Revenue regulations state that the total cost of employer provided group-term life insurance on the life of an individual other than an employee (e.g., spouse of an employee) is included in the employee's reportable compensation, if over \$2,000 of face value coverage.

If applicable, please see table and example on page 4. This compensation is also subject to any applicable Social Security and/or Medicare.

Adjustments for dependent group-term life insurance should be processed on the November or December end-of-month payroll.

- Travel Allowances

If the district pays travel reimbursements or other allowances to employees under an accountable plan (expenses substantiated by the employee through travel logs, receipts and/or per diem and mileage allowances), the amount is excluded from income and is not subject to income tax withholding or Social Security, Medicare or unemployment insurance taxes.

If the district pays travel or other allowances to employees under a non-accountable plan (little or no substantiation required), or if the amount of the reimbursement exceeds the amount substantiated by the employee, the reimbursement or excess amount is included in taxable income and is subject to federal income tax, OASD, Medicare and FUTA.

Any adjustments for reportable compensation should be processed on the November or December end of month payroll.

- District-Owned Vehicle Use

The value of personal, non-business use of district-owned vehicles must be reported as taxable income on employees' W-2 forms. If the employee is contributing to Social Security and Medicare, Social Security and Medicare must be reported. One of the most common forms of personal usage is commuting. One of the most common forms of personal usage is commuting. If that is the only personal usage of a district-owned vehicle, the value is set at \$3.00 a day by statute. If the vehicle is used for other personal reasons, its fair market value is to be used to determine the value.

Adjustments for district owned vehicle use should be processed on the November or December end-of-month payroll.

- **Dependent Care**

If the district offers IRC Section 125, and provides dependent care as an option, these amounts must be included on the W-2 form. The plan administrator should provide you with employee totals for dependent care by January 15, 20XX.

These totals must be submitted to Business Advisory Services by January 15 in order for the information to be recorded on the employee's W-2.

- **Workers' Compensation/Disability**

If the district policy is to dock an employee's regular pay for the amount of any workers' compensation/disability payment the employee has received during the tax year, the employee's taxable income for the W-2 form does not need to be adjusted.

However, if employees are required to endorse their workers' compensation and /or disability checks to the district, and they receive their regular pay without being docked for workers' compensation/disability, their taxable income must be adjusted (reduced) by the amount not docked.

In addition, the workers' compensation is not taxable for Social Security and Medicare purposes, and all Social Security and Medicare erroneously withheld on the workers' compensation attributed to each employee must be refunded to the employee.

If these adjustments need to be made, please contact Business Advisory Services for further information on necessary adjusting entries.

- **Third-Party Sick Pay**

As defined in IRS Publication 952, sick pay is any amount paid under a plan because of an employee's temporary absence from work due to injury, sickness, or disability. Sick pay may also be called payments on account of sickness or accident disability.

If the **employer** contributes to a sick pay plan and a disabled employee receives sick pay from a third party administrator, the sick pay must be included in the taxable income on the W-2 form.

If the **employee** contributes to the sick pay plan, the amount of sick pay received is not to be included in the taxable income.

We are required to report the following on employee's W-2 forms if your third-party administrator (TPA) reports the information by January 15, 20XX.

Box 1	Amount of sick pay the employee must include in income
Box 2	Income tax withheld from the sick pay by the TPA
Box 3	Amount of sick pay that is subject to employee social security tax
Box 4	Employee social security tax withheld by the TPA
Box 5	Sick pay subject to employee Medicare tax
Box 6	Employee Medicare tax withheld by the TPA
Box 13	Amount of any sick pay not included in income reported in Box 1 because the employee contributed to the sick pay plan (Code J)

All third party sick pay statements should be submitted to Business Advisory Services as they are received. In addition, please indicate on each statement whether or not it is employer or employee paid.

- **Cancelled Warrants**

All cancelled warrants for the 20XX year are due in the county office of education no later than 4:00 p.m., January ____, 20XX. If prior year cancellations are not received by that date, the cancellations will result in the need to correct the employees' W-2 forms.

- **Exempt W-4 Forms**

W-4 forms, claiming exemption from withholding, must be renewed annually. W-4 forms filed in 20XX with exemption status expire after February 15, 20XX.

If a new W-4 form is not filed by the employee by this date, their withholdings must be adjusted to reflect the employee as "single and not dependents" for federal and state withholding tax purposes.

- **Earned Income Credit (EIC)**

You are required to notify employees who do not have income tax withheld that they may be eligible for a tax refund if they qualify for EIC. The amount of EIC that exceeds their tax liability is refunded. Employees are provided EIC notification on the W-2 form in the statement on the back of Copy C.

Important Note: Form W-5 Earned income Credit Advance Payment Certificate, is only valid for one year and expires each December 31. For the employee to continue to receive advance payments they must complete a new Form W-5 before the first pay period of the new year.

- **Undeliverable Form W-2**

The forms are printed with the employee's last indicated address. If the forms are returned by the post office, you are required to retain them for 4 years.

2006 Rates

State Disability Insurance (SDI) rate for 2006 is .8%. The taxable wage limit is \$79,418.

Social Security (OASDI) 2006 employee earning limit is \$94,200. The employee and employer contribution rate will each remain at 6.20%.

Medicare will remain with no maximum tax withholding limit for 2006. All earnings are subject to 1.45%.

If you have any questions, please do not hesitate to contact Business Advisory Services.