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GEMINI ACCOUNTING PAYROLL SETUP PROCEDURE

ANNUAL HEALTH AND ACCIDENT INSURANCE PREMIUM WAGE REPORTING FOR S CORPORATION SHAREHOLDER - EMPLOYEES ON W2 FORMS

NOTE REGARDING THE SOURCE OF PAYROLL TAX INFORMATION

Builder Incubator will make every effort to insure the information we provide is current and accurate. The source of information (the website and the document name) is included for your convenience. The governing body (both State and Federal) will occasionally relocate a source document; therefore the website link may no longer work. It is generally best to look up via document name.

CAUTION NOTICES

In the course of developing these support documents, if we conclude the details provided by the governmental body may be in error, we will include a CAUTION NOTICE in RED text to bring it to your attention.

If you have questions about any other special payroll issues, please refer to the documents available under **Support | Fed-State Tax Tables** on our website, <http://builderincubator.com/support/fed-state-tax-tables.html>

This document explains how to increase an employee's annual taxable income amount on the IRS Form W2, deduct all of the income generated by the benefit, print a "zero dollar" payroll check, and distribute the amount deducted to an employee benefit expense account.

Per IRS document titled *S-Corporation-Compensation-and-Medical-Insurance-Issues* (available at <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-compensation-and-medical-insurance-issues>)

"Health and accident insurance premiums paid on behalf of the greater than two percent S corporation shareholder-employee are deductible and reportable by the S corporation as wages for income tax withholding purposes on the shareholder-employee's Form W-2.

These benefits are not subject to Social Security or Medicare (FICA) or Unemployment (FUTA) taxes. The additional compensation is included in Box 1 (Wages) of the Form W-2, Wage and Tax Statement, issued to the shareholder-employee, but would not be included in Boxes 3 and 5 of Form W-2.

A 2-percent shareholder-employee is eligible for a deduction in arriving at Adjusted Gross Income (AGI) for amounts paid during the year for medical care premiums if the medical care coverage is established by the S corporation and the shareholder meets the other self-employed medical insurance deduction requirements. A deduction used to arrive at AGI is referred to as an above-the-line deduction. If, however, the shareholder or the shareholder's spouse is eligible to participate in any subsidized health care plan then the shareholder is not entitled to the above-the-line deduction.

A medical plan can be considered established by the S corporation if the S corporation paid or reimbursed the shareholder-employee for premiums and reported:

- The premium payment
- Reimbursement as wages on the shareholder-employee's W-2"

If you have any questions about how this affects you, please contact your accountant or other financial professional for assistance with any questions about what, specifically, should be reported for what type employee.

The following example information will assist you with manually posting taxable benefit payments which must show on the employee's Form W2. Several scenarios exist:

- a. In the first scenario, if payroll entries are posted before or after closing the accounting month of December, the Payroll module will correctly update W2 forms as well as quarterly report information.
- b. Some users may prefer the alternate scenario whereby no postings are made to Payroll/accounting – W2 as well as quarterly report information is manually updated after closing the accounting month of December.

ASSUMPTIONS FOR EXAMPLE PURPOSES:

GEMINI HAS BEEN LAUNCHED AND IS RUNNING
THIS IS A ONE-TIME, ANNUAL BENEFIT "PAYMENT" MADE TO INCREASE THE EMPLOYEE'S TAXABLE WAGES
NO TAXES WILL BE DEDUCTED FOR THE BENEFIT FOR EITHER THE EMPLOYEE OR EMPLOYER
A CHECK WILL BE PRINTED AND POSTED BUT THE NET CHECK AMOUNT FOR THE BENEFIT AMOUNT WILL BE ZERO

STEP 1: VERIFY DEDUCTION ALREADY EXISTS/CREATE DEDUCTION

Select **PR | Payroll Setup | Master Deductions**: If you already have an "Employee Benefit" deduction, proceed to STEP 2. If you do NOT already have one, you will need to create it and then add it to the employee's list of deductions. Proceed as follows:

1. Select **Insert** to display the **Deduction will be Added** window. Enter the following information.

(a) **General** tab:

Deduction Code: **BENHAI**
Linked: (Older versions of Gemini) Insure the box is NOT checked
Description: **Emp Ben-H&A Ins**
Deduction Group: Normally left blank, see **NOTE 1**, below
Withholding GL Acct: **IMPORTANT**: See **NOTE 2**, below
Allow Withholding Override: Normally left blank.
Variable Name: Not applicable/leave blank
Deduction Type: **Other**
Deduction Type ID: Not applicable/leave blank
Employee Deduction: Select this option in the **Employee/Employer** box
Employer Expense: Not applicable/leave blank
Expense Acct: Not applicable/leave blank (should be "grayed-out")
In State ID: Enter the two-character state code
Load Sequence: **3500**
Default Deduction: Insure the box is NOT checked
Reset at End of Year: Insure the box is NOT checked

NOTES:

1. The maximum number of deductions that can be shown on a check stub/voucher is nine. When the number of deductions exceeds the maximum, Gemini will automatically void the next check and print the remaining deductions on the voided check's stubs/vouchers. *Deduction Groups* provide a way around "wasting a check". Multiple similar deductions can be consolidated and totaled under a single Deduction Group heading (for example, employee FICA and Medicare deductions might be consolidated under a Deduction Group titled Employee FICA-Med or similar). Select the "search button" to the right of the Deduction Groups field to select a deduction group from an existing list of groups. The list can be updated "on-the-fly" if/as necessary and can also be updated by selecting **PR | Payroll Setup | Deduction Groups**.

2. Enter the appropriate Withholding GL Account number. We recommend you enter your employee or health expense or similar account number. Since this type of employee benefit is, typically, handled outside the Payroll module, it has probably already been expensed and should not be expensed again. If there is any question about which account to use, please consult with your accountant. If your accountant is not available, we recommend you use your Suspense account as a temporary measure.

(b) **Labels** tab

Amt1: **Emp Benefit**

(c) **Vendor Link** tab

Vendor Link: Not applicable/leave blank

(d) **Formula** tab

Gross/Basis is not Required: Insure this box is checked

Deduction Formula:

BASIS = 0.00;

GROSS = 0.00;

RESULT = AMT1;

2. When finished, select **OK | Close** to save the new payroll deduction and return to the main Gemini window.

STEP 2: UPDATE EMPLOYEE PAYROLL DEDUCTIONS

Select **PR | Employee List Maintenance** to display the **Employee List** window. Highlight each employee, in turn, to whom you are paying a benefit which needs to be added to their W-2 form. Select **Change | Deductions** to display the employee's list of deductions. Review the employee's deductions.

1. If the *employee already has an Employee Health and Accident Benefit deduction*, and it:

(a) Displays in the color **black** on the browser window, select **Change** to display the **Deduction will be Changed** window. It may be that the deduction has already been set up to handle the employee benefit during the year. If so, you may not need to add the benefit to the employee's pay. If the amount for the **Emp Ben-H&A Ins** field under **Optional User Amts** is greater than zero (0.00), it is already set up and you probably don't need to do anything (please contact Builder Incubator support if you are uncertain). If the **Emp Ben-H&A Ins** field amount is zero (0.00), select **OK | Close | OK** to return to the **Employee List** window. If necessary, continue updating remaining employee records. When finished, go to STEP 3.

(b) Displays in the color **red** on the browser window, select **Change** to display the **Deduction will be Changed** window. In the upper right side of the **Deduction will be Changed** window, uncheck the **Deduction is Inactive** box and make sure the **Emp Ben-H&A Ins** field amount is zero (0.00). Select **OK | Close | OK** to return to the **Employee List** window. If necessary, continue updating remaining employee records. Go to STEP 3 when finished.

2. If the *employee* does NOT have an *Emp Ben-H&A Ins* deduction, select **Insert** to display the **Deduction will be Added** window. Add the **BENHAI** deduction and verify the amount for the **Emp Ben-H&A Ins** field under **Optional User Amt**s is zero (0.00). Select **OK | Close | OK** to return to the **Employee List** window. If necessary, continue updating remaining employee records. When finished, go to STEP 3.

STEP 3: PROCESS PAYROLL

1. In Gemini, select **PR | Add/Edit PR Entries** to display the **Add/Edit Payroll Entries** window.

a. If this is a “normal” payroll (even though you may be processing other employee benefit deductions) that require deduction of FIT, FICA, FUTA, Medicare, SIT and/or SUTA, go ahead and enter payroll as you normally would. When finished, select **Close** to exit back to the main Gemini window.

(1) Select **PR | Calculate/Proofing Report**. Enter the **Period Ending Date** and **Posting Dates** and select either **Preview** or **Print** to calculate payroll. Review the report and verify it is correct (we recommend you either print out the report or, at least, print out the pages for the employees to whom the BENHAI benefit is to be posted.

(2) Select **PR | Add/Edit PR Entries**. Highlight each employee, in turn, to whom the BENHAI benefit must be posted.

(a) Enter the total BENHAI amount as **Additional Pay** and distribute it to the appropriate account (we recommend you distribute it to the same account used for the withholding GL account in the payroll deduction [employee/health expense account or similar]). When finished, click on **OK** to accept and return to the **Update Records...** window.

(b) Highlight the **BENHAI** (Emp Ben-H&A Ins) deduction and click on **Edit Deduction**. Enter the **BENHAI** benefit amount in the **Deduction Amount** field (leave the **Basis Amount** and **Gross Amount** fields, respectively, at 0.00). Make sure the **Lock Deduction** checkbox is checked and click on **OK** to accept the changes and return to the **Update Records...** window.

(c) Highlight each remaining deduction, in turn, and click on **Edit Deduction**. Make sure the **Lock Deduction** checkbox is checked (do not change any amounts in any field), and click on **OK** to save and return to the **Update Records...** window.

(d) When finished, all the deductions on the deductions browser list should have a **Y** in the **Lock** column.

(e) Click on **OK** to save and return to the **Add/Edit Payroll Entries** browser. When payroll has been entered for all the appropriate employees, click on **Close** to exit back to the main Gemini window.

(3) Select **PR | Calculate/Proofing Report**. Verify the **Period Ending Date** and **Posting Dates** are correct and select either **Preview** or **Print** to calculate payroll. Review the report and verify it is correct. With the exception of the FIT and BENHAI deductions, all deduction amounts should be the same as the original calculations.

(a) **BENHAI** deduction: The report **Amount** should equal the BENHAI deduction amount. The **Basis** and **Gross** amounts should equal 0.00.

(c) Report **Gross Pay** and **Net Pay** should be the same as was originally calculated but the **Deductions** amount should be equal to the original calculation amount plus the BENHAI amount.

b. If this is a “special” payroll (i.e., all you are doing is processing a payroll to enter the BENHAI **Emp BenH&A Ins** benefit), highlight each employee, in turn, to whom the benefit is being posted.

(1) Enter the total BENHAI amount as **Additional Pay** and distribute it to the appropriate account (we recommend you distribute it to the same account used for the withholding GL account in the payroll deduction [employee/health expense account or similar]). When finished, click on **OK** to accept and return to the **Update Records...** window.

(2) Highlight the **BENHAI** (Emp Ben-H&A Ins) deduction and click on **Edit Deduction**. Enter the **BENHAI** benefit amount in the **Deduction Amount** (leave the **Basis Amount** and **Gross Amount** fields, respectively, at 0.00). Make sure the **Lock Deduction** checkbox is checked and click on **OK** to accept the changes and return to the **Update Records...** window.

(3) Highlight each remaining deduction, in turn, and click on **Edit Deduction**. Make sure the **Lock Deduction** checkbox is checked (each amount field should be zero (0.00)), and click on **OK** to accept the changes and return to the **Update Records...** window.

(4) When finished, all the deductions on the deductions browser list should have a **Y** in the **Lock** column.

(5) Click on **OK** to save and return to the **Add/Edit Payroll Entries** browser. When payroll has been entered for all the appropriate employees, click on **Close** to exit back to the main Gemini window.

(6) Select **PR | Calculate/Proofing Report**. Verify the **Period Ending Date** and **Posting Dates** are correct and select either **Preview** or **Print** to calculate payroll. Review the report and verify it is correct. With the exception of the BENHAI deduction, all deduction amounts should zero (0.00).

(a) **BENHAI** deduction: The report **Amount** should equal the BENHAI deduction amount. The **Basis** and **Gross** amounts should equal 0.00.

(b) Report **Gross Pay** and **Deductions** amounts should be equal to the BENHAI deduction amount. **Net Pay** should equal zero.

c. If there are errors on the calculation report, fix them now.

2. Select **PR | Print / Post PR Checks** and enter the correct checking account number. If you do not wish to print out actual checks (or you wish to print them to plain paper), enter a dummy number in the **Next Check #** field.

3. Select either **Preview** or **Print** to process the “check”. Any payroll deduction locks you may have set are automatically removed for any subsequent payrolls as part of processing a payroll check.

4. When finished with the above actions, select **PR | Employee List Maintenance**.

a. Highlight each employee, in turn, for whom the one-time annual benefit payment was processed and select **Change | Deductions** to display the employee’s list of deductions.

b. Highlight the **BENHAI** deduction and select **Change** to display the **Deduction will be Changed** window. Check the box titled “**Deduction is Inactive**” in the upper right-hand corner of the window.

c. Exit back to the main Gemini window.

5. If you are still working in the month of December, the Payroll W-2 file will be created when December accounting month/period is closed. If you have already closed the month of December, the W-2 file has already been created. Select **PR | W2 Operations** and verify the **Tax Year** is correct. Highlight the appropriate employee and select **Change | Additional** tab.
- a. If you posted the benefit *BEFORE* closing December, the BENHAI amount should be reflected in the **Wages, Tips, Other** field on the **Additional** tab.
 - b. If you posted the benefit to a prior period *AFTER* closing December, you can change the **Tax Year** to be the *current* tax year and then use the **Recreate Prior Period** option to update your W2s. **WARNING:** Any manual changes you may have already made to any employee's W-2 will be lost; they will be overwritten with original/updated W-2 information.
 - c. If you did not/do not intend to post the benefit in Payroll, manually update all the appropriate W2 amounts in the **Wages, Tips, Other** field on the **Additional** tab as necessary for each affected employee.

This concludes the setup of the S-Corp Health Benefit Reporting deduction.