GEMINI ACCOUNTING PAYROLL SETUP PROCEDURE
CREATE/ENTER/POST EMPLOYEE BENEFIT DEDUCTION

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

According to the Internal Revenue Service, an employee benefit - more commonly called "fringe benefit" – "is a form of pay for the performance of services" and is, therefore, taxable. Although a person who performs services for you does not have to be your employee, the specific purpose of this document is to allow you to increase an employee's annual taxable income on his/her IRS Form W2. It will explain how to add the benefit income to the employee's pay and to then subsequently deduct all the benefit income, print a "zero dollar" payroll check, and distribute the amount deducted to an employee benefit expense account.

It will assist you with manually posting taxable benefit payments which must show on the employee's Form W2. If payroll entries are posted *before* closing the accounting month of December, the Gemini Accounting Payroll module will correctly update the W2 forms. If posted *after* closing the accounting month of December, W2 form benefit and wages blocks will need to be manually updated through the **PR | W2 Operations** module.

ASSUMPTIONS FOR EXAMPLE PURPOSES:

GEMINI HAS BEEN LAUNCHED AND IS RUNNING
THIS IS A ONE-TIME, ANNUAL BENEFIT "PAYMENT" MADE FOR THE PURPOSE OF INCREASING THE EMPLOYEE'S FIT LIABILITY
EMPLOYEE BENEFIT (GROSS) IS $1,250.00
EMPLOYEE HAS NOT EXCEEDED FICA CUTOFF AMOUNT (COMBINED FICA-MEDICARE RATE IS 6.2% + 1.45% = 7.65%)
EMPLOYEE'S OTHER "NORMAL/STANDARD" DEDUCTIONS, EXCEPT FICA/MEDICARE, WILL NOT BE DEDUCTED
A CHECK WILL BE PRINTED BUT THE NET CHECK AMOUNT FOR THE BENEFIT 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: **BENFIT**
Linked: Insure the box is NOT checked
Description: **EmpE Benfit Exp**
Deduction Group: Normally left blank, see **NOTE 1**, below
Withholding GL Acct: **IMPORTANT:** See **NOTE 2**, below
Allow Withholding Override: Normally left blank, see **NOTE 3**, below
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: **10**
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 account number - typically, an expense account. For example, you may already have or wish to add an Employee Benefit account. You may wish to enter the account number for the item on which the benefit is being paid (i.e., if you furnish a truck to the employee, you may wish to enter your expense account for the truck). If you are uncertain which account to use, please consult with your accountant. If your accountant is not available, use your Suspense account as a temporary measure.

3.   You **must** enter an account number in the Withholding GL Acct field. However, if you wish to set up and use individual GL accrual expense accounts for each employee, you could enter your Suspense or other "catch-all" account number in the Withholding GL Acct field and then add the employee's *specific* expense accrual account number in the Withholding GL Override field when you add the deduction to the employee's list of deductions in **Employee List Maintenance**.

(b)   **Labels** tab

Amt1: **Benfit Amt**

(c)   **Vendor Link** tab

Vendor Link: Not applicable/leave blank

(d)   **Formula** tab

Gross/Basis is not Required: Insure the box IS checked
Deduction Formula:
BASIS = 0.00;
GROSS = 0.00;
RESULT = AMT1;

2. When finished, select **OK | Close** to accept 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 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 Benfit** 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 (contact Prosoft support if you are uncertain). If the **Emp Benfit** 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 Benfit** 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 Employee Benefit deduction*, select **Insert** to display the **Deduction will be Added** window. Add the **BENFIT** deduction and verify the amount for the **Emp Benfit** field under **Optional User Amts** 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: CALCULATE EMPLOYEE BENEFIT TAXES

If you or your financial advisor have not already done so, determine who is going to pay the FICA and Medicare taxes on the benefit:

1. If the benefit is a specific dollar amount and the *employer* is paying both the employer's and employee's FICA and Medicare on the benefit, you must calculate the *ADJUSTED GROSS* using the current FICA and Medicare *rates* and the following formula:

ADJUSTED GROSS = GROSS / (1 – (FICA + MEDICARE))

Based on our example employee benefit of $1,250.00, the ADJUSTED GROSS would be calculated as follows (calculation steps are shown for clarity):

ADJUSTED GROSS = 1250.00 / (1 – (0.062 + 0.0145))
ADJUSTED GROSS = 1250.00 / (1 – 0.0765)
ADJUSTED GROSS = 1250.00 / 0.9235
ADJUSTED GROSS = 1353.55

In this example, the ADJUSTED GROSS is $1,353.55 (i.e., the combined FICA-Medicare tax on the $1,250.00 benefit is $103.55). **WARNING**: Although ignored for this example, the Adjusted Gross amount will be reduced by 6.2 percent if the employee has exceeded the annual FICA cutoff amount (i.e., the FICA amount will be zero). If some portion of the benefit will cause the employee to exceed the annual FICA cutoff amount, you will need to adjust your calculations accordingly.

2. If the employer and the employee are going to *split* the FICA and Medicare taxes as is done normally or if the employee is going to pay both the employee and employer's amounts, you do not need to adjust the gross at all, simply allow Gemini to calculate the taxes as usual and then collect any amounts due directly from the employee. If you have any questions in this regard, please consult with your accountant or other financial advisor.

STEP 4: PROCESS PAYROLL

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

   a. Highlight each employee, in turn, who is receiving an employee benefit, and then click on **Edit | Insert** to display the **Task Will be Added** window:

      (1) Enter either the **Job Number** and **Cost Code** or the **GL Account** number to which the benefit is being distributed.

      (2) In the **Income Class:** field, select/enter either **Bonus** or **Additional Pay** for benefit income (NOTE: The *default* titles for the seventh and eighth income classes are *Bonus* and *Additional Pay*, respectively. However, you may not have a payroll class called *Bonus* or *Additional Pay* in your company because Gemini allows you to change the titles. They may be redefined in **File | Supervisor | Configuration | PR** tab, Payroll Income 1 and 2 fields). Gemini handles both types as taxable pay regardless of their name.

      (3) In the **Rate** field, enter the total amount of the employee benefit (either the gross or adjusted gross).

      (4) Update other fields as/if necessary and then select **OK** to return to the **Update Records...** window.

   b. If you wish, enter a dummy check number in the **Paid Check #** field at the top right of the window.

   c. At the bottom-left of the **Update Records...** window, review the employee's deductions:

      (1) *Ignore* **the BENFIT and** *any/all* **Federal, State, and local tax deductions** (such as FIT, FICA, MEDICARE, FUTA, SIT, SUTA, and so on.

(2) *Review and lock* any remaining deductions to include all pretax and non pre-tax deductions such as CAF125, 401K, SEP, SIMPLE, SIRA, other health care, employee loan, tool, phone, child care, wage garnishment, and so on. To lock them, highlight each one in turn. Select **Edit Deduction** to display the **Updating Deduction Information** window. Each of the amount fields (**Deduction Amount**, **Basis Amount**, and **Gross Amount**) should equal *zero* (0.00). If any field does not equal zero, change it so that it does equal zero and insure the **Lock Deduction** box is checked. Select **OK** to return to the **Updating Deduction** window.

(3) When finished locking all the deductions that should be locked, select **OK** to return to the **Add/Edit Payroll Entries** window.

d. When finished editing each employee's benefit pay, select **Close** to exit the **Add/Edit Payroll Entries** window.

2. Select **PR | Calculate Proofing Report** to display the **Payroll Calculation / Proofing** window. Update the **Period Ending Date** and **Posting Date** fields as necessary and then **Print** the **Payroll Calculate / Proofing Report**. Select **Cancel** when finished to close the **Payroll Calculation / Proofing** window.

Review your printed proofing report. All deductions *except* **BENFIT** and any **Federal**, **State**, and **local tax** deductions should already be locked and all amounts for each locked deduction should be *zero*. If any are not, go back to STEP 4.1, above, and fix them now.

3. Select **PR | Add/Edit PR Entries** to display the **Add/Edit Payroll Entries** window. Using your proofing report, highlight each employee, in turn, who is receiving an employee benefit, and then click on **Edit** to display the **Update Records…** window.

a. Highlight the FIT, SIT and any other *employee* "income tax" *type* deductions, in turn. Select **Edit Deduction** and change the **Deduction Amount** to zero (0.00). The **Basis Amount** and **Gross Amount** should already be *equal* to the total gross/adjusted gross benefit amount. When finished, make sure the **Lock Deduction** box is checked and select **OK** to save the change. If you have any questions as to the correct **Basis** and/or **Gross** Amounts, please consult with your accountant.

b. The remaining employee and/or employer "non-income tax type" tax deductions such as FICA, MEDICARE, FUTA, and SUTA, should not require any adjustments. Simply verify the **Deduction Amount**, **Basis Amount** and **Gross Amount** fields are correct as calculated on the Proofing Report and then make sure the **Lock Deduction** box is checked for each deduction. Again, if you are uncertain, please consult with your accountant.

c. Highlight the **BENFIT** deduction and select **Edit Deduction**.

(1) In the **Deduction Amount** field, enter the net employee benefit amount. By using the Payroll Proofing report, you can calculate the net amount using the formula:

BENFIT = GROSS/ADJUSTED GROSS – (EMPLOYEE FICA + EMPLOYEE MEDICARE)

Based on our example employee benefit of $1,250.00, the ADJUSTED GROSS would be calculated as follows (calculation steps are shown for the purpose of clarity):

BENFIT = 1,353.55 – (83.92 + 19.63)
BENFIT = 1,353.55 – 103.55
BENFIT = 1,250.00

       (2) Make sure the **Lock Deduction** box is checked. *Amounts in the* **Basis Amount** *and/or* **Gross Amount** *fields don't matter-they should be left at zero.* Select **OK** to save the change.

    d. When finished with the last employee, close all Payroll windows.

4. Select **PR | Calculate Proofing Report** to display the **Payroll Calculation / Proofing** window. Update the **Period Ending Date** and **Posting Date** fields if necessary and then **Preview** or **Print** the **Payroll Calculate / Proofing Report**. Review the resulting report. The **Net Pay** amount for each employee for whom an employee benefit is being updated should equal zero (0.00). If it does not, review the above steps to determine what corrections need to be made. Select **Cancel** when finished to close the **Payroll Calculation / Proofing** window.

5. Select **PR | Print / Post PR Checks**. Enter the correct checking account number and, if you did not enter a dummy handwritten check number in the **Paid Check #** field at the time you entered the employee's benefit pay, enter a dummy check number in the **Next Check #** field now.

6. 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.

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

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

    b. Highlight the **BENFIT** 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.

8. 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, enter the employee benefit amount in the appropriate box(es) (usually, box 14) as necessary. Please contact your accountant/financial advisor if you need assistance. Select **OK** to save any changes and exit back to the **Payroll W-2 Operations** browser window.

    b. If you posted the benefit to a prior period *AFTER* closing December, manually update all the appropriate W2 amounts in the various boxes as necessary for each affected employee. Typically, this would include boxes 1, 3 through 6, and 14 (again, please contact your accountant/financial advisor if you need assistance). **PLEASE**

NOTE: If desired, you can also change the **Tax Year** to be the *current* tax year and then use the **Recreate Prior Period** option. **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.

9. Collect any FICA/Medicare tax amounts owed to you by the employee as/if necessary.

This concludes the setup of this formula-deduction.