

Lesson 11 – Year-End Reporting

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Welcome to this presentation.

I've a few announcements before we get started.

The information contained in this presentation's current as of the day it was presented, and shouldn't be considered official guidance.

Any stories, names, characters, and incidents portrayed in this production are fictitious. No identification with actual persons (living or deceased), places, buildings, and products is intended or should be inferred.

This program will be maintained in accordance with federal recordkeeping laws.

Now let's get started.

This is the 11th of twelve lessons we've created on payroll taxes.

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In this lesson, we'll concentrate on year-end reporting.

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Jan. 31 is an important date to remember for anybody who has employees. Fourth Quarter Form 941's due, or Form 944 if you're required to file it for the calendar year.

If you're required to file Form 940, it's due Jan. 31. Form 945's also due this date if you're required to file it. You must also provide Forms W-2 to any employee and file them with the Social Security Administration (SSA), and provide Form 1099 to any nonemployee, and file them with the IRS. So, this is an important date.

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It's necessary to complete a year-end reconciliation before these forms are due. You want to make sure they are properly filled out and they reconcile to each other before you submit them.

W-2s are submitted to the SSA, which matches them to the Forms 941 that are filed with the IRS. The IRS also matches the Forms 941 with the W-2s filed with the SSA.

If the amounts you report to the IRS on Forms 941 don't match the amounts you report to SSA on the W-2s, you'll get a notice from the place where you reported the lesser amount. Usually, it'll propose additional tax assessments and penalties.

If you don't resolve these discrepancies between the Forms 941 and W-2, it'll result in IRS assessment of additional taxes, penalties, and interest for filing incorrect reports.

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When more wages are reported to IRS than to the SSA, the SSA's concerned employees' earnings aren't credited correctly to the agency's records or that W-2s weren't filed.

When more wages are reported to the SSA than the IRS, the IRS is concerned taxes were underreported and underpaid. The employees are getting credit for the withholding reported on their W-2 and will receive a benefit of those taxes never paid to the IRS.

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So, when you do a reconciliation, what are you comparing?

The first thing you'll compare is compensation. Compensation is shown on Line 2 of the 941 and in Box 1 of the W-3.

You'll compare federal withholding, which is on Line 3 of the 941 and in Box 2 of the W-3.

Social security wages on Line 5a Column 1 of the 941 will be compared to Box 3 of the W-3.

Social security tax on Line 5a Column 2 of the 941 will be compared to Box 4 of the W-3.

Medicare wages on Line 5c Column 1 of the 941's compared to Box 5 of the W-3.

Medicare tax on Line 5c Column 2 of the 941's compared to Box 6 of the W-3.

Remember that Line 5a and 5c of the 941 includes the employer and employee portions of 941.

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The first step in reconciling is to review the payroll records for the year. Make sure payroll has been entered into the accounting system. You'll need to summarize the paydays into quarters. Then you'll check the quarterly summaries against the Form 941 for that quarter.

If everything matches, you can go to Step 2 of the reconciliation process. If they don't match, you'll need to find and correct the error.

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Now, you'll add the four quarterly Form 941s to get an annual amount for each of the following:

- Wages
- Income tax withheld
- Social security wages
- Social security taxes
- Medicare wages
- Medicare taxes

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Once you've all the totals from the 941s in Step 2 you'll compare them to the W-2s, and then to the W-3. All the amounts should match. Make sure to pay close attention to the social security and Medicare wage amounts. Tax assessments, penalties and interest are most likely to come from these amounts not reconciling.

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Step 4 of the reconciliation corrects any errors you find during the process.

If an error is found on a Form 941 that isn't yet filed, you should file the form with the correct information.

If an error is found on a Form 941 that has already been filed, file a Form 941-X to correct the error.

If an error is found on a W-2 that's already been given to the employee, but not yet filed with the SSA, give the employee a new W-2 with the correct information. File one W-2 with the SSA with the correct information.

If an error is found on a W-2 given to the employee and already filed with the SSA, then file a W-2c with the SSA and give a copy to the employee.

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There are many of common errors you must avoid.

- Not doing an end-of-year reconciliation. Make sure you do one before you file your W-2s.
- Tribal officials' wages included in Box 3 and Box 5 of the W-2. Remember – tribal officials' wages aren't subject to social security or Medicare tax.
- Tribal officials' wages included in Box 5a and 5c of the Form 941. Again, because tribal officials aren't subject to social security or Medicare tax, their wages shouldn't be on these lines.
- Not properly filing Form 941. Once you print the form, you must also mail it to IRS to file. Remember that completing the form on the IRS website won't automatically file the return for you.
- Preparing W-2s on Business Services Online (BSO), but never submitting the file to the SSA, or not mailing in the W-2s prepared.
- Math errors – always check your math.

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Let's go through a few examples.

Here's what a mismatch looks like to the IRS. As you can see, the second column has the 941 information for the year, and the third column has the total for the W-2s for the same year.

In this example, the 941 totals are less than W-2 totals.

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In this example, there is a mismatch of the taxable social security wages, the taxable Medicare wages, and federal tax withholding.

The W-2s report more in social security and Medicare wages than the Form 941 returns. The IRS will assess Social Security and Medicare tax (both the employee portion and the employer portion) on the difference.

The difference of \$10,566 will be assessed 12.4% for social security tax and 2.9% for Medicare tax. You'll receive a notice of additional tax assessment of \$1,616.59, plus you'll also have penalties and interest added to the tax assessment.

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Let's look at another example. In this example, the W-2 totals are less than the 941 totals.

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There's a mismatch of the taxable social security wages, the taxable Medicare wages, and federal tax withholding.

The Form 941's reported more in social security and Medicare wages than the W-2s filed. The IRS will assess a 10% failure to file penalty for social security based on the difference.

You'll receive a penalty notice for \$575.63, which is 10% of the mismatch amount.

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Here no W-2s were filed for the year.

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Since W-2s were not filed, the IRS will assess a 10% failure to file penalty for social security based on 941 amounts. In this case, you'll receive a penalty notice for \$9,197.19.

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IRS assessments of additional taxes, penalties and interest don't happen overnight.

The IRS will contact employers who report more wages to the SSA than to IRS.

The SSA will contact employers who report more wages to IRS than to them.

If you receive one of these notices, don't ignore it. If you fail to respond and correct the discrepancies on the notice, it'll result in the assessment of additional tax, penalties and interest.

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If you receive a notice and can't figure out where the error is, what should you do? You should call your assigned ITG specialist.

Your ITG specialist can help with fixing errors, but there are some things you need to do before you make that call.

- Make sure you have your Form 941 returns available
- Have your payroll records available
- Have your W-2 and W-3 records available
- Make sure you do a preliminary reconciliation

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In this lesson, you've learned:

- End-of-year reporting due dates
- Why reconciliations are important
- How to reconcile Form 941 with Forms W-3 and W-2s
- How to identify mismatches

Thank you.