



CUSTOM PAYROLL SERVICES

311 International Circle, Suite 140
Hunt Valley, Maryland 21030

www.CustomPayrollServices.com

2011/2012 GUIDEBOOK

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2011/2012 GUIDEBOOK

Another year is coming to a close, and we would like to take this time to thank all of our clients for allowing us to provide you support. For those clients who are new this year, welcome to our latest guidebook. Each year we bring new services to your attention. This year we have several new features and not all of them are specific to payroll. We are very proud of our new HR system and we're eager to show it to everyone who is interested. I hope that you enjoy this guide and use it as a reference this year.

We hope that next year we will all be looking at a healthier economy and full employment opportunities for everyone who wants to work.

Martha Burman
President
Custom Payroll Services Inc

NEW DEVELOPMENTS THIS YEAR

CPS HOSTED SOLUTION FEATURES NEW AUDIT CHECKS

For our clients that use our hosted solution for processing payroll, we are developing new audit checks to help you locate potential problems before you process your payroll. You will soon see changes to your submit payroll screen. Before you can close your payroll and submit it, a series of cross checks will activate. If issues are found you will see it on the submit payroll screen and will either have to approve or correct. Some of the audits that will be performed are:

- High gross pay

- Base Pay rate is missing
- Missing tax codes
- Employee has a zero net check

We will continue to add new audits to the hosted solution.

CPS HOSTED SOLUTION FEATURES NEW DASHBOARD NAVIGATOR

For our clients that use the hosted solution for processing payroll, we are developing a new feature called Dashboard Navigator. This feature will allow you to view at a glance, in a pie chart format, payroll data that is important to management.

- Sales to payroll expense
- Payroll expense by earning, deduction and taxes
- Employee Turnover
- Cost of Hire

We will be sending out an email soon with additional information about the release date.

OTHER SERVICES TO KEEP IN MIND...

Background Checks	Tax Credit Services for Employers
Employee Self Service	Time and Attendance Systems
Human Resource Information System	Unemployment management
Secure Document System	Workers Comp Pay-As-You-go

Please contact your payroll specialist for more information about these services

THE HOLIDAY CHRISTMAS CLUB

This club is very popular with our clients and will be offered again this year. Deductions for the 2011 season will begin on December 1, 2011, and end with your last payroll in September 2012. Refer to the form further back in this guidebook for additional information. On the form, please note that all amounts are estimates, and will vary based on your payroll frequency, payroll calendar, and employee Christmas Club deduction amount. This is a great program to help your employees save for the holiday season.

2011 STOREROOM

CDs will be available by mid-first quarter 2012. The CD will include all reports, quarterly tax returns, W2's and payroll checks processed for 2011. All data is exactly copied from your processed payrolls, including adjustment runs. They show the year-to-date information, balances, etc. from that point in time. All pay stubs, quarterlies and W2's can be reprinted

whenever you need them eliminating the inconvenience and cost of requesting us to reprint them for you. The CDs are generated and billed automatically. If you do not need it, fill out the form that comes with it and return it to us following the directions provided with the CD. The cost for this valuable CD is as follows:

- \$40 - 50 employees or less
- \$100 - 51 – 250 employees
- \$150 - 251 employees or more

The above rates represent a considerable savings in that once the quarterly packages have been delivered, requests for copies will be processed at the rate of \$35 per tax return.

ADJUSTMENT AND BONUS PROCESSING

Please notify CPS in advance of changes to your processing dates and any special instructions for additional payrolls. Forms can be found on our website at www.CustomPayrollServices.com in the forms section of our homepage. If you need assistance in completing these forms, please contact your payroll specialist. All forms should be faxed to your CPS payroll specialist at (410) 229-0177.

Due to the substantial increase in adjustment and bonus payrolls CPS receives from clients in November and December, for CPS to maintain the high level of customer service that you are accustomed to, we require that all clients adhere to the following specifications:

Your normal payroll transmission time is a minimum of 2 business days before check date. However, during the last week of November, and the entire month of December, adjustment or bonus payrolls will have a required minimum of 3 business days for transmission or fax to CPS before check date. Due to time constraints, all adjustments must be completed before your last payroll of the year. Remember, no matter how early you submit your adjustment or bonus payrolls; the check date activates the money movement from your account. A \$75 fee will be added to your invoice if we are not given sufficient notice.

We try to inconvenience our clients as little as possible. However, if you process a payroll that is much higher than your norm, you may be asked to wire the funds to us in lieu of the normal ACH process. If you expect to run a larger than normal payroll, let us know as soon as possible. Then if we do require a wire, you will have more time to do it.

SPECIAL NOTE: Your bonus or adjustment payroll, either by itself or in combination with a payroll with the same check date, may generate federal tax liabilities in excess of \$100K. The tax deposit becomes due the next business day after the check date. Please make sure all payrolls are submitted on time so tax deposits can be paid within federal and state guidelines.

Items that may generate an adjustment run include but are not limited to the following:

- Manual and voided checks not entered into payroll
- Earning or deduction coding discrepancies

- ❑ Third Party Sick Pay
- ❑ Cobra
- ❑ Employer contribution to an H S A plan
- ❑ Group Term Life Insurance (GTL) **
- ❑ Personal use of company vehicle **
- ❑ Employee Business Expense reimbursements **
- ❑ Company paid: health club membership, parking, transportation, etc. **
- ❑ Awards, gifts, etc. **
- ❑ Auto Allowance **

** This type of adjustment must be entered on a payroll when the employee is being paid to avoid tax out-of-balances on the 941. All adjustment runs done after December 31, 2011 will automatically require amended returns.

Taking time now to address above items will assure a smooth year-end and avoid late tax deposits and penalties. CPS will begin processing quarter-end & year-end returns after your last regularly scheduled check date for December 2011. If your last regularly scheduled payroll is not the final processing, we must be informed as soon as possible.

PAYROLL TOPICS

We will begin sending year-end email alerts in December. These alerts provide some helpful reminders. We encourage you to watch for and read them.

Check your Federal Tax Deposits: CPS always requests *EFTPS Inquiry Personal Identification Numbers (PIN)* to be sent to all of our Full Tax Service clients. Your PIN can be used to verify federal tax payments made by CPS on your behalf. Upon receiving your documents from the EFTPS Enrollment Processing Center, clients should review the instructions for going online and viewing their federal payment history. Your PIN should be retained for your records and is not needed by CPS. If you do not receive an *EFTPS Inquiry PIN*, contact our tax department.

Third Party Sick Pay Reporting: Third party sick pay must be reported to the IRS and Social Security Administration during the same tax year that the employee received the disbursement. Employers receive a copy of each disbursement when the employee is paid by the third party vendor. We strongly recommend that third party sick pay be entered into payroll when received to avoid last minute year-end adjustment runs. The third party sick pay carrier will send an annual reconciliation of benefits, but unfortunately this usually arrives to the client after the filing deadlines of the IRS. The annual reconciliation can be compared to payroll reports to ensure accuracy.

If any of your employees received a disbursement from a third party sick policy in 2011, those disbursements must be posted to payroll no later than December 31, 2011. Make sure your third party sick pay vendor knows that you need the data to report on your payroll or to CPS. Late reporting of income and tax deposits due to late receipt of information from your vendor

is not an acceptable explanation to the IRS. If you know that your third party vendor will not have the data before the year-end deadline, please contact your payroll specialist by email or fax to place your quarter-end and year-end processing on hold.

Company Policy Changes: Changes to company policies that are intended to affect payroll in 2012 should be submitted to your CPS payroll specialist no later than December 1, 2011. These changes include but are not limited to: pay frequencies, insurance rate changes, time off policies, general ledger, 401k, etc. This gives the quality control personnel time to setup and test changes before implementation. We cannot guarantee the implementation of policy changes for the first payroll of 2012 on requests received after December 1, 2011.

Late Payroll Email Notification: We notify you by email of your payroll being late for its scheduled processing date. These email notices are generated at approximately 1:30 p.m. and 2:30 p.m. on your scheduled processing day to let you know we have not yet received your payroll. We have received much feedback from clients who really enjoy this added service. Since this email is system generated, if you have any changes to whom you would like to receive this notification, please let us know and we will make the necessary changes.

A Note about Federal Banking Rules: The National Automated Clearing House Association (NACHA) is a not-for-profit association that works with banks and other users of the federal banking system to safeguard the integrity of the Automated Clearing House. When we send a direct deposit file or a tax file for you we are using the Automated Clearing House (ACH). As our client, you are the “originator” of the data in the file; we rely on you to ensure that the data you submit to us is not in violation of the laws of the United States. Our bank requires the inclusion of NACHA’s rules in all of our client agreements. We will be forwarding the agreement to you at the beginning of the 2012. Your cooperation in signing and returning this document will be most appreciated. Note that this will have little or no effect on the way we process your payroll. For more information regarding the provisions of the NACHA rules, refer to the NACHA website at www.nacha.org.

Banking Changes: It is very important you notify us immediately of any banking changes for your company, or for your employees. With so many banks merging these days, in many cases there will be changes to the bank routing numbers and account numbers for which our system needs to be updated.

2012 PAYROLL CALENDARS

Your payroll calendar automatically updates each time you process payroll. A one year calendar is kept at all times. This means that as you process a check date, your scheduling rules setup in our system will add a new check date one year in advance. Currently the calendar year 2012 has been produced through early November 2012. At the end of December, if you need to review the calendar setup for 2012, please contact your payroll specialist via email and the calendar will be printed and emailed to you. If changes are required or if known bonus/commission payroll dates are to be added, please note them on the calendar and return them to your payroll specialist.

W2, W2-C, and 1099 PRINTING

We will produce multiple W2's for any employee that has paid taxes in more than one state or local jurisdiction during the year. All W2's will be filed with the Social Security Administration electronically for all full service tax clients.

Correcting W2 data: CPS emphasizes the importance of verifying all employee demographic information for year-end. Please review all employee information carefully. Fax and autopay clients should send any changes with payroll before your last payroll of the year. CPS does provide a W2 edit report with each quarterly package. Please verify the information, and fax back any changes to CPS, before your last 2011 payroll processing. You also have the ability to print this report at any time so you can review more frequently.

Verifying employee Social Security numbers is extremely important to the employee and you, the employer. Correct numbers as well as names will ensure accurate Federal (SSA), State unemployment reports, accurate records for your employees' retirement and will avoid possible penalties for you. The URL address for this site is www.ssa.gov/employer/ssnv.htm. Factoid: Did you know that there is over 3 billion dollars sitting unallocated due to employee name/SSN mismatches? Every employer should do their part to ensure that employees get the social security credits they have worked hard to earn.

CPS will report all Section 125 in box 14A on your employees' W2's. Please call your CPS payroll representative if you do not want these amounts reported on the employees' W2's.

Deferred Comp/Pension box on the W2:

- (1) Any employee that contributes to a deferred compensation by payroll deduction will have the pension box marked on their W2 automatically. This process is transparent to the client.
- (2) Any employee who is eligible to participate in an employer sponsored plan, but elects not to, should also have their pension box marked. This is not automated. It is the employer's responsibility to indicate what applies in these circumstances. The "retirement plan" box is located on the employees' miscellaneous tab in the employee module. Fax clients must notify us in writing before the W2's are printed if they need these boxes marked.
- (3) If the company has a qualified pension plan that does not run through payroll, the pension box should be marked. This is not automated. It is the employer's responsibility to indicate what applies in these circumstances. The "retirement plan" box is located on the employees' miscellaneous tab in the employee module. Fax clients must notify us in writing before the W2's are printed if they need these boxes marked.

In addition to the SSA W2 diskette, we can create state withholding W2 diskettes for states that require it. Please contact the Tax Department if you would like to contract this service. Again this year, we will be providing a second set of employer W2's to all of our clients. The cost for this will be \$.45 per W2. (Four employees to a page in alpha order). The second set can be used as a back-up copy for your employees. Please contact your payroll specialist, in writing if you do not want this service. If you do not opt for this service and later find you need additional copies of the W2's, you will be charged \$30 for six or less W2's, and the full set charge if you require more than six. All reprinted W2's will be processed after all first run W2's have been processed and delivered.

W2 billing will appear on an invoice in January 2012. In some instances, you may see the billing on an invoice before the receipt of the actual W2's. Since our W2 packages vary depending on your level of tax service, please refer to the list below to determine what will be included in your W2 package. Please check your package for accuracy as soon as it arrives. A complete set W2 copies will also be available on the "Storeroom CD" as well. These copies can be easily accessed and printed at any time.

Tax Filing Client package will include the following:

- 1) One set of pressure sealed employee W2's in alpha order.
- 2) One set of employer W2's (four to a page) in alpha order.
- 3) One second set of employer W2's (four to a page) in alpha order.

Tax Support Client package will include the following:

- 1) One set of pressure sealed employee W2's in alpha order.
- 2) One set of employer W2's (four to a page) in alpha order.
- 3) One second set of employer W2's (four to a page) in alpha order.
- 4) One set of State and Local W2's (four to a page) in alpha order.
- 5) Diskette to send to the Social Security Administration.
- 6) Diskette to send to the State (if applicable)

We will begin shipping W2's and 1099's on or about January 13, 2012. W2 reprints will be processed after all first run W2's are completed. There will be an additional charge for W2 reprints resulting from late adjustment runs.

A W2C is required to correct name, address (employee copy only), and social security numbers & wage reporting errors. CPS will complete and file W2C's. Please contact the Tax Department for additional information on this service.

- ❑ Social security number corrections require communication with SSA, state income tax and unemployment agencies. A W2C is required for SSA & state income tax. A letter of notification to the unemployment agency is usually sufficient. These require no intervention by CPS.

- Wage reporting errors will require amendments to the IRS and State taxing agencies. CPS will file amendments per the clients' request. The total of all W2's and W2C's must equal the total of all 941's & 941C's filed for the calendar year. The smallest variance will generate a notice from the SSA and other tax agencies.

CPS can provide employee/employer copies of forms 1099M and 1099R. All information pertaining to 1099's must be submitted no later than your last payroll processing in December 2011. All 1099's will be sent by courier directly to the client for distribution to the employee.

1099M and 1099R: CPS does not provide red copies of the 1099 or 1096. If we are printing the employee copies of form 1099M or 1099R, we will file your 1099M and 1099R forms with the IRS electronically. This service is available only for those clients that process 1099 information prior to the last payroll processed for the year. There is a charge of \$25 for this service. Please contact our tax department if you want to decline this service.

Maryland W2's: New for 2011, employers/payers with 25 or more W-2/1099R forms with wages/payments subject to Maryland withholding are required to file these statements and annual reconciliation electronically. All full tax filing clients will be filed electronically. Non-tax service and mini-tax service will be furnished a diskette and billed accordingly.

2012 UNEMPLOYMENT RATE CHANGES & WITHHOLDING DEPOSIT FREQUENCY CHANGES

You will start receiving the 2012 federal, state, and local tax pay frequency changes and unemployment tax rate notices shortly. These must be forwarded to our office immediately upon your receipt. CPS' timely receipt of these notices ensures the accurate collection and filing of payroll tax. CPS will continue to use the 2011 rates and frequencies on file in 2012 until new ones are received. If we use the 2011 rate to calculate unemployment during 2012, prior to receiving the updated information, any under/over collection will be adjusted during the quarter end process. We will not be responsible for client penalties resulting from our late receipt of unemployment, federal, state or local tax notices. Please fax tax rate notices and frequency changes to our tax department at 410-229-0177. You may also email them directly to the tax department at cpstax@cpspr.com. New coupon books should be forwarded by U.S. mail directly to our office.

MANDATED CHANGES FOR 2012

The following guidelines were in effect as of the date of this printing. It is always recommended that you check with your tax professional.



Federal

Social Security Wage Base: The social security taxable wage base for 2012 will increase to \$110,100 with a tax base of \$4,624.20. The Medicare tax has no maximum limit. Tax rates remain the same for both taxes: 4.2% for Social Security & 1.45% for Medicare.

W4 exempt status must be resubmitted annually: By February 15th, those employees who submitted a form W-4 with an exempt status for 2011 must file a new form W-4 for 2012 to continue their exempt status. Begin withholding for any employee who previously claimed exemption from withholding, but has not given you a new form W-4 by this date. If the employee does not give you a new form W-4, withhold tax as if he or she is single, with zero withholding allowances.

Health care coverage reporting delayed until 2012: The IRS has delayed implementing the requirement that employers will have to report their group health plan costs on employees' 2011 W-2s. This change has made this reporting optional in 2011. It was determined that the deferral was necessary to provide employers the time they need to make changes to their payroll systems or procedures in preparation for compliance with the new reporting requirements.

The full text of the announcement is available on the IRS website at the following URL:

<http://www.irs.gov/newsroom/article/0,,id=228881,00.html>

FUTA surcharge tax: The FUTA tax rate was reduced from 0.8% to 0.6% on July 1st, 2011 when the surtax expired. The 0.6% FUTA rate will continue in 2012 unless congress acts on the President's 2012 budget.

FUTA Tax Credit Reduction: Employers paying unemployment in the following states will be subject reduction in their credit for tax year 2011. This will result in employers paying an additional FUTA per employee. Adjustments for this will occur in the fourth quarter 2011.

Alabama	0.3%	Indiana	0.6%	New York	0.3%
Arkansas	0.3%	Kentucky	0.3%	Ohio	0.3%
California	0.3%	Michigan	0.9%	Pennsylvania	0.3%
Connecticut	0.3%	Minnesota	0.3%	Rhode Island	0.3%
Florida	0.3%	Missouri	0.3%	South Carolina	0.6%
Georgia	0.3%	North Carolina	0.3%	Virginia	0.3%
Idaho	0.3%	New Jersey	0.3%	Virgin Islands	0.3%
Illinois	0.3%	Nevada	0.3%	Wisconsin	0.3%

The IRS will release a revised list of states in November.

Mileage Rate: The Standard Mileage Rate for 2012 has not been released at this time. The current rate for 2011 is 55.5 cents per mile. Once the 2012 rate is received, we will load this into the system for you.

Transportation fringes: The amounts that may be excluded from gross income for employer-provided "qualified transportation fringe benefits" for 2012 are as follows: \$240 per month for "qualified parking" (up from \$230 in 2011), and \$125 per month for "transportation in a commuter highway vehicle and any transit pass." Note that parity for mass transit benefits, which was extended by the Tax Relief Act of 2010, expires at the end of 2011.

Medical Savings Account Plans: For employee only coverage in 2011, a "high deductible" health plan that has an annual deductible maximum of \$3,100, and annual out-of-pocket expenses for covered benefits (other than for premiums) under \$6,050 for employee only. For family coverage, a "high deductible plan" has an annual deductible maximum of \$6,250, and annual out-of-pocket expenses for covered benefits (other than for premiums) under \$12,100.

2012 and previous year limits for elective deferrals and more:

401k Plan Limits for Plan Year	2012	2009 - 2011	2008	2007	2006
401k Elective Deferrals	\$17,000	\$16,500	\$15,500	\$15,500	\$15,000
Annual Defined Contribution Limit	\$50,000	\$49,000	\$46,000	\$45,000	\$44,000
Annual Compensation Limit	\$250,000	\$245,000	\$230,000	\$225,000	\$220,000
Catch-Up Contrib. Limit (over 50)	\$5,500	\$5,500	\$5,000	\$5,000	\$5,000
Highly Compensated Employees	\$115,000	\$110,000	\$105,000	\$100,000	\$100,000
Key Employee in Top Heavy Plan	\$165,000	\$160,000	\$150,000	\$145,000	\$140,000

Non 401k Related Limits	2012	2009 - 2011	2008	2007	2006
403(b)/457 Elective Deferrals	\$17,000	\$15,500	\$15,500	\$15,500	\$15,000
SIMPLE Employee Deferrals	\$11,500	\$10,500	\$10,500	\$10,500	\$10,000
SIMPLE Catch-Up Deferrals	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
SEP Minimum Compensation	\$550	\$500	\$500	\$500	\$450
SEP Annual Compensation Limit	\$230,000	\$230,000	\$230,000	\$225,000	\$220,000

NOTE: All deferral limits will be in the system for 2012.

Unemployment Interest Assessments: Interest is normally due annually on federal loans to state UI trust funds, but the American Recovery and Reinvestment Act of 2009 ("ARRA") waived interest payments through 2010. Employers can expect separate assessments or surtaxes on their quarterly UI contribution returns. Several states have begun to initiate employer assessments or surcharges to repay the interest. These states are:

- | | |
|----------|------------|
| Arkansas | Indiana |
| Arizona | Missouri |
| Colorado | New Jersey |
| Florida | New York |

Pennsylvania Locals: The Pennsylvania ‘Act 32 of 2008’ modifies the rules governing requirements that affect employers withholding and the filing of local earned income taxes (EIT). This new requirement is already in effect now for a few local districts; the rules are mandatory for all districts for 2012. Localities in PA will be assigned to a political subdivision (PSD). A new certificate of residency form reporting the PSD for employee’s home and work location is required of all employees. This certificate is required of all existing employees, new hires, and anytime an employee changes employment or place of residence. The employer is required to determine the employee’s correct tax rate by comparing the rates assigned where they live and where they work and picking the higher rate. This new policy will affect employees that live and work in PA, live in PA and work out of state, live out of state and work in PA.

You can rest assured that as this information is finalized our tax tables will be updated for accurate payroll calculations.