PayTemps.Net Basic Dictionary of Payroll Terms

Basic Payroll Dictionary of Payroll and HR Terms

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This dictionary is a compilation of terms related to the payroll professional in general, but also includes terms specific to ADP. The definitions relating to ADP terms do not include any internal or restricted proprietary information, and can be otherwise obtained from publicly available sources. We are in the process of adding terms from other payroll service providers. The definitions of this dictionary are written in a concise and broad manner so as to provide the reader with a general understanding of the defined terms, and as such, should not be cited in lieu of legal counsel or authority. Links <u>not</u> preceded by the word 'our' are to government web pages outside this website. Names noted for those web pages are simply meant to be descriptive, and are not official names. <u>Click here to view copyright terms</u>. Entries may be freely reproduced with proper credit given (include the link and copyright with each entry).

Having trouble finding it? Use the Find Key, CTRL-F.

ACH – See Automated Clearing House.

ADA - See Americans With Disability Act of 1990.

ADEA - See Age Discrimination in Employment Act of 1967.

ADP - See Actual Deferral Percentage. Also see ADP, Inc.

ARRA - See American Recovery and Reinvestment Act of 2009.

ADP, Inc. – Originally Automatic Data Processing, Incorporated, the name was recently changed officially to ADP, Inc. World's largest provider of outsource payroll services. Also provides a wide variety of payroll and human resource products and services, as well a brokerage services.

ADP Check – This is a payroll money-movement feature that enables clients to pay their employees with checks drawn on an ADP account, instead of from the client's own bank account. ADP services check payment inquiries, stop payment requests, tracers and returns. In other words, ADP acts as the bank. ADP debits the client's account for the entire amount of the ADP checks, and the amount to be debited is displayed on the Statistical Summary that the client gets with the payroll reports. Clients do not need to reconcile individual employee checks clearing their own account. Check fraud protection is included with ADP's use of Positive Pay servicing. The ADP check looks very similar to a standard payroll check. It includes the client's name, address, an ADP officer's signature, and the MICR line contains ADP's bank account number. As an option, client's can add their own corporate officer's signature and/or company logo.

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ADP Connection – This feature is a customized program that ADP writes to connect non-ADP applications with ADP PC Payroll software. Due to its high price tag, it is not commonly used.

ADP FSA — This service is an administration of a client's FSA accounts (see FSA). This includes processing and making determinations on claims for reimbursements submitted by employees. It can also include handling contributions to an account made by employees through payroll deductions, and making payments to employees for approved reimbursements (money-movement). This service is separate from the payroll processing services ADP provides. Clients using this feature must contact ADP FSA directly for the following: general inquiries, setup questions, specific question regarding their FSA plan or plan documents.

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ADP Payroll Week – Each week of the year is assigned a processing week number by ADP, starting with 01 for the first work days of the year. The weeks are numbered from Friday – Thursday. Friday is the first day of each processing week, and Thursday is the last. Each Friday is the start of a new week number.

ADP TotalSource – ADP's version of a Professional Employer Organization (see Professional Employer Organization).

ADP 401(k) – This is an administration service offered by ADP's Retirement Services division. It handles the transactions related to the setup and funding of employee 401(k) accounts for an employer. This is different from simply setting up a 401(k) or other deferred compensation deduction with ADP. If a client does not use ADP's 401(k) administration service, but does have 401(k) deductions set up, then the 401(k) amounts deducted from employee checks are calculated by ADP's payroll processing, but it is up to the client to actually send the 401(k) amounts withheld from employee checks to their 401(k) administrator (such as CIGNA or Merrill Lynch, etc.). If a client uses ADP's 401(k) service, then ADP calculates and deducts amounts from employee checks, and is also responsible for handling the financial transactions associated with those deductions. ADP debits the client's account for the entire amount of the 401(k) deductions, and the amount to be debited is displayed on the ADP Statistical Summary.

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AEIC - See Earned Income Credit.

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Accelerated Deposit Rule – The Federal government has rules that determine when taxes for SS, Med and FIT withheld must be deposited with the IRS, and they are detailed in Circular E (Publication 15). Those rules put an employer on a monthly or semi-weekly schedule, based on the taxes paid previously by an employer during a look-back period (see "look-back"). However, when a tax liability for an employer reaches \$100,000 at any time, the tax must be deposited with the IRS the next banking day, hence, the term 'accelerated.' See Circular E (Rev. January 2006), page 21 for more information. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Accountable Plan — When referring to an employee business expense (EBE) reimbursement plan, an 'accountable' plan is one that meets IRS rules for reimbursements to be excluded from an employees' reportable taxable wages by the employer. For a plan to be considered 'accountable,' employee expenses must meet all three of the following conditions: 1) reimbursed expenses must be business-related; 2) reimbursed expenses must be substantiated (with receipts, or reimbursed at IRS standard rates-such as mileage rate —see IRS Publication 463 for rates); 3) any advance payments to the employee over the substantiated amounts are returned to the employer (employee does not keep excess). If an employee received only excludable (non-taxable) EBE reimbursements during the year, the reimbursements do not need to be reported anywhere on the employee's Form W-2. However, if an employee received both, non-excludable EBE reimbursements that must be reported with the employee's regular, taxable wages on the Form W-2, as well as excludable EBE reimbursements during the year, then the excludable EBE also needs to be reported on the Form W-2, in box 12, with a code L. In short: If there is only excludable EBE reimbursements for the employee, there is no Form W-2 reporting requirement. If there are both, excludable and non-excludable EBE reimbursements for the employee, then the excludable must be reported in box 12. In all cases, the non-excludable is reported as taxable, in boxes 1, 3, and 5 and the state and local wage boxes, where applicable. See Non-Accountable Plan.

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Accrual (Accounting or GL) – When referring to general ledgers (GLs), an accrual tries to account for a period of time that has not yet happened, or been processed. For example, if a client's payroll processes on a bi-weekly basis, but their accounting period for their GL is monthly, the end of their payroll period will usually not coincide with the end of the accounting period. Thus, when the GL is produced at the end of the month, it has to account for a few days of a pay period that has not yet ended or been processed. A calculation called 'accrual' is done to post debits and credits for this period of time.

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Accrual (Benefit) - See Benefit Accruals.

Actual Deferral Percentage – The percentage of wages deferred by an employee by contributing into a deferred compensation retirement plan, such as a 401(k) plan. This amount is calculated to determine if a plan is in compliance with IRS regulations that define how a deferred compensation plan may be structured. For example, specific rules require that a 401(k) plan may not discriminate in favor of highly compensated employees. See also Deferred Compensation.

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Advanced Earned Income Credit - See Earned Income Credit.

Age Discrimination in Employment Act (ADEA) of 1967 – This law prohibits employment discrimination against persons forty (40) years of age or older, except where age is shown to be a "bona fide occupational qualification reasonably necessary to the normal operation of the particular business," as in airline pilots, bus drivers, or even actors to play a specific role. It applies to companies with twenty (20) or more employees, as well federal, state, and local government agencies. (Note: some states have laws applying to smaller companies.) Until 2004, the act was interpreted to mean that any discrimination based on age was prohibited by the act, if the persons negatively affected were age 40 or over. Reverse discrimination (favoring an older employee against a younger one), was in most cases equally prohibited, so long as the younger employee was at least 40 years old. The Supreme Court decision in General Dynamics Land Systems, Inc. v. Cline, 540 U.S. 581, 586 (2004) changed that in determining that the word "age" in the law was intended by Congress to mean "old age." Therefore, with the certain exceptions noted, employers may discriminate in favor of older employees, but not against them. The law was amended by the Older Workers Benefit Protection Act of 1990 (OWBPA) which prohibits employers from denying benefits to older workers that they offer to younger ones (benefits may be reduced based proportional to their increased cost based on age), and again by the the Civil Rights Act of 1991. The Equal Employment Opportunity Commission (EEOC) is responsible for enforcement of this law, and imposes some record-keeping requirements under it. For more details, please visit the EEOC ADEA Web Page. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

American Recovery and Reinvestment Act (ARRA) of 2009 – Often referred to as the Stimulus Bill prior to its enactment on February 17, 2009, this law covers federal tax relief, expansion of unemployment and welfare benefits, and additional initiatives regarding education, healthcare, housing, job training, energy policy, and more. It is the largest projected spending bill in U.S. history. One major aspect of its healthcare initiatives is it temporary modification of the COBRA provisions (see Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985). For certain qualified individuals defined by the law, insurance premiums paid by under COBRA (usually laid off employees) are to be subsidized by 65% by the federal government (normally, former employees must pay 100% of the premium, and up to 2% as a fee). The law covers employees suffering a qualifying event (i.e. involuntary termination) between September 1, 2008 and December 31, 2009, and also adds a new series of COBRA notification requirements that employers and employees must follow. The subsidized portion of the premiums (65%) is to be initially covered by employers, and is later refunded to the employers by the federal government via offsetting credits employers can apply towards their payroll taxes (see Form 941). For more on the tax-related aspects of ARRA, visit the IRS ARRA Web Page. For more details on the COBRA-related aspects of ARRA,

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please visit the DOL COBRA-ARRA Web Page. PayTemps Basic Dictionary of Payroll Terms, <u>www.paytemps.net</u>, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Americans With Disability Act (ADA) of 1990 – The ADA gives a broad range of rights to handicapped or disabled persons in areas of employment, housing, education, healthcare, as well as in access to all manner of government and private facilities that are open to the public. Of special importance to employers, the law requires employers, with fifteen (15) or more employees, to provide "reasonable" accommodations to allow a handicapped employee to perform a job and to access a workplace, and forbids discrimination on the basis of a disability that does not affect essential job functions. The law itself does not spell out what are considered disabilities, or what is considered "reasonable" accommodations, which initially led to much litigation. Since 1990, case law has given employers some guidelines on how to maintain compliance with the act. Subsequent U. S. Supreme Court rulings narrowed down the definition of what is to be considered "disabled," for the purposes of the law. The effects of some of these rulings were reversed by the ADA Amendments Act of 2008. This act broadened the definition of who is covered under the law, and also removed ambiguity as to what qualified as 'life activities' under ADA (therefore, further clarifying who is considered disabled, and thus protected under ADA). For more information, please visit the EEOC ADA Web Page. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Automated Clearing House (ACH) – This is a bank network that processes electronic payments [also known as electronic funds transfers (EFTs) or direct deposits] under the rules of the National Automated Clearing House Association (NACHA), and is operated by the Federal Reserve Bank, the American Clearing House Association, the Electronic Payments Network, and Visa. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Automatic Pay – This is a feature that most ADP clients use to automatically pay the established salary (Rate 1) to salaried employees, or the primary hourly rate (Rate 1) times the Standard Hours for hourly employees, without having to make an entry. Sometimes clients have two pay groups within one company code, with automatic salary being active on a payroll for pay group 1 or 2, or both. Refer to page 5-7 in the ADP *You and Your Payroll (YAP) Manual*, "Paying Your Employees" section, for a list of entries that cancel Automatic Pay.

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BLS - See Bureau of Labor Statistics.

BLS Monthly Counts – See Twelfth-of-the-Month Counts.

Backup Withholding – Backup withholding is federal income tax withheld by financial institutions, like banks, on income other than wages, such as interest income from savings accounts. Financial institutions must withhold FIT from taxpayers that the IRS has declared subject to the backup withholding. Backup withholding is reported annually on a Form 945. This is not a payroll issue. However, an institution may use their payroll service's tax deposit feature, such as ADP's Tax Filing Service, to deposit taxes by using the payroll system. Also see Form 945.

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Benefit Accruals – The calculation of vacation, sick, or other hours that become available to an employee to take as paid time off. For example, an employee may receive a benefit of accrual of 3.08 vacation hours per bi-weekly payroll (for a total of 80 hours – or ten days – per year). Most payroll processors can set up calculations, based on payroll processings, to calculate accruals, based on a calendar system (e.g. everyone gets 80 hours at the start of each year on January 1) or anniversary date system (e.g. each employee gets 80 hours on the anniversary of their hire date); and based on whether it is a 'fixed' accrual (one lump sum allowed at a given time, usually once a year), or a calculated accrual (a pro-rated amount is allowed each payroll, or each month). Many different rules can apply to a benefit accrual system, such as how much, if any, carryover is permitted for unused time from one accrual year to the next; how years or months of in service may increase hours allowed (given) to an employee; and is there a maximum balance of unused hours an employee can carry at any given time (note that a balance limit or maximum is different from a carryover limit). PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Benefits eXpert – This is an ADP product that provides employers with on-line benefits administration and employee self-service capabilities. Employers can set up their benefit programs and plans via administration screens and then employees of that company enroll in their benefits via the Internet. This feature can be purchased by itself, or as an add-on to other payroll processing services. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Benefits Options – This is a money-movement ADP feature offered for clients using ADP's PCPW product. This allows an employer to offer voluntary employee benefits at virtually no cost to the employer. The current options are for health and welfare insurance policies that can be funded through employee payroll deductions. The deductions from employees' checks are then sent, via a direct deposit transaction, to cover the employees' premiums. Through Benefit Options employees may qualify for special group rates on a portfolio of insurance products that includes: Universal Life, Level Term Life Insurance, Disability Income, Accidental Death & Dismemberment and Specified Critical Illness. To have this feature, clients must be set up with direct deposit (either regular or FSDD) and have an available direct deposit code that can be used for the benefit deductions. Aon Worksite Solutions is ADP's partner in this offered service, and it provides the client with an email attachment CSV file with all newly enrolled employees (additions) as well as any changes or deletions. Clients save and import the file into PCPW and transmit their payroll to ADP. The file is the full set up for direct deposit including the providers' bank account information. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. ② 2003, 2009. All Rights Reserved.

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Bonds – In payroll terms, through payroll deductions, employees can purchase series EE U.S. Savings Bonds for \$50, \$100, \$250, or \$500, bonds that have maturity values twice the purchase value (a bond purchased for \$50 has a \$100 face value). (Note that series EE bonds are different from series HH or I bonds.) Employees can have smaller amounts deducted from their paycheck towards the purchase of a bond, but the bond is only actually purchased when enough money has been deducted to pay for half the face value of the bond. Bonds redeemed prior to maturity date are valued at the purchase price, plus interest. Bonds redeemed at maturation date are valued at face value (twice the purchase price), or purchase price plus interest, whichever is higher. The maturity date is determined at the time of purchase, when the U.S. Treasury indicates how long the bond must be held before the U.S. Treasury will guarantee the full face value (thus doubling the original investment). ADP can produce a Bond Report that tracks employee purchases of bonds. When using ADP's bond purchasing feature, goal limits must be set at the above noted values (for example, goal can't be for \$45). When an employee reaches a goal, goal-to-date is automatically reset to zero, and deduction continues (*this is different from normal goal limits that must have goal-to-date cleared before deduction can resume*). ADP does not buy the bonds (no moneymovement). Effective December 11, 2001, Series EE Bonds bought through other, non-payroll methods are called Patriot Bonds. For more information on Series EE savings bonds go to the PubDebtBureau EE Bonds Web Page.

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Bureau of Labor Statistics (BLS) – This federal government agency is responsible for collecting and compiling statistical data in the field of labor economics as well as on the economy in general. Originally established in 1884 as the Federal Bureau of Labor, it acquired its current name when it was brought under the U.S. Department of Labor in 1913, when that department was created. The BLS is the principal federal agency responsible for gathering and compiling statistical data on employment and other labor-related information. It operates under the U.S. Department of Labor, and is the primary user of the data gathered via the Multiple Worksite Reporting on Form 3020 filed by employers with their respective state unemployment insurance agencies. See Multiple Worksite Reporting.

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CAWR – See Combined Annual Wage Reconciliation.

COBRA – See Consolidated Omnibus Budget Reconciliation Act of 1985.

Cafeteria Plan – Section 125 of the Internal Revenue Code was initially enacted in 1978, and has been amended several times since. It allows employers to offer certain kinds of non-taxable benefits, such as medical, dental or life insurance, to employees. Typically, employees pay for these benefits through pre-tax, or tax exempt, deductions from their payroll checks. The term Cafeteria is commonly used to apply to these benefits because of the number of choices that can be offered to employees by one employer under a Section 125 plan. The different kinds of benefits are numerous and varied, and beyond the examples already listed above, range from adoption assistance programs, to medical flexible spending accounts, to dependent care benefits. Employers must meet certain requirements before they can offer benefits under this type of plan. One of them is that the plan cannot disproportionately benefit highly compensated, or key employees (such as top management officers). Because of this, to certify that their plans are in compliance, employers must do compliance testing periodically. Previously, the IRS required employers to submit this compliance testing information by annually filing the Form 5500, Schedule F, to certify their compliance. However, with the April 2002 publication of IRS Notice 2002-24 this requirement has been suspended as of this writing. Note that Form 5500 filing requirements remain for pension and welfare benefit plans covered by ERISA (see Employee Retirement Income Security Act of 1974) as well as for what are referred to as Direct Filing Entities that file for plans that participate in certain trusts, accounts, and other investment arrangements. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Certified Payroll — The Davis-Bacon Act of 1931 requires private employers, working on federal jobs, pay their workers no less than the local "prevailing" wages, as determined by the U. S. Department of Labor. States may also have similar laws. As a result, government agencies may require an employer (a government job contractor) to process a "certified payroll." This is documentation that a payroll was paid according to government regulations mandating specific hourly rates for specific kinds of work. A certified payroll, then, is a normal payroll with a report added that shows how employees were paid for hours worked, thereby 'certifying' that payroll met government standards for government contracts. Usually it means a breakdown of hours paid (regular, overtime, etc.) by the day with a rate for each type of hour. Management Reports can provide clients with the needed data for certified payroll report, but require special coding of an employee's pay so the computing system can provide a breakdown of the hourly data. The government agency requesting a certified payroll should spell out for the employer the required format and contents of the report.

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CheckMate – This feature, available through ADP's PCPW software, enables a client to dial into ADP's mainframe to generate tax calculations. Instead of having to manually calculate taxes for a manual check, a client can then receive a breakdown of correct taxes to be entered for a manual (prepaid) check. The information received from ADP, if saved, is automatically transmitted with next payroll processing, in the same way as all manual checks.

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CheckView – This feature allows ADP clients to view the Payroll Register information (that is, the detail of each pay produced for each employee on any specific payroll processing), through their PCPW software. The information is populated by the Pay Detail data file (See Pay Detail). Provided an ADP client is diligent in receiving their downloads, this often under-utilized feature can be used to provide employees with appropriately formatted earnings statements for any pay period, or time period (such as six months) desired. It can even be used to quickly determine a specific amount posted, paid or deducted from an employee's pay for any time period (for

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example, how much sick time was posted for the last three months). For users of web-based payroll interfaces such as PayExpert or Payforce, this is no longer relevant.

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Civil Rights Act of 1964 – This far-reaching landmark federal legislation, covered voting requirements, created the 'protected classes' of race, color, religion, sex (under most circumstances), and national origin, and prohibits their discrimination (and segregation) in education, public spaces (including private enterprises open to the public), and in employment matters by employers with fifteen (15) or more employees (Title VII); and created the Equal Employment Opportunity Commission (see Equal Employment Opportunity Commission). While the act does not mention 'affirmative action,' it does authorize the creation of rules to help end discrimination, and this has been the legal basis for affirmative action programs and policies. These have been in controversy ever since, in part because of the vague legal basis, and in part because of the introduction of hiring 'quotas' under these policies, which proponents of the lawduring the congressional floor debate - promised the act would not allow. Nonetheless, various affirmative action programs and policies have been held constitutional by the U.S. Supreme Court, provided they are 'flexible' and do not employ "rigid quotas." The law also allows for preferential treatment of minorities and women in awarding federal contracts, and its Title VII is the initial foundation for sexual harassment law. Subsequently amended by the Civil Rights Act of 1991. For more information, please visit the Natl Archives CVRA & EEO Web Page.

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City Code – See Local Code.

Client-Defined – Refers to a use, definition, or purpose determined by a client. In other words, a client-defined field, or value, is one whose purpose or meaning is decided by a client. For example, the Department Number field in PCPW is ADP-defined. Its purpose is determined by ADP. However, the actual numbers entered in a Department field are client-defined values. The client determines what their department numbers are. However, the Custom Area 1 field in PCPW is a client-defined field. The client determines the purpose of the field as well as the values to be entered in the field.

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Combined Annual Wage Reconciliation (CAWR) – This is an IRS function that compares the totals reported on the Forms 941 filed in a given tax year to the totals reported on all the Forms W-2 for the same company under the same federal identification number in the same year. Typically, the IRS compares returns one to two years after they are filed

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Common Paymaster - When related corporations, with different taxpayer identification numbers (TIN), employ the same employee at the same time, or within a given tax period, they may opt to have the employer tax obligations handled by a common paymaster, usually a 'parent' corporation. The purpose is to avoid having each separate company meet the taxable wage limits separately for Social Security, FUTA (see Federal Unemployment Tax Act), and state unemployment taxes for the employee. Usually, when an employee works for two different companies, each company must start at zero when figuring when the employee meets applicable taxable wage limits, and cannot take credit for wages reported and taxes paid by the other company. For example, the FUTA wage taxable wage limit is \$7000 per employee per year, per employer. If the employee already met the limit at one company, and then goes to work for another company, the new company cannot take credit for the taxes already paid by the previous company, and must pay FUTA taxes from the first dollar, up to the \$7,000 limit. This means both employers could pay FUTA taxes on up to \$14,000 in taxable wages. The same goes for Social Security and state unemployment taxes (See Social Security). The common paymaster rule permits related corporations to combine their tax obligations as a single employer, and frees them from having to meet the taxable wage limits separately. Note that the corporations must be related. This means that at least one of the companies is a majority stock holder in the other, shares a majority of its board of directors or a majority of its officers with the other, or shares 30% of its employees with the other related company. The common paymaster, under its own TIN, reports the wages and pays the taxes for all the different, related companies, thus combining the taxable wages reported, and taxes paid, for all the companies, reducing their potential tax obligations. In the above example, if the two companies are related, and use a common paymaster, and the employee worked for both during a calendar quarter at the same time, both companies together will only be liable for taxes on up to \$7,000, instead of \$14,000, in taxable wages. They will pay the common paymaster their share of their tax obligation, while the common paymaster in turn pays the taxes to the appropriate agency. One complication: Some companies use a common paymaster to file their federal taxes, but still file their state unemployment taxes under the separate employer TINs. When the IRS reviews FUTA (Form 940) returns, and checks to see if employers did in fact report wages and pay taxes to the states as claimed on their Form 940, it must be advised to cross-reference the

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Community Renewal Tax Relief Act of 2000 – This law aimed at assisting economically depressed areas, contains a provision that exempts federally recognized Indian Tribal governments from the Federal Unemployment Tax Act (FUTA), provided they are compliant with state unemployment requirements.

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Company Code - The 2 or 3 (usually 3) character long alphanumeric identification for a payroll entity or control processed with ADP.

Company Rates – In ADP, unlike Rate 1, Rate 2, or Rate 3, which are rates for specific employees (employee-level, as in each employee has their own Rate 1, 2 or 3), Rates 4-9, and A-D are set for a company. In other words, they are company-level rates. For

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example, Rate 4 is the same for every employee, and therefore, Rate 4 is not stored in an employee's permanent information records or folder. Instead, the company is set up to pay, for example, ten dollars an hour whenever Rate 4 is used. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Compensatory Stock Options – See Non-Statutory Stock Options

Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 – This law gives employees covered by an employer's group health plan the right to continued coverage, under certain conditions called "qualifying events", even after a change in the employee's employment status, such as a layoff. It also gives the right of dependents, or other beneficiaries, of the employee covered under the same health plan, to retain continued coverage when "qualifying events" occur, such as the death of the employee. The law applies to employers with twenty or more employees. The intent of the law is to keep covered persons from losing health care coverage when a qualifying event occurs, though the affected persons must typically pay for the full amount of the insurance premium for it to continue. The coverage can be extended 18 or 36 months, depending on the combination of qualifying events. ADP offers COBRA administration services. For more information, visit the DOL COBRA Web Page. The law was recently amended by the American Recovery and Reinvestment Act (ARRA) of 2009. See also American Recovery and Reinvestment Act of 2009. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Constructive Receipt – Also referred to as constructive payment, constructive receipt rules are generally used by tax agencies, such as the IRS, to determine the point in time at which tax liabilities are incurred on income paid/received. Income is considered to be constructively received when it is made available to the intended recipient, without limitations or restrictions. This does not require actual possession of the funds, but rather, free access to them. This includes the receipt of cash, a check, or the crediting of a bank account. In payroll, the date the constructive receipt occurs (wages are actually made available to the employee), is the 'real' pay date, and the date on which employee and employer tax due dates are based. The 'official' pay date noted on payroll documents, including payroll checks, is irrelevant if the pay is being made available prior to the official pay date. Therefore, wages paid to an employee on December 31, 2003, are taxable as 2003 wages, and reportable on 2003 tax returns, even if the pay date is shown on payroll documents to be in January 2004. Note that period ending dates are irrelevant

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Control – In payroll, usually refers to a payroll entity that has specific characteristics, such as how particular types of earnings, or deductions, are identified and processed, and how frequently the payroll is processed. In other words, a control identifies a set of rules used to process the payroll for a set of employees. In ADP, a control is identified by a two or three-character code referred to as a 'company code.' In Paychex, controls are identified by four-digit codes. A company can have one or more controls, depending on their need to process separate payrolls in different manners.

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Cumulative File – This kind of file contains records of year-to-date, month-to-date, and other totals-to-date data for employees. The file accumulates pay data over a period of time, starting from the beginning of the calendar year, quarter, and other client-determined periods such as for the month, or fiscal year. Some accumulations are standard, that is, they are tracked for every client, and some are tracked by special accumulators, which are set up on client request. A cumulative file is distinct from a pay record file (Pay Detail in ADP – see Pay Detail) in that it is a running total, while a pay record file has data only for a specific pay period; and, there is only one cumulative file that is updated with each payroll processing, while a totally new, distinct, pay record file is created for each pay period. In ADP, the data records are by file number, meaning each file number has its own set of cumulative data, and the file's naming convention is PRCCC.YTD, where CCC is the identifying company code. For PCPW (now PC/Payroll) to display the correct information, this file must be downloaded from ADP after each payroll processing.

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Davis-Bacon Act of 1931 - See Certified Payroll.

Deduction – A subtraction from net pay. A positive deduction amount reduces net pay. A negative (reverse) deduction amount increases net pay.

Deferred Compensation – Compensation, as in earnings or pay, deferred (not received when earned). Typically, this refers to deferred compensation retirement (or pension) plans where employees can have amounts deducted from their earnings to contribute into their retirement accounts, deferring income taxes until withdrawal of the funds after reaching retirement age. These plans fall into two major categories: qualified and non-qualified. Qualified deferred compensation retirement plans are governed by rules under Sections 401(k) (most common), 403(b), 408(k), 408(p), 457, and 501(c) of the Internal Revenue Code. These rules include limits on how much income employees can defer to contribute to their plans, requirements that employers must meet to make sure the plans do not favor highly compensated employees. Amounts deferred to compensation plans are included on Form W-2 in boxes 3, 5 and 12 (with a code). For more information and current limits on qualified plans, please see our Deferred Compensation Reference Page. Non-qualified deferred compensation plans do not have to follow the rules of qualified deferred compensation plans, and are usually for highly paid employees or company executives. Because of this, these non-qualified plans can take many forms. While this may seem discriminatory against rank and file employees, the non-qualified plans that provide a tax deferment also carry a risk of forfeiture (see Top-Hat Plans). Generally, non-qualified deferred compensation amounts are included on Form W-2, boxes 3, and 5, and distributions from the same plan (a pay-out to the employee) are reportable on box 1 and box 11. Special rules may apply to different situations, so a tax adviser should make any final determinations. For more information on non-qualified plans, go to the IRS NQDC Web Page. See also Employee Retirement Income Security Act (ERISA) of 1974.

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De Minimis Fringe Benefit - Under the Tax Reform Act of 1984, non-cash benefits given to employees, often referred to as fringe benefits, must be included as taxable income to the recipient employee, unless specifically excluded by law (see Taxable Fringe Benefits). One of those exceptions applies to 'de minimis' fringe benefits - benefits of such relatively small fair market value, and awarded infrequently, that tracking and accounting for them would be administratively unreasonable and impractical, they need not be treated as taxable income to the employee. (Regrettably, the IRS does not readily specify how low, but a \$40-\$50 threshold is generally recognized.) For example, a holiday turkey or theater tickets to a particular show would normally qualify as de minimis benefits. The frequency and reason for the benefits can affect whether certain small benefits are taxable. For example, if a turkey were awarded to each employee every month, then all of them would be taxable. But, meals regularly provided for workers required to work overtime may not be taxable. Cash gifts or gift certificates easily redeemable for cash are always taxable, no matter how small the value. Regarding a gift certificate that is not redeemable for cash (say it can only be redeemed for certain items), the IRS until recently provided no published rules, and contradictory application of the tax code. However, in a technical ruling issued in April of 2004, the IRS determined that even if a gift certificate cannot be "easily redeemed for cash" as published guidance says it should be, or even at all, it is still taxable as wages because tracking and taxing it is not administratively difficult. This is because the value of the certificate is easily determined, as well as to whom it was issued. Thus, the words "easily redeemed for cash" are, for all practical purposes, no longer operative in determining if a gift certificate is taxable. For more on fringe benefits, go to the IRS 15-B Fringe Web Page. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. @ 2003, 2009. All Rights Reserved.

Department Number – The alphanumeric character identification of a payroll department. In ADP, can be 3 or six characters long. Entering a department number in a payroll entry that is for a pay number 1 will cancel automatic pay.

Direct Deposits – Electronic transfer of funds to an employee's bank account in place of a live check. With regular direct deposit, the payroll processor, such as ADP, sends a file to the client's bank, the originating bank, which in turn sends out the electronic credits to employees' (receiving) banks. ADP also offers Full Service Direct Deposit (FSDD), where ADP acts as the originating bank, and impounds the client for one lump sum amount. In either case, the Federal Reserve allows up to 72 hours for an electronic transfer to arrive at the receiving bank maintaining the destination bank account. A reversal of a direct deposit erroneously issued usually must occur within five days of the deposit date for a bank to honor it. This means it must reach the bank by the fifth day, so one must allow for the time it takes to get the reversal to the receiving bank.

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E-Time – See eTime.

EEOC – See Equal Employment Opportunity Commission.

EEO-1 Report — This statistical analysis report is required by the Equal Employment Opportunity Commission as part of its enforcement of the Civil Rights Act of 1964 (amended by the Equal Employment Opportunity Act of 1972). It is a one-page summary that breaks down employee counts by sex and race/ethnic categories within major job classifications. All employers must keep records of EEO-1 type of information, but only employers with 100 or more employees, or with 50 or more employees and holding federal government contracts or sub-contracts of \$50,000 or more, or who serve as depositories of federal funds, are required to file. The report is due every September 30 and reports racial or ethnic identity, EEOC occupational code, and/or On-The-Job training classification. For more information go to the EEOC EEO-1 Web Page.

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EFTPS – See Electronic Federal Tax Payment System.

EGTRRA – See Economic Growth and Tax Relief Reconciliation Act of 2001.

EPA – See Equal Pay Act.

ERISA - See Employee Retirement Income Security Act of 1974.

ESPP – See Employee Stock Purchase Plan.

Earned Income Credit – Also referred to as Earned Income Tax Credit (EITC). Taxpayers with earned income (wages) can qualify for a tax credit on their annual tax return, based on the amount of income they earn (they must have 'earned' income), and also on the number of qualifying dependents, if any, they claim. If they have qualifying dependents, they can claim their EIC in advance, through payroll. This is referred to as Advanced EIC (AEIC). To get AEIC, an employee must complete a Form W-5, and submit it to the employer (See Form W-5). Calculated AEIC then adds to the employee's net pay, but does not in any way affect tax calculations or withholding. This is why a payroll service may show any AEIC as a reverse deduction (the amount is negative because it adds to the employee's net pay, instead of subtracting). Any AEIC paid to an employee should be included in box 9 of the Form W-2. The employee must then reduce the EIC claimed on the Form 1040 by the amount in box 9 for the Form W-2 (since the employee already received it in advance). For more information, go to the IRS EIC Web Page.

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Earnings – Wages or earned income. Posted positive earnings always add to gross, as in 'gross earnings' (negative earnings always subtract from gross), whether they are taxable or not.

Earnings Fields – In ADP's payroll system, earnings are broken down into five categories identified by fields. The fields are: Fields 1 (Regular – See Regular Earnings), 2 (Overtime – See Overtime Earnings), 3 &4 (Other – See Other Earnings), and 5 (Other and also used for Standard 5th Field Earnings – See Standard 5th Field Earnings). These fields can be used to distinguish types of earnings for purposes of special calculations.

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Earnings Statement Reconciliation – For ADP clients, the last, total page that comes with the checks and vouchers of a payroll.

Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 – This law, passed by Congress on June 1, 2001, was an expansive piece of legislation that enacted major changes in the federal tax code; from reducing income, estate, and gift tax rates, as well as the supplemental/bonus withholding rate, and modifying the tax brackets of the progressive tax tables, to increasing contribution limits (and other limits) for deferred compensation plans (see Deferred Compensation plans), simplifying and loosening rules governing pension plans, and introducing deferred compensation 'catch-up' contributions for persons age fifty (50) and over. (For current contribution limits, see our Deferred Compensation Reference Page.) The tax rate reductions were phased in over a period of years, as were the increases in limits. The law has a 'sunset' provision, which sets the law to expire at the end of 2010, after which tax rates will revert to previous levels in 2011, unless legislation is enacted to make them permanent. See also Jobs and Growth Tax Relief Reconciliation Act of 2003.

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Electronic Federal Tax Payment System (EFTPS) – Introduced for tax year 1993, the EFTPS is, as the name implies, an electronic method for transferring funds, for taxes due, directly to the U.S. Treasury Department. For large employers, the use of the system is mandatory, and failure to use the system (by using paper coupons) carries a 10% penalty. Small employers below a certain tax liability may continue to make payments by mailing them with their paper coupons. However, once an employer qualifies for mandatory use of the EFTPS, it may not return to the paper coupon system, even if its tax liability again drops below the applicable threshold for the year in question. The threshold amount that qualifies an employer as a mandated EFTPS user is \$200,000 in total federal tax deposits in the previous two years, or if the employer qualified for mandatory EFTPS in the previous year (again, cannot go back to paper). Special note: certain online, 'e' filers may now use credit cards to make payments for taxes due when filing employment returns Form 940 and Form 941 (though not for their periodic federal tax deposits). For more on EFTPS go to the IRS EFTPS Web Page. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Employee Retirement Income Security Act (ERISA) of 1974 – This law sets minimum standards employers must meet when they establish voluntary pension/retirement and health plans (such as 401(k) and Cafeteria plans) in order to protect the financial interests of employees participating in these plans. ERISA requires employers (directly or through their plan administrators) to provide participants with plan information including important information about plan features and funding. It also places fiduciary responsibility on those who manage and control plan assets, and requires plans to have a grievance and appeals process for participants seeking benefits from their plans. Finally, ERISA gives participants the right to sue for benefits and breaches of fiduciary duty. IRS regulations require the filing of Form 5500, Annual Return/Report of Employee Benefit Plan, for pension and welfare benefit plans covered by ERISA, as well as for what are referred to as Direct Filing Entities that file for plans that participate in certain trusts, accounts, and other investment arrangements. For more information go to the IRS 5500 Instr Page.

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Employee Stock Purchase Plan – This kind of plan offer employees the option to buy a company's stock at a pre-determined, usually discounted, price at a future point in time. Options under this kind of plan are like incentive stock options (ISO) in that they are both considered statutory stock options. They differ from (ISO) in that purchase plans incorporate a payroll deduction over a set period of time. See Statutory Stock Options

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Equal Employment Opportunity Commission (EEOC) — This federal agency is currently charged with enforcement of rules prohibiting discrimination on the basis of race, color, religion, sex, national origin, age, and disability. The EEOC was originally established by the Civil Rights Act of 1964 to ensure the enforcement of its provisions, which prohibit discrimination based on the initial 'protected classes' of race, color, religion, sex (except under certain conditions), and national origin, by employers with fifteen (15) or more employees. Affirmative action programs and policies, though not specifically mentioned in the act, are also under the purview of the EEOC (see Civil Rights Act of 1964). Since then, the EEOC has been given the additional responsibility for enforcement of the Equal Pay Act of 1963 (prohibits employment discrimination in pay between the genders for similar work); the Age Discrimination in Employment Act of 1967 (prohibits age discrimination of people over 40); Sections 501 and 505 of the Rehabilitation Act of 1973 (prohibits federal agency and contractor discrimination based on disabilities); Titles I and V of the Americans with Disabilities Act of 1990 [prohibits private and public sector (non-federal) discrimination based on disabilities]; and the Civil Rights Act of 1991 (provides for monetary damages in cases of intentional illegal discrimination). The later laws of 1967, 1973, and 1990 added the protected classes of age and disability. See also EEO-1.

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Equal Pay Act (EPA) of 1963 – This law amended the Fair Labor Standards Act (FLSA) of 1938 and prohibits sex-based wage discrimination between men and women in the same establishment who are performing the same job under similar working conditions. It is enforced by the EEOC.

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Escheat – In general terms, refers to the turnover to the government of property that is not claimed, or whose owner has left no heirs. In payroll, refers to the turnover of pay (wages) that is unclaimed or uncollected by an employee. Each state imposes different requirements on employers regarding unclaimed or abandoned pay. In most states, wages are considered "abandoned" for legal purposes after one year. In some states it may be up to seven years. After the proscribed period of time, an employer must hand over the unclaimed money to the state. Most states also impose other requirements such as annual reports, and efforts to contact employees to collect their pay.

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eTime – An ADP-related time clock system that records when employees punch in and out of their work shifts. Each payroll period, the eTime information collected throughout the period can be imported into ADP's PCPW so the pay information (total hours posted by clocks) can be transmitted to ADP, without having to key in employee time cards manually into the payroll system.

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Excludable Moving Expense – See Qualified Moving Expenses.

Expatriate – U.S. employee working abroad. See Hypothetical Tax.

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Expense eXpert – This feature is available to ADP's client using PCPW. It allows a client's employees to complete expense reimbursement requests on-line, and then have the payroll system automatically updated to reimburse the employee for the appropriate amount.

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Experience Rate – This is the tax rate applied against an employer for SUI (see SUI). The rate can vary from one company to another within the same state, and even within one company (though this is very rare). The rate is based on the employer's past "experience" with unemployment claims filed by former employees. The more employees file valid claims, the higher the employer's experience rate. States inform employers of their experience rate on the tax forms they mail to employers each quarter. *PayTemps Basic Dictionary of Payroll Terms*, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

FCRA – See Fair Credit Reporting Act (FCRA) of 1971.

FICA - See Federal Insurance Contributions Act of 1938.

FIT - See Federal Income Tax.

FLSA – See Fair Labor Standards Act of 1938.

FMLA – See Family Medical Leave Act of 1993.

FSA – See Flexible Spending Account.

FSDD - See Full Service Direct Deposit.

FUTA - See Federal Unemployment Tax Act of 1938.

Fair Labor Standards Act (FLSA) of 1938 – Also known as the Federal Wage-Hour Law, this law specifies minimum standards for both wages and overtime (such as minimum wage rates), and the administrative procedures by which covered work time must be compensated (such as when should pay be treated as overtime – see our Overtime Rules Reference Page). Included in the act are provisions related to child labor, equal pay, record-keeping requirements, and portal-to-portal activities. In addition, the act exempts specified employees or groups of employees from the application of certain of its provisions. The Fair Labor Standards Act began applying to employees of the United States federal government in 1974. Section 3(e)(2) of the act authorizes the provisions of the act to be applied any person employed by the Government of the United States, as specified in that section. The law is enforced by the Wage and Hour Division under the Employment Standards Administration of the U.S. Department of Labor, except for the equal pay provisions, which are enforced by the EEOC.

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Family Medical Leave Act (FMLA) of 1993 — This expansive law provides eligible employees the right to take up to twelve (12) weeks leave of absence from work in any one designated twelve-month period, for the following reasons: birth or care for a newborn child of the employee; care for adopted or foster care child placed with the employee; care for a seriously ill son or daughter, parent, or spouse of the employee; or, employee's own health condition renders the employee unable to perform his or her normal job duties. The leave is unpaid, unless an employee chooses to use any accrued sick leave, or other accrued paid leave, during the leave period (this option

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does not extend the total twelve weeks an employee may take off work). The twelve weeks is an absolute maximum that is not extended by multiple qualifying incidents (i.e. having a newborn and a serious health issue in the same twelve month period does not entitle one to additional FMLA leave). Eligible employees are those that work for employers with fifty (50) or more employees, have worked for the employer at least twelve months (do not have to be consecutive), and have worked at least 1,250 hours for the employer. The law further provides that employees who take FMLA leave are entitled to return to their last position at the time the leave started; are entitled to the same health and other benefits as when they were working (employee and employer continue to pay same amounts for insurance coverage), and may not be denied bonuses that the employee would have certainly received had the FMLA leave not been taken. On the other hand, the employer is not required to 'assume' or extrapolate what an employee might have done to achieve a goal that was not met (e.g. an employee may not be denied a perfect attendance bonus because of FMLA leave, but might be denied a sales bonus for an unmet quota). Nor is an employer required to count FMLA leave as time worked for the purposes of calculating accruing benefits (such as vacation time, seniority, etc.). For more information, go to the DOL FMLA Web Page. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net. PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Fair Credit Reporting Act (FCRA) of 1971 – Enacted on April 25, 1971, this law established regulations covering the collection and distribution of credit history of individuals by credit reporting agencies, in effort to balance legitimate credit inquiry needs with consumer privacy rights, and ensure fair treatment and accurate reporting of this sensitive, personal data. The act established consumer rights to the information on them contained by the credit reporting agencies when denied a loan or credit. It also required users of that information, be it an issuer of credit or a loan, or a prospective employer, to notify consumers (including job applicants) of the use of the information, and of any negative information obtained, particularly when resulting in an adverse action to the consumer; and the right of consumers to challenge negative information. The act was amended in October 1, 1997 with the enactment of the New Fair Credit Reporting Act which provided for additional consumer rights, including requiring prospective employers to get job applicant authorization before requesting a credit report as part of a background pre-employment check. The law underwent additional minor amendments in 1996, 1998, and 2001 (see Graham-Leach-Bliley Act of 1999). The Fair and Accurate Credit Transactions Act (FACT or FACTA) of 2003 gave consumers the right to one free credit report a year, which may be obtained (among other ways) through annualcreditreport.com, and added provisions to reduce identity theft. For more on these laws, visit the FTC Consumer Rpts Page.

Federal Insurance Contributions Act (FICA) of 1938 – This act replaced portions of the Social Security Act of 1935, which established Social Security. The new FICA law incorporated the provisions of the Social Security Act that established the taxes to fund the Social Security program. It also later incorporated provisions for taxes to fund the Medicare program enacted by the Medicare Bill of 1965. Currently, the combined tax for Med and SS for employees (within the annual SS taxable wage limit) is 15.3%, with the tax liability divided in half between employee and employer, each owing 7.65%. For employees above the SS wage limit, the tax is 2.9%, split to 1.45% between employer and employee (Med portion only). See Social Security Tax and Medicare Tax. Also, for more information on FICA and SS taxable wage limits, please refer to our Federal Tax Limits Reference Page.

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Federal Income Tax (FIT) – The federal income tax is authorized by the Sixteenth Amendment to the U.S. Constitution passed in 1913. It currently is a progressive tax, with graduated tax brackets of higher percentages applied on higher levels of earned income. Filing Status, the frequency of pay, and the taxable income level affect the calculation of this tax. It is paid to the IRS, and reported by employers on the Form 941, and the Form W-2.

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Federal Unemployment Tax Act (FUTA) of 1938 – This law established an employer-paid tax for the purpose of funding the cost of administering the unemployment insurance and employment service programs at both the state and federal levels. States, in turn, impose a SUI tax (also called State Unemployment Tax or SUTA) on employers (and in rare cases, employees), called an experience rate, and provide the benefits paid to eligible claimants. The tax has a federal annual taxable wage limit of \$7,000 (as of 2003). The gross tax rate is 6.2%, and the minimum tax rate is 0.8%. If an employer fully reports and pays SUI wages and taxes, they get a credit towards FUTA, and only has to pay the 0.8% rate. This tax is paid to the IRS and reported on the Form 940. See State Unemployment Insurance, Experience Rate, and Form 940. Also, for more information on FUTA, and FUTA terms, please refer to our Federal Tax Limits Reference Page.

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FICA Tip Credits – Employers who claim a tip credit (see Tip Credits) on wages paid to tipped employees are allowed to get a refund on the employer share of Medicare and Social Security (FICA) taxes paid on tip income above the amount required to make up the tip credit. For example, if an employee was paid an hourly rate of \$2.13 an hour, while the applicable standard minimum wage was \$5.15 per hour, and the employee received an average of \$4.50 in tips per hour, the employer could claim a refund for the employer share of Social Security and Medicare taxes paid on tips that brought the employee's earnings above \$5.15 per hour. In this case, \$2.13 + \$4.50 - \$5.15 = \$1.48 = tips above minimum wage. The employer can claim FICA Tip Credit on the employer share of taxes paid on the \$1.48. This credit is available under Internal Revenue Code (IRC) section 45 B, Credit For Portion Of Employer Social Security Paid With Respect To Employee Cash Tips. To qualify for the credit, employees must have received tips from customers for providing, delivering, or serving food or beverages for consumption; and the employer share of Social Security and Medicare taxes must be have originally been paid on these tips. The credit is claimed on Form 8846, and is available for taxes paid after December 31, 1993. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

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Fiduciary – The characteristic or quality of being responsible for, and in control of, the assets of another. Having the responsibility or duty to diligently manage the assets in question. For example, a 401(k) administrator has the fiduciary responsibility to make sure the funds under its management are handled responsibly and within legal limits.

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File Number – The identification number of an employee record (file) of all status and cumulative pay information stored on the company's masterfile. While an employee can have more than one file, only one should be active at any one time.

Flexible Spending Account (FSA) – FSA is an account funded by Cafe pre-tax deductions taken from an employee's pay that can later be reimbursed to the employee for health and dependent care purposes. The monies are forfeited (lost) by the employee if not requested for reimbursement via a claim form within a defined time period. FSA deductions are exempt to FIT, SS, Med and FUTA. See ADP FSA.

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Form I-9 – The Employment Eligibility and Verification Form was developed by the Immigration and Naturalization Service (INS), under the U.S. Department of Justice for verifying that persons are eligible to work in the United States. The form should be completed for every employee hired after November 6, 1986. After the Form I-9 is completed, the hiring person should sign it and retain the completed form in the employer's files. The Immigration Reform and Control Act (IRCA) of 1986 requires all employers to verify the identity and employment eligibility of any person hired for work in the United States (see Immigration Reform and Control Act). In 1996, through the Illegal Immigration Reform and Immigrant Responsibility Act (IIRIRA), Congress authorized electronic employment verification systems designed to enhance the paper verification process. While voluntary for most employers, Federal contractors and subcontractors will be required to use E-Verify beginning September 8, 2009. Executive Order 12989 mandates the electronic verification of all employees working on any federal contract (see the DHS E-Verify Web Page). Note that the INS became part of the U.S. Department of Homeland Security and its functions were divided into various bureaus of that department, one of them being the U.S. Citizenship and Immigration Services (USCIS).

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Form W-2 – This form is used to report to federal, state, and local governments, the annual taxable wages and taxes withheld for each individual employee for federal, state, and local income taxes as well as SS and Med. Copy A is filed with the SSA, along with a Form W-3 totaling form, which later forwards the information to the IRS (if more than 250 Forms for one employer ID, SSA requires filing by magnetic tape). Filing is due to the SSA by the last day in February following the end of the reportable tax year. Employees must be provided their copies by January 31. Copy B is filed by the employee with their federal tax return (Form 1040). Copy C is for the employee's records. Copy D is for the employer's records. Copy 1 is filed by the employer with the appropriate state or local incometaxing jurisdiction (many require magnetic tape or other 'mag' media if 250 or more, or may have some other limit). Copy 2 is filed by the employee with the appropriate state or local income tax return. For more information, see the IRS' *Instructions for Forms W-2 and W-3* (that is the title, it has no publication or notice number).

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Form W-4 – This form is submitted by employees to their employers to indicate their tax filing status and number of exemptions claimed, for the purpose of appropriately calculating federal income tax withholding. All new employees should complete one, as well as employees requesting withholding changes. On-line versions of this form are now used by many companies. The employers do not need to send the Forms to the IRS, except under special circumstances. See IRS Publication 15 (Circular E) for more details. Up until the implementation of new temporary rules by the IRS effective April 14, 2005, employers had to send a copy to the IRS if an employee claimed ten or more exemptions, or if the employee claimed a complete exemption to federal withholding, and the employer expected to pay that employee at least \$200 a week. The new temporary rules indicate this is no longer necessary. The rules are proposed to become permanent. For more information go to IRS TD 9196 Web Page.

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Form W-5 – Form filed by employees with their employers to request Advanced payments of the Earned Income Credit (EIC) through payroll. Only persons with qualifying dependents can claim Advanced EIC (AEIC). Not having a dependent does not automatically mean one cannot claim EIC, it just means one cannot claim it in advance through an employer. The Form W-5 is retained with the employer's records. Employees must file a new form every year they wish to request AEIC. A form can be accepted at any time of the year by an employer. See Earned Income Credit.

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Form 3020 - See Multiple Worksite Reporting.

Form 5500 - See Employee Retirement Income Security Act (ERISA) of 1974.

Form 940 – The Employer's Annual Federal Unemployment (FUTA) Tax Return reports wages and taxes due under Federal Unemployment Tax Act (FUTA). It is filed with the IRS on an annual basis and is due one month after the end of each tax year. See Federal Unemployment Tax Act of 1938. See Federal Unemployment Tax Act.

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Form 941 – The Employer's Quarterly Federal Tax Return reports the total federal income taxable wages, Social Security and Medicare wages, the associated federal income, Social Security, and Medicare taxes withheld from employees by the employer, and

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the employer portion of the Social Security and Medicare taxes. It is filed with the IRS on a quarterly basis and is due one month after the end of each quarter (e.g., quarter ending March 31 is due April 30). Starting with filings for 2006, employers with less than \$1,000.00 in expected employer tax liability must file the annual Form 944, instead of the quarterly 941 (see Form 944). The IRS reconciles the annual totals on the four Forms 941 filed within a tax year under a given federal Tax Identification Number (TIN), with the totals reported on Forms W-2 for the same year and TIN. Thus, it is important that the amounts filed on Forms 941 agree with those filed on Forms W-2 for the same tax year and TIN. For more on Form 941, go to the IRS Form 941 Web Page, or view the Form 941. Form 941-PR is in Spanish for Puerto Rico, and 941-SS is for American Samoa, Guam, Mariana Islands, and the U.S. Virgin Islands.

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Form 944 – The new Employer's Annual Federal Tax Return reports the total federal income taxable wages, Social Security and Medicare wages, the associated taxes federal income, Social Security, and Medicare withheld from employees by the employer, and the employer portion of the Social Security and Medicare taxes. It is filed with the IRS on an annual basis and is due one month after the end of each year (e.g., 2006 is due January 31, 2007). Starting with filings for 2006, employers with less than \$1,000.00 in expected employer tax liability must file the annual Form 944, instead of the quarterly 941 (see Form 941). The IRS is sending notifications to employers it has identified as qualifying for the Form 944, but employers are responsible for ensuring they are filing the correct form. The IRS can be expected to reconcile the annual totals on the Forms 944 filed for a tax year under a given federal Tax Identification Number (TIN), with the totals reported on Forms W-2 for the same year and TIN. Thus, it is important that the amounts filed on the Form 944 agree with those filed on Forms W-2 for the same tax year and TIN. For more on Form 944, go to the IRS Form 944 Web Page, or view the Form 944. Form 944-PR is in Spanish for Puerto Rico, and 944-SS is for American Samoa, Guam, Mariana Islands, and the U.S. Virgin Islands.

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Form 945 – This tax return is filed by financial institutions, such as banks, to report 'backup withholding' for FIT on non-wage income such as dividends and interest. It is filed annually. ADP's Tax Filing Service does not file the Form 945. However ADP can produce a Form 945 for non – Tax Filing clients (form only, client enters data), or ADP clients can use the Tax Filing Service to deposit the backup withholding to the IRS. See Backup Withholding.

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Full Service Direct Deposit (FSDD) – This is a payroll money-movement feature that enables clients to pay their employees with electronic deposits originating from an ADP account, instead of the client's own bank account. ADP debits the client's account for the entire amount of the direct deposits, and the amount to be debited is displayed on the Statistical Summary that the client gets with the payroll reports. ADP services the direct deposit inquiries, reversal requests, tracers and rejected transactions.

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GL - See General Ledger.

GTL – See Group Term Life Insurance.

General Ledger (GL) – The GL (or GLI for General Ledger Interface) is a report used by a company's accounting department to track expenditures resulting from payroll activity (in other words, to track and record payroll expenses). A GL will show each monetary transaction as a debit to one account, and credit to another. Clients determine how and to which GL account number transactions post. The GL interface takes the pay data of a payroll processing, and distributes to accounts on the GL accordingly. For example, Earnings Code L should be charged to account 123456-33 as a debit, and account 987654- 44 as a credit. Or, a client could further specify that Earnings Code L, paid under department number 000123, are debited to account 264648, and credited to 467789. Some clients do this by hand, manually looking at the payroll reports, the Payroll Register or Labor Distribution Report, and then manually posting entries on a GL paper worksheet, or keying into a spreadsheet on a PC application, such as Excel. Other clients have their payroll processor automatically produce a GL on a per-payroll, weekly, monthly, or some other regular basis.

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Graham-Leach Bliley (GLB) Act of 1999 – This act imposes new requirements on banks, credit unions, and other financial institutions to maintain the privacy of their customers' nonpublic, personal information. Among the new rules is a requirement for these same institutions to have agreements in place with any business partners with whom they share this kind of personal information to ensure that the business partners will also maintain the privacy of the financial institutions' customers. The law became effective July 1, 2001. However, if financial institutions already had agreements in place prior to the enactment of this law, they had until July 1, 2002 to amend existing agreements to comply with the new rules.

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Gross Earnings – The sum of all earnings, taxable or not. Often referred to simply as 'gross'. Does not include reverse deductions, such as those used for loans or advances.

Group Term Life (GTL) Insurance – Employers may offer employees group term life insurance coverage free of charge as a benefit. In general, to qualify as GTL, the insurance must be provided the insurance to at least ten employees during the year (count employees who declined the coverage, but could have had it for free); provides a death benefit that has no cash value otherwise; employees cannot be selected individually for coverage amounts; and the employer provides the coverage through its insurance carrier directly or indirectly. In such a case, the premium for the value of the coverage over \$50,000 (the cost of providing it) is taxable to an employee

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when it is provided free by the employer. If an employee makes contributions (has payroll deductions) to pay for GTL, the portion for which he or she pays is exempt to most taxes. The IRS publishes the assumed taxable value of GTL coverage broken down by the age of the covered person. In ADP, a company can set up a memo to record taxable GTL. The client can enter manually the taxable amount of imputed income, or can have ADP calculate automatically. The presence of a GTL memo amount on a pay will add to FIT/SS/Med taxable income. This will increase the SS/Med tax calculated for the employee, and possibly also increase the FIT calculated, which will reduce the net pay, if there is pay available. The GTL memo amount will not, itself, reduce or increase the net pay, but the taxes created by GTL will. In addition to normal wage reporting requirements, taxable GTL should be reported on the Form W-2 in box 12 with a code P. For more basics, go to the IRS GTL Web Page. For more details, or the Premium Table, go to pages 9-10 of IRS Pub 15-B.

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Gross Under Limit - See Gross Under Minimum.

Gross Under Minimum – Some states, notably New Jersey, Ohio, and Pennsylvania, set a minimum of average weekly earnings an employee must have earned, over a determined period of time, in order for those earnings to be included in determining the unemployment benefits for which that employee would qualify. For example, for 2003, Ohio set the minimum at \$176.00 average weekly earnings per quarter. Therefore, if an Ohio employee made less than \$176.00 per week, on average, during a quarter, those wages would not considered when determining that employee's unemployment benefits, even though the employer may have paid SUI tax on those wages. Payroll reports may display Gross Under Minimum (GUM or GUL) amounts. If they do, they would likely show the wages for which an employee was under the minimum limit only for that payroll period (this would need to be verified with the payroll processor). In such a case, even if an employee had calculated GUM amounts on a given payroll, an employee could exceed the minimum limit on a previous or subsequent payroll period, which could bring both payroll periods above the minimum qualifying limits when combined. Thus, these numbers should be used only for general reference, and not as final determinants of what wages will be considered for determining unemployment benefits. See SUI, Look-Back Period.

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HIPPA - See Health Insurance and Portability Act of 1996.

HR/Profile – The human resource (HR) companion feature to ADP's PC/Payroll for Windows (PCPW). This feature allows clients to track personnel changes, performance evaluations, compliance with EEOC regulations, benefits, and other HR-related functions. The data tracked by this feature is not sent to ADP for processing, nor is it stored on the ADP mainframe. It is entirely based on the client's PC or network database. If it the feature is activated in the PCPW application, a toggle 'button' will be visible that allows transition between the Payroll and HR sides of PCPW

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HSA-See Health Savings Account.

Head Tax – See Occupational Privilege Tax.

Health Insurance and Portability Act (HIPAA) of 1996 – This law protects the health insurance coverage for workers, and their families, when they change or lose their jobs, by restricting the ability of group health insurance plans to deny coverage to them, on the basis of a pre-existing medical condition, when they are hired by a new employer. The law also includes what are referred to as "Administrative Simplification" provisions that required the U.S. Department of Health and Humans Services (HHS) to adopt national standards for electronic transmission of health care data and transactions and national identifiers for providers, health plans, and employers. Finally, the law also provides for the adoption of federal rules for the protection of private, individually identifiable health information. These rules became effective April 14, 2003 for larger health plan providers, health care clearinghouses, and health care providers, and will be effective in 2004 for the smaller entities.

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Health Savings Account (HSA) – HSAs were created by the Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003, signed into law by the president on December 8, 2003. They essentially replace Medical Savings Accounts (MSA – see Medical Savings Account). They work and are set up the same way as MSAs except that many of the original restrictions have been relaxed or eliminated. HSAs can be set up by anyone under age 65 with a high deductible health plan (HDHP – meaning the deductible for the insurance plan cannot be below a certain amount, indexed annually – for example, in 2004 the deductible must be at least \$1000 for self only insurance, \$2000 for family), who does not have another health insurance plan (Dental, Vision, Disability, LTD, or specific illness insurance do not count as health insurance for this purpose), who is not eligible for Medicare, and cannot be claimed as a dependent on someone else's return (whether they are claimed or not is irrelevant). The contributions to the HSA, whether by the employee or employer (or self-employed person) can be up to 100% of the deductible set by the insurance plan (as opposed to the 75%/65% in MSAs) and there are limits to how much the HDHP can set for out-of-pocket expenses, as well as total dollar limits for annual contributions to an HSA. HSAs can be offered by employers through Cafeteria (Section 125) plans. As with MSAs, and unlike Flexible Spending Accounts (see Flexible Spending Account), funds can rollover from one year to the next. Employer contributions to an HSA should display on the Form W-2 in box 12 with a code W. For more on the various dollar limits and requirements, go to the US Treas HSA Web Page. Special note: Health Savings Security Accounts (HSSA) were not established by the new law.

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Hours Fields – In ADP's payroll system, hours are broken down into four categories identified by fields. The fields are: Fields 1 (Regular – See Regular Hours), 2 (Overtime – See Overtime Hours), and 3 & 4 (Other – See Other Hours). These fields can be used to distinguish types of hours for purposes of special calculations.

Human Resource eXpert – This feature is offered to ADP's Pay eXpert clients (see Pay eXpert). It is the Pay eXpert equivalent to PCPW's HR/Profile (see HR/Profile). It addresses human resource management needs, such as the ability to manage areas of statutory compliance, employee development, benefit tracking, and employee data record keeping and reporting.

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Hypo Tax – See Hypothetical Tax.

Hypothetical Tax – The hypo(thetical) tax is a deduction from the pay of a U.S. employee working abroad (referred to as an expatriate employee). This amount deducted is held by the employer, not paid directly to the IRS. The employer, in turn, covers any tax obligations, foreign and federal. The hypo tax is intended to reduce the employee's net income by the amount of tax the employee would have had to pay had they stayed at home. In other words, 'hypothetically,' it is the amount of taxes the employee would have had to pay had they stayed at home in the U.S. The purpose is to make sure employees do not suffer a decrease in standard of living due to higher foreign taxes. The computation varies by company. Check the company's policy to determine how their hypothetical tax is computed. Some employers use a flat rate, while others only collect a hypo tax if foreign taxes are due.

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IRS - See Internal Revenue Service.

ITIN - See Individual Taxpayer Identification Number.

Immigration Reform and Control Act (IRCA) of 1986 - See Form I-9.

Imputed Income – To impute something is to assign responsibility for it to someone, or to some other thing; or to make it part of someone or some other thing. To impute income to someone is to assign the value of that income to that person, and to make them responsible for it. In payroll, imputed income is the assigned cash value, and the responsibility for any applicable taxes, of a benefit an employee received. For example, taxable fringe benefits (see Taxable Fringe Benefits), such as the free use of a car for personal purposes, are income that should be imputed to the employees receiving the benefits. Often, imputed income is used to refer to the value of premiums of group term life insurance coverage provided by employers (See Group Term Life Insurance). In short, imputed income is the cash value of non-cash benefits received by an employee, included as part of the total income received by that employee PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Incentive Stock Options - See Statutory Stock Options.

Individual Taxpayer Identification Number (ITIN) – Identification number issued by the IRS to aliens who do not have a Social Security Number (SSN), but have taxable, non-wage, income they must report to the IRS. For example, a foreign national that is not eligible to work in the U.S., but has U.S. investment income that is taxable in the U.S. would need an ITIN. An ITIN has the same number of digits as an SSN, except that it begins with a '9,' with a 7 or 8 as the fourth digit. An ITIN cannot be used for employment purposes. The Social Security Administration will not credit any FICA taxes paid under an ITIN. If a resident alien becomes eligible to work in the U.S., he or she should apply for an SSN. For more on ITINs, see the IRS ITIN Web Page.

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Internal Revenue Service – Federal tax collection agency under the U.S. Department of the Treasury. Originally established as the Office of the Commission of the Internal Revenue on July 1, 1862, it was given its current name in 1953.

Instant Pay Card – An ADP feature that allows a client to issue a pay card with an electronic cash balance, similar to gift cards issued by department stores, instead of a manual check. ADP electronically debits the client's bank account and credits the card with the requested net pay amount, via the ACH system. The client then gives the pay card to the employee, who in turn can then use it in the same manner as an ATM or credit card. Like a gift card, once the card's value is used up, it is discarded (one-time use only). This feature should not be confused with Total Pay Card (see Total Pay Card)

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iPay Statements – This ADP feature allows a client's employees to view their pay statements (earnings stubs), and Forms W-2 via the Internet, on a secure website maintained by ADP. To access the site, first users must register. To log for the first time, an employee needs their most recent pay statement and their company Self Service Registration Pass Code (client's payroll administrator receives it from ADP and provides it to the employees). Clients can elect to suppress all paper vouchers for employees who receive their pay via electronic transactions such as direct deposits, or allow employees to individually select the option to not receive a paper voucher. However, some states laws may restrict a client's option to suppress paper vouchers. See Voucher Suppression.

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I-9, Form – See Form I-9.

JGTRRA - See Jobs and Growth Tax Relief Reconciliation Act of 2003.

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Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 – This law, passed by Congress on May 23, 2003, accelerated many of the tax reductions initially enacted, and slowly phased in, by the Economic Growth and Tax Relief Reconciliation Act of 2001, also known as EGTRRA (see Economic Growth and Tax Relief Reconciliation Act of 2001). The law also increased exemptions available under the Alternative Minimum Tax (AMT), which previously prevented many taxpayers from gaining any benefit from the tax cuts in EGTRRA. The law accelerated the increases in the Child Tax Credit initially scheduled under EGTRRA. The law also reduced taxes on capital gains; reduced the tax rate on dividends, through 2008, by subjecting them to a lower rate than for ordinary income; and provided relief from the marriage penalty, that is embedded in the tax system, for middle and low income taxpayers. While some parts of the law expire early, all provisions are still subject to the 'sunset' provision of EGTRAA, which expires at the end of 2010. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

LTD - See Long Term Disability.

Labor Distribution – This is a report produced for clients that pay employees in more than one department, but with only one check, to provide totals by department worked. The payroll register adds up department totals by checks in the employee's home department. Therefore, a total for a department in the Payroll Register where an employee received one check for pay in multiple departments, is going to include the amounts paid under the other departments. The Labor Distribution totals by department worked. For example, in ADP, if an employee was paid Earnings 3 Code R of \$1000 in their home department 100, and also \$500 in temporary department 200, but all in one check, the Payroll Register and Labor Distribution would total as follows: The Payroll Register would add \$1,500 in E3CR to department 100 (the home department under which the check was cut). The Labor Distribution would add \$1000 in E3CR to department 100 and \$500 in E3CR to department 200.

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Local Code – A code entered on an employee's file to identify the locality (city, county, and in some states the school district jurisdiction) to which an employee must pay an income tax.

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Long Term Disability (LTD) – Payments made to employees that are on sick leave for a period longer than six months. Usually handled by a third party such as an insurance company. The taxable portion of LTD is taxable to FIT, but not to Social Security, Medicare or FUTA. The taxable portion is based on what portion of the insurance premium was paid for by the employee. If an employee paid 40% of the premium, then 40% of the LTD is non-taxable to the employee, and 60% is taxable. Aside from displaying the taxable portion in box 1, LTD does not need to be reported separately on the Form W-2. Also see Third Party Sick Pay. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Look-Back Period – This term refers to a specific period of time used by government agencies to determine the deposit rules that apply to an employer, or to determine the benefits for which an individual qualifies. More specifically, to determine the federal tax deposit rules (when taxes must be deposited) that apply to a specific employer or business in a particular calendar year, the Federal government 'looks back' at the previous tax liabilities for that employer or business during four quarters of the previous two years. Those four quarters are the last two (3rd and 4th) of the 1st of the previous two years, and the first two quarters of the 2nd (which is the following) of the two previous years. For example, to determine the deposit rules for 2003 for a company, the look-back period would be the last two quarters of 2001 and the first two of 2002. To determine the unemployment benefits of an individual filing a claim, a state agency would look back at the employee's earning history, as reported to them by his or her former employers, for the first four quarters of the last five completed quarters. For example, if an individual files a claim in July 2003, which is the 3rd quarter of 2003, the agency would go back five quarters, and look at the first four quarters starting April 1, 2002, and ignore the 5th quarter (2nd quarter of 2003), which is the quarter immediately preceding the current quarter.

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MPHA - See Mental Health Parity Act of 1996

MR – See Management Report.

MSA – See Medical Savings Account.

Management Report (MR) – This kind of report is not part of standard payroll reports. MRs are requested by a client from a payroll processor when additional reports with pay, cumulative, or masterfile information are desired, either in a different form, combination, or covering different periods than the standard payroll reports. ADP clients may request an MR to run on an every payroll basis, or a monthly basis, or some other scheduled basis, and can have one or more. Reports can be produced in printed form, as downloads received via a modem, or sent as electronic data transmissions to designated recipients.

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Manual Check – A payroll entry of information that directly adjusts, upwards or downwards, the quarter and year-to-date totals on an employee file, as well as any other total-to-date accumulations. Normal payroll calculations are bypassed, and information posts on the payroll register exactly as entered. Usually used to record a check paid outside the payroll system, to void checks previously recorded, or to make other corrections to payroll accumulations. If taxes with specific rates, such as SS or Med, are entered incorrectly, the check will still post as entered, but recalculations on subsequent live pays may occur. During a payroll processing, manual checks always process before normal live pays. Other terms that refer to manual checks: Prepaid, void, adjustment.

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Masterfile – Generally, this refers to the primary, or master, database containing all the files of all the employee records within a payroll entity, or processing control (see Control). The data typically contain the permanent employee information, such as identification information (e.g. name, addresses, hire date, etc.), tax status (e.g. federal filing status, exemptions claimed), and other information specific to each employee that does not typically change from one payroll processing to the next.

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Med - See Medicare Tax.

Medical Benefits for S Corp Employees – See S Corp 2% Shareholder Benefits.

Medical Savings Account (MSA) – An MSA (also known as Archer MSA) is an account set up prior to 2004 to cover medical expenses for employees of small companies (50 or less an employees), or self-employed persons, or their spouses, who have a high deductible health plan (HDHP), and are not covered by other insurance. The accounts are set up with insurance companies or banks in a manner similar to Individual Retirement Accounts (IRA), and are funded by employer or employee contributions (but not both) that are tax exempt to the employee. The total annual contribution to the accounts cannot exceed 75% (65% for self only plans) of the deductible set up by the HDHP. Distributions from MSAs to cover qualified medical expenses are also tax exempt. MSAs also differ from Flexible Spending Accounts (FSA) in that they can accumulate and maintain balances from one year to the next. MSAs were originally established by HIPPA (see Health Insurance and Portability Act of 1996) on an experimental basis. They have since been made obsolete by the Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003, signed into law by the president on December 8, 2003, that created the Health Savings Accounts (HSA). HSAs are the same as MSAs, except that they are less restrictive. The MSAs program has been extended through 2005. Excludable employer contributions to an MSA should be reported on Form W-2 in box 12 with a code R. For more on MSAs go to the IRS MSA Web Page. See also Health Savings Account. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Medicare (Med) Tax – This federal payroll tax has no limit and is taxed at a flat rate of 2.9% of an employee's wages. The tax is divided between the employer and employee, with the employer paying 1.45%, and the employee paying 1.45%, which must deducted from the employee's wages. The tax liability is paid to the IRS and reported on the Form 941. See Federal Insurance Contributions Act of 1938

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Memo – An amount that does not directly increase or decrease net pay, usually used for employer matches on deferred compensation plans like 401K or for employer pension contributions made for the employee. In ADP, memos are often used to record GTL imputed income – See Group Term Life Insurance.

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Mental Health Parity Act (MHPA) of 1996 – This federal law, enacted on September 26, 1996, amended the Employee Retirement Income Security Act of 1974 (ERISA) and the Public Health Service Act (PHS Act) to provide for parity in the application of annual and lifetime dollar limits on mental health benefits with dollar limits on medical/surgical benefits. In other words, a company's group health plan cannot place annual or lifetime dollar limits on mental health benefits that are lower than annual or lifetime dollar limits for medical and surgical benefits offered under the plan. For example, if a company's health plan has a one million dollar lifetime limit on medical and surgical benefits, it cannot put a \$900,000 lifetime limit on mental health benefits. Provisions implementing MHPA were later added to the Internal Revenue Code of 1986 under the Taxpayer Relief Act of 1997. MPHA has a sunset provision (expiration date) that has been repeatedly extended. Although the law requires parity, or equivalence, with regard to dollar limits, it does not require group health plans and their health insurance issuers to actually provide mental health coverage in the first place. Thus, MPHA applies only to group plans and their insurance issuers that include mental health benefits. Also, MHPA does not apply to group health plans sponsored by employers with fewer than 51 workers, or to health insurance coverage in the individual market. Otherwise, the law applies to all group health plans other than governmental plans, church plans, and certain other plans, and to insurance issuers that offer health insurance coverage in connection with such group health plans. The law is enforced by the Department of Labor. Employers should check their state law for any state mental health parity coverage requirements.

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Money-movement – The actual movement of money from one entity to another. For example, it is one thing to calculate a net pay amount that should go to a direct deposit account for an employee. It is another thing to actually move the money from the employer's bank account to the employee's bank account. A second example: The payroll processing can calculate a 401(k) deduction, and create a check with the 401(k) deducted. However, it requires money-movement to actually transfer the money withheld from the employee's check to the administrator (such as Merrill Lynch) that funds and handles the employee's 401(k) plan.

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Multiple Worksite Reporting – Employers with more than one physical work location within a state, submit the Multiple Worksite Report Form BLS 3020 to report statistical employment data, broken down by worksite location and industry classification, to the appropriate state unemployment agency. The data include 12th of the month employee counts (how many employees were actively employed on the 12th of each month), and other employment data, broken down by geographical area, for use by the state and the Federal Bureau of Labor Statistics (BLS). Some states require filing of the Form 3020, while others make it voluntary.

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Multi-Jurisdiction – Also known as Multi-J. Under ADP's standard processing rules, tax-coding changes for an employee require the issuance of a new file number. This ADP feature allows clients who have employees moving frequently to new tax jurisdictions, to change an employee's tax coding, such as taxing state or local jurisdiction, or taxable exemptions, without having to create a new file number for the employee. However, this feature also significantly changes the way a client pays employees, and the tracking of employee year-to-date figures. When switching from one employer on standard ADP processing rules to one using ADP's Multi-J, a payroll administrator or clerk should acquaint themselves with the differences. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Municipal Tax Reports – These employer quarterly reports display all local tax amounts that have been withheld for each employee during the quarter. Amounts for all local jurisdictions are displayed, regardless of the state. ADP can produce these reports, on request. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

NACHA - See National Automated Clearing House Association.

NAICS – See North American Industry Classification System.

NSF - See Non-Sufficient Funds.

National Automated Clearing House Association (NACHA) – The organization that develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments (like direct deposits) in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), e-checks, financial electronic data interchange (EDI), international payments, and electronic benefits transfer (EBT).

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Net Cash – The sum of all live checks and direct deposits. This is the amount of money needed to cover all the new checks and direct deposits issued by the payroll (does not include recorded adjustments/manual checks). In ADP it displays on the Payroll Register. Net Cash as displayed on the ADP Statistical Summary does include manual checks, and therefore, may display a different number. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Net Payroll – The sum of all net pays, including prepaid manual checks and negative adjustments voiding previous pays. In ADP, sum of all amounts displayed in the Net Pay column of the ADP Payroll Register. This includes manual checks and voids, labeled adjust/void.

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Net Voids – The sum of all prepaid (manual) and voided checks. These numbers, since they can be positive or negative, can offset each other.

New Hire Reporting - With enactment of the Personal Responsibility and Work Opportunity Act of 1996 (also known as the Welfare Reform Act of 1996), all states are required to establish an automated State Directory of New Hires that feeds information to the National Directory of New Hires, administered by the U.S. Department of Health and Human Services. States in turn require employers to report certain employee information on employees when they are hired, rehired or when they experience certain jurisdictional changes (move), within twenty calendar (20) days of the event. Reporting can be done by submitting W-4s, or with reports submitted via mail, fax, internet, or magnetic media. If by magnetic media, then it must be done twice a month, not less than 12 days apart, not more than 16 days apart. This information is used to uncover fraud or abuse of public assistance and entitlement programs, such as unemployment benefits, worker's compensation, and welfare programs, and to enforce child support obligations. For more information, visit the HHS New Hire Web Page.

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Non-Accountable Plan – When referring to an employee expense reimbursement plan, a 'non-accountable' plan is one that does <u>not</u> meet IRS rules for reimbursements to be excluded from an employees' reportable taxable wages by the employer. Reimbursements under this kind of plan are considered taxable to an employee, and must be included with the employee's regular wages reported on the Form W-2, in boxes 1, 3, and 5, as well as the state and local wage boxes, where applicable. In cases where the employer reports the entire expense reimbursement as taxable wages to the employee (such as when the employer simply gives an employee a monthly allowance and asks for no substantiation of expenses), an employee can deduct their expenses on the Form 2106, filed with their Form 1040 tax return. See Accountable Plan.

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Non-Excludable Moving Expense – See Non-Qualified Moving Expenses.

Non-Qualified Deferred Compensation – See Deferred Compensation.

Non-Qualified Moving Expenses – Also referred to as non-excludable moving expenses. As the term implies, these are moving expenses that do not qualify as qualified moving expenses, and as such, are moving expense costs or reimbursements that cannot be deducted or excluded from taxable income. If an employer covers non-excludable moving expenses for an employee, the reimbursements (or payments to a third party), must be treated as taxable wages. See Qualified Moving Expenses.

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Non-Statutory Employees – See Statutory Non-Employees.

Non-Statutory Stock Options – These options, also known as compensatory stock options, are offers by a company to give designated individuals the option to buy a company's stock at a pre-determined, usually discounted, price at a future point in time. These options are generally offered to key company employees, company directors, or top managers, but can be offered to any employees as well as other persons who are not employees of the company offering the options. Non-statutory stock options are distinct from statutory stock options in that non-statutory options can be offered to non-employees, and do not need to meet other requirements under I.R.C. Sections 421-423. If the fair market value of the option can be determined when it is granted, then it is taxable at that time. If the fair market value cannot be readily determined, then the non-statutory stock option is taxable when it exercised (the stock is actually bought by individual who holds the option) and the difference between the fair market value and the exercise price of the option (what it actually cost) is considered taxable earned income at the time of the exercise, and should be included in boxes 1, 3, and 5 of the Forms W-2 and W-3. For information on when fair market value can be determined, see IRS Publication 525. Starting in 2001, employers had the option to also report it separately on Box 12 of the Form W-2 with a Code V. For Form W-2 for 2003, the Box 12 Code V reporting became mandatory. Withholding on Federal income tax is not required. See also Statutory Stock Options.

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Non-Sufficient Funds (NSF) – This term refers to the rejection, by a receiving bank, of a debit request, such as the presentation of a check for payment, or an electronic direct debit (as opposed to a direct deposit – see Direct Deposits) against an account that does not have enough funds to pay the face value of the check, or fulfill the electronic debit request. An electronic debit request could be against an employer's account to pay for taxes or direct deposits, or payroll processing fees. It could also be against an employee's account as a result of an employer's request to reverse an erroneously issued direct deposit. An NSF in either case means there were not enough funds in the account to satisfy the request.

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North American Industry Classification System (NAICS) – The NAICS is a six-digit code system that replaced the SIC code system (see Standard Industrial Classification Codes), and was established by Canada, Mexico and the U.S. to promote uniformity and comparability of statistical data across the three countries. Each type of economic activity is classified by industry and assigned a NAICS code just as the SIC system did. The first five digits of the code are standardized for all three countries as follows: The first two digits identify the industry's sector; third is it's sub-sector; fourth is it's group, and the fifth identifies the specific industry. The sixth digit can vary from country to country and identifies a country's subcategory for the particular industry. NAICS codes are used to identify the type of economic activity of a business, and are usually included in reports used by, or submitted to, the Bureau of Labor Statistics of the U.S. Census Bureau. When a government form asks for a NAICS code, the preparer of the form should look up the table of NAICS codes, and find the one that best identifies their primary type of business activity. See also Workers' Compensation Insurance. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

OPT – See Occupational Privilege Tax.

Occupational Privilege Tax (OPT) - Sometimes also simply referred to as an occupational tax or head tax, this kind of tax is imposed on persons engaged in any occupation, be it as employees or as self-employed, within the taxing jurisdiction, usually a local tax entity such as a city or county. Generally, employers are required to deduct the flat tax from each of their employees, whether or not part or all services are performed within the township. All self-employed individuals are usually required to remit their liability directly to the tax agency. As opposed to earned income taxes, which are based on the amount of income earned over a period of time, occupational taxes are a fixed, flat amount, say \$10 or \$50, assessed once during a specific period of time, regardless of the amount of income earned during that period. This could be once a month, a quarter, or a year. For example, persons working in Bigtown, Taxsylvannia, may be subject to a flat \$20 assessment once a year. Some locals, like Denver, Colorado, have a \$5.75 OPT that is assessed monthly, as long as employees earn at least \$500 within the taxed month. Therefore, employees would see \$5.75 deducted from their checks only once a month, even though they may have more than one pay period within that month. In some tax jurisdictions employees can get refunds if they had the tax deducted twice in the same tax period from different employers, or if their income falls below a set threshold. Employers may require the use of an Occupational Privilege Tax Report that displays information for each employee in the company who has had amounts deducted to pay one-time occupational taxes. Certificates (proof of tax payment) may also be part of the report. Certificates should be produced for each employee, tax jurisdiction, and employer. Generally, the Occupation Privilege Tax report is produced at the end of the first quarter for a given company, but can also set up to be produced every quarter. ADP can produce these reports on request.

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Office of Federal Contract Compliance Programs (OFCCP) – This Department of Labor agency is charged with ensuring that Government contractors comply with the federally mandated equal employment opportunity, veteran protections, and the affirmative action provisions of their contracts. The OFCCP also administers and enforces Executive Order 11246, as amended. This order enacted by President Lyndon Johnson in 1965, reinforces the prohibitions against discriminating in employment decisions on the basis of race, color, religion, sex, or national origin, as specified in the Civil Rights Act of 1964 (see Civil Rights Act of 1964), but singles out federal contractors and federally-assisted construction contractors and subcontractors, who do over \$10,000 in Government business in one year; and also requires government contractors with 50 or more employees and \$50,000 or more in government contracts to develop written affirmative action programs (AAP) for each of their establishments.

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Other Earnings – Usually refers to earnings other than regular (base pay – see Regular Earnings) or overtime (see Overtime Earnings), such as vacation, sick, bonus, etc. In ADP, other earnings are tracked under Fields 3,4, and 5 (see Earnings Fields), and are associated with a one-letter or two-digit code. Earnings in Fields 3 and 4 can be the result of Other Hours in Fields 3 and 4 multiplied by an hourly rate (see Other Hours).

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Other Hours – Usually refers to hours posted other than regular (base pay – see Regular Hours) or overtime (see Overtime Hours), such as for vacation, sick, bonus, etc. In ADP, other hours are tracked under Field 3 and 4 (See Hours Fields), and are associated with a one-letter or two-digit code. Absent special calculations requested from ADP, when multiplied by an hourly rate, other hours create earnings with the same field and code (see Other Earnings).

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Overtime Earnings – Earnings paid for hours worked above a standard work week (usually 40), usually paid at 1.5 times the normal pay rate, as dictated by the FLSA. States, such as California, may have additional definitions of what constitutes overtime. In ADP, tracked as earnings in Field 2, usually the result of overtime hours (hours in Field 2) multiplied 1.5 times the Rate 1 for an hourly employee. Tracked as earnings in Field 2. Some ADP clients may have special setups. For more information on overtime pay rules, please see our Overtime Rules Reference Page.

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Overtime Hours – Hours posted for hours worked above a standard work week (usually 40), usually paid at 1.5 times the normal pay rate, as dictated by the FLSA. States, such as California, may have additional definitions of what constitutes overtime. In ADP, tracked as hours in Field 2, usually result in overtime earnings (earnings in Field 2) created at 1.5 times the Rate 1 for an hourly employee. Some ADP clients may have a special setup. For more information on overtime pay rules, please see our <u>Overtime Rules</u> Reference Page.

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PEO – See Professional Employer Organization.

PCPW - See PC/Payroll for Windows.

PC/Payroll for Windows (PCPW) – PCPW is the main software used by most ADP clients to process payroll. Most likely to be the software you are using to process payroll.

POP (Premium Only Plan) - See Cafeteria Plan.

Patriot Bonds - See Bonds.

Pay by Pay Insurance – This ADP service calculates employer premiums for worker's compensation insurance, based on employee pay, job classifications, and applicable state wage laws, as processed through ADP payroll services. The calculated amount is impounded from the client, and remitted to the insurance carrier (it is a money-movement service).

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Pay Detail – This data file contains the records of pay data for each file number for a specific payroll processing. Each record of data is stored at the pay level, meaning each file number that receives a paycheck for that payroll will have a record. If more than one pay is issued under a given file number, the file will have a record for each pay. for this file populates the fields in CheckView in ADP's PC/Payroll for Windows software (see CheckView). For clients that have the CheckView feature, this data file should be downloaded from ADP's mainframe, and then loaded, after each payroll processing, and the naming convention is PRCCC###.DET, where CCC is the client's company code, and ### represents the specific week and payroll number. The data in Pay Detail is the same pay data that is reflected on a Payroll Register, such as the earnings, deductions, and taxes that occurred for each employee on that specific payroll. There is one Pay Detail file for each payroll processing. The data in this file can also be accessed by ReportSmith (see ReportSmith). PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Pay Frequency – In the ADP system, an employee-level code recorded in the masterfile that indicates the employee's normal frequency of pay, such as weekly, bi-weekly, semi-monthly, etc. This code determines the 'spread-taxing' that will be used to determine the employee's taxes for FIT and any other progressive income taxes similar to FIT. This code is automatically assigned to an employee when the employee's file is created in the new hire process, based on the company's payroll frequency. A Tax Frequency code entered in a pay for an employee overrides the employee's permanent Pay Frequency. Also see Tax Frequency. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Pay eXpert – This is a new ADP Internet payroll product, a web-enabled payroll product that is similar in functionality to PC/Payroll for Windows (PCPW). Essentially, a client can input payroll data, and perform other payroll processing functions, via the Internet, instead of via a software application installed on their own PC.

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Personal Responsibility and Work Opportunity Act of 1996 – Also known as the Welfare Reform Act (or Bill), the act was signed into law on August 22 of 1996, by President Clinton who promised to "end welfare as we know it," dramatically overhauling the nation's welfare entitlement system. It placed time limits on how long a recipient could collect welfare benefits, imposed employment activities on recipients (such as community service, vocational education, job training, etc.), and disqualified some immigrants from receiving Social Security Income or food stamps, among other things. It also mandated reporting of newly hired employees to the federal government, via the states, and creation of the National Directory of New Hires for the purpose of collecting delinquent child support payments. See New Hire Reporting.

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Positive Pay – This is a file created by an employer's bank, at the employer's request. It consists of checks issued by the client, the pay date, check numbers, and the amounts. This file is sent to all the branches of the same bank as a way to prevent fraud. When a check is presented for payment at any of the branches, it is checked against this file to make sure the information matches. If it does not, the branch will not cash the check. For ADP clients, ADP produces a bank check reconciliation file the client's bank uses to create the positive pay file. It takes 2-3 days from the day of payroll processing for a positive pay file to reach a bank branch, regardless of who is the payroll processor or bank. Therefore, when a payroll is being processed (or re-processed), this timeframe must be taken into account.

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Post-Tax – Usually this term applies to deductions. A post-tax deduction is a normal deduction that has no effect on tax calculations. It is deducted after taxes have already been calculated, and therefore, does <u>not</u> reduce taxable income. By the same token, a reverse post-tax deduction does <u>not</u> increase taxable income.

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Premium Only Plan – See Cafeteria Plan.

Prepaid - See Manual Check.

Pre-Tax – Usually this term applies to deductions, such as deductions for 401(k) or Cafe benefits. A pre-tax deduction reduces taxable income. It deducts from earnings before tax is calculated. A negative (reverse) pre-tax deduction increases taxable income because it is 'undoing' or reversing a tax exemption previously given.

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Prior Taxables – In any automated processing system that tracks employee year-to-date figures, an employee's record (or file in ADP) must reference valid taxable wages, taxes, and tax exempt contributions recorded under a previous record or file number for that employee in that year, in order to prevent an employee from exceeding limits, such as Social Security taxable wage and tax limits, or 401(k) contribution limits, as well as FUTA and SUI taxable wage limits. In other words, prior taxables refer to employee figures processed under a different employee record or file, but referenced solely for the purpose of ensuring the employee does not exceed any annual taxable, tax and/or contribution limits in the new record or file. Note that prior tax and taxables should only be referenced if the previous employer erecord or file was with the same employer. An employer cannot generally take credit for wages and taxes paid by a different employer, except under special conditions [e.g. employer is a successor employer (acquired or merged with the previous employer) and the terms of succession allow them to do so]. On the other hand, deferred compensation contributions should generally be brought over, even if the employee's previous record is with an unrelated employer. An example of a prior taxable would be: if an employee had \$5,000 in valid taxable wages in file 1001 in company XYZ, then had a new file 1002 created in the same company, the new file should have \$5,000 in prior Social Security taxable and \$310.00 in prior Social Security tax. Special caution: If the previous record or file contained bad or invalid data, or the new record/file is being created because the original one was incorrectly set up for the employee, the new record should have no prior taxables. For more on information on this subject, please see our Prior Taxables Reference Page.

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Professional Employer Organization (PEO) – A PEO provides a full complement of personnel administration services including payroll, human resources, tax administration, worker's compensation, etc. The PEO assumes control and responsibility over a client's workers in a way similar to that of a temporary help agency, except that the workers are not 'temporary.' The PEO is a co-employer with the client, having the same rights to terminate and hire employees as the client does, with the PEO having responsibility and control over the personnel administration aspects of a worker's employment, and the client having responsibility and control over the production and delivery of its products and services. This type of service is offered by ADP's TotalSource product (2nd largest PEO the largest provider being Administaff). This type of service should not be confused with the more common, but less comprehensive, payroll-processing services ADP provides.

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Quarterly Earnings Record – This is an optional report for ADP clients that produces a quarterly itemized list of all pays for an employee for a quarter. While a Wage and Tax Register gives you quarter-to-date totals for employees, this report lists each individual pay for the quarter for each employee, as well as quarter totals. Also, a Wage & Tax Register displays taxables, while the Quarterly Earnings Record does not. It only shows the same information found on a Payroll Register.

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Quarterly Wage Report – This report is part of the Quarterly Tax Reports that are produced for ADP clients at the end of each quarter. It displays the quarter's taxable state unemployment wages for each employee, as well as any wages above the taxable limits. The information is used to prepare the quarterly SUI filings for each state.

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Quarterly Wage & Tax Register – This is a report is part of the Quarterly Tax Reports that are produced for ADP clients at the end of each quarter. It shows quarter-to-date and year-to-date totals of taxes, taxable wages by jurisdiction, and tax exempt amounts, for each employee as well as for the company. ADP clients should use this report to assist in completing their tax returns, unless they are using ADP's Tax Filing Service, in which case they should review to ensure filings will be correct. This is not a tax document, but rather a report used to prepare tax documents.

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Qualified Moving Expenses – This term applies to moving expenses that qualify for exemption from tax under the Internal Revenue Code. In general, the expenses must be for moving personal and household items to a new home, as well as related travel expenses; and the move must be closely related, in terms of when and where, to the start of work at a new job location. The move should occur within one year of the start of work (unless certain factors prevented it), put you closer to your new job location (or reduce commute time), and the new job location must be at least fifty (50) miles further from your old home, than your original job location. For example, if your old home was 20 miles from your old job location, the new job location must be at least 70 miles away from your old home, your new home cannot be more than 20 miles away from the new job location, and the move should occur within twelve months of the start of the new job (whether you had the job in advance does not matter). Individuals should use Form 3903, when deducting these expenses on their personal Form 1040. Employer reimbursements of Qualified Moving Expenses, although non-taxable, must be reported separately on the employee's Form W-2 in box 12, with a code P. Employer payments to a third party for Qualified Moving Expenses must be reported on the Employer's Form 940, even though they do not appear on the employee's Form W-2. in ADP, memo codes would most likely be used to track these latter two amounts. See also Non-Qualified Moving Expenses. For more details on this subject, go to the IRS Mov Exp Web Page.

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Qualified Tuition Program - See 529 Plan.

Rate – This is the hourly or salary rate used for an employee. In the ADP Payroll Register, the rate displayed by an employee is the Rate 1 found in the employee's masterfile, or the temporary rate used for that pay only.

Rate 1 – In ADP, an employee's primary, or default, pay rate. Can be an hourly or salary rate.

Rate 2 – In ADP, the secondary hourly rate for an hourly employee, and the first default hourly rate for a salaried employee. For salaried employees, Rate 2 is usually the employees hourly equivalent to their salary rate. For example, if a salaried employee's Rate 1 is \$1000.00 for a bi-weekly payroll, the equivalent hourly rate would be \$12.50. Some ADP clients have this equivalent rate calculated automatically.

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Rate 3 – In ADP, the third hourly rate for an hourly employee, and the second hourly rate for a salaried employee.

Rate 4-9, A-D – See Company Rates.

Reciprocity – When employees live and work in different taxing jurisdictions, both with claims on the same income, the jurisdictions may have 'reciprocal' agreements that may allow an employee to offset the taxes in one jurisdiction against those paid in another. In some cases this may mean that the employee will owe tax only to the 'worked-in' jurisdiction, in other cases only the 'lived-in' jurisdiction, and in some cases, it will be shared between the two jurisdictions. For ADP clients in such cases, the 'Reciprocity' feature should be activated with ADP. By coding the worked-in and lived-in state codes, or the worked-in and lived-in local codes for an employee, the ADP system will calculate and allocate the taxes according to the applicable reciprocity rules. Note: The worked-in and lived-in codes for a state or a local should never be the same. If an employee works and lives in the same jurisdiction, and the Reciprocity feature is active, only the 'worked-in' code should be coded. Also see State Code and/or Local Code.

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Regular Earnings – Usually refers to earnings based on regular, base pay. In ADP, usually the result of the regular salary, Rate 1, for a salaried employee, or Regular Hours multiplied by the normal hourly rate, Rate 1, of an hourly employee (special calculations requested from ADP may create other results). Tracked as earnings in Field 1 (see Earnings Fields). Entering Regular Earnings in a pay number 1 will cancel ADP's automatic pay (see Automatic Pay).

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Regular Hours – Usually refers to hours posted for regular base pay worked within a standard work week (usually 40) under FLSA rules. In ADP, usually the result of the regular salary, Rate 1, for a salaried employee, or Regular Hours multiplied by the normal hourly rate, Rate 1, of an hourly employee (special calculations requested from ADP may create other results). Tracked as hours in Field 1 (see Hours Fields).

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ReportSmith – An ADP report-writing software that allows client to produce reports based on PCPW's data files, such as the Masterfile, the Cumulative file, and, for clients that have the feature, Pay Detail files. Clients can produce the reports at their own discretion. However, the information in the reports is only as current and complete as the data files the client has maintained in PCPW. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

Restaurant Overtime – Employers who claim tip credits (see Tip Credits) and thus pay employees below the applicable standard federal or state minimum hourly wage rate, must still pay employees working overtime an overtime premium based on the standard minimum wage, or the employee's average hourly rate, whichever is higher, and not on the actual hourly wage the employee receives. For example, if an employee is paid \$2.13 per hour, but the applicable minimum wage is \$5.15 (and their average hourly rate is not higher then that), the overtime premium of 50% must be based on the \$5.15 rate and not the \$2.13 the employee earns as straight time. Thus, for overtime hours worked, this employee would be paid \$2.13 + (50% of 5.15) = \$2.13 + \$2.58 = \$4.71 (rounded) per hour PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

S Corp 2% Shareholder Benefits – In a Subchapter S Corporation (S Corp), shareholder-employees report the corporation's taxable income or loss on their own tax returns, instead of on the corporate tax return. For each shareholder-employee with a greater than 2% share in the S Corp, for whom the S Corp provides health insurance, the S Corp is required to file a Form W-2. The insurance premiums paid by the S Corp for the 2% plus shareholder-employee, are taxable to the employee. However, the employee is entitled to a 25% deduction of the premium costs when filing their Form 1040. The premium should display in box 14 of the W-2, as well as be included in the appropriate wage boxes, such as box 1. The employee can then deduct 25% of this amount on his or her personal income tax return. S Corp health insurance is normally exempt from Social Security/Medicare taxes, but taxability varies, and can depend on the company's plan.

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SDI - See State Disability Insurance.

SIC Codes – See Standard Industrial Classification Codes.

SS - See Social Security.

SSA – See Social Security Administration.

SSN - Social Security Number.

SUI – See State Unemployment Insurance.

SUTA – State Unemployment Tax. See State Unemployment Insurance.

SUTA Dumping Prevention Act of 2004 – This law was passed by Congress on July 22, 2004, and signed by the President on August 9. It amends Titles III and IV of the Social Security Act pertaining to unemployment benefits. It closes a loophole whereby employers could lower their SUTA (state unemployment tax - see State Unemployment Insurance) experience rating (see Experience Rate) by creating or buying a new company with a new taxpayer identification number, and a lower experience rate, and then, through acquisition or merger, transferring all their employees from the company with the higher experience rate to the new one. This maneuver essentially short-circuits the whole purpose of experience rates. The new law requires states to prohibit this tax avoidance procedure by the end of 2005. For more details, go to Fed Reg Doc 04-21917

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SUI Code – A code entered on an employee's file, in an automated payroll system such as ADP's, to identify the state jurisdiction in which an employee works for purposes of determining state unemployment insurance tax obligations (See State Unemployment Insurance), and any other employment-related insurance obligations, such as disability insurance (See State Disability Insurance). All employees must have a SUI code and at least one state code. If an employee works only for a small period of time in another state, the SUI code may not need to be changed. Most states allow a limited period of time in which an employee can work in state without having to transfer the SUI obligation.

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Safe Harbor Contributions — Contributions by employers to their employees' 401(k) deferred compensation pension or retirement plans, be they employer match contributions or non-elective contributions, are deemed to be "safe harbor" contributions if they are fully vested to the employees at the time the contributions are made (employer cannot forfeit) and if they also meet certain threshold amounts. (Non-elective means the employee does not need to make a contribution for the employer to make one - thus, it is not 'matching'.) In general, to meet the threshold, an employer match must be 100% of up to the first 3% an employee defers in compensation, and 50% of the next 2% an employee defers in compensation to deposit into their 401(k) pension plan, although alternatives that do not short-change non-highly compensated employees may be permitted, so long as the matching does not match at a higher rate as an employee's deferred plan contributions increase (e.g. match the first dollars at 50%, then additional dollars at 100%). For a non-elective contribution to meet the threshold, the employer must contribute 3% of an employee's eligible compensation. When doing so, in addition to other rules, employers are required to issue a notice to their employees, at least thirty days in advance of the start of a plan year, advising them that the employer contributions will be 'safe harbor' contributions. While this may increase an employer's financial liability in the short run, it allows the employer, as a plan sponsor, to avoid the more complex tax

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regulations of standard 401(k) plans, particularly the annual 401(k) and 401(m) discrimination testing requirements. For more on safe harbor rules go to Section 4, under Explanation of Benefits at the IRS 2005-5 Bullet Web Page.

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Savings Bonds – See Bonds.

Section 125 Plan - See Cafeteria Plan.

Social Security (SS)Tax — This federal payroll tax has an annual taxable wage limit and is taxed at a flat rate of 12.4% of an employee's wages. It funds the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs. The tax is divided between the employer and employee, with the employer paying 6.2%, and the employee paying 6.2%, which must deducted from the employee's wages. If an employee transfers to a different company that is a successor the employee's previous employer (e.g. the new employer bought the previous company), the new employer can take credit for the SS wages already taxed under the previous company. Otherwise, if an employee transfers or is hired by a new employer with a different federal tax ID that is not related as a successor to the previous employer, the employee and the new employer do not get credit for the SS wages already taxed under the previous company. The employee will have to get a refund from the IRS when they file their tax return. SS tax liability is paid to the IRS and reported on the Form 941. Also, for more information on FICA and SS taxable wage limits, please refer to our Federal Tax Limits Reference Page.

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SoftPay – SoftPay Services (SPS) is an ADP product in which only the payroll processing software is provided to clients. This software enables these clients to perform payroll processing "in-house" using personal computers. Client may also opt to have electronic tax filing, direct deposit and laser-printed W2 services. In such cases, clients must electronically transmit tax and, optionally, banking data to the SPS (SoftPay Services) Processing Center in Atlanta. This product is no longer being offered. The support number is 800-959-6246.

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Standard Industrial Classification (SIC) Codes – The SIC code system, now replaced by the NAICS system (see North American Industry Classification System), is a four-digit code system that was established by the U.S. Central Statistical Board to promote uniformity and comparability of statistical data. Each type of economic activity was classified by industry and assigned a SIC code. It then classified each establishment (defined as a single physical location at which economic activity occurs – such as a business location) according to its primary activity by SIC code. The SIC covered the entire field of economic activities by defining industries in accordance with the composition and structure of the economy. This classification of industries was adopted as the standard classification of the Federal government. The List of Industries for manufacturing, was first published in 1938, and was followed by the 1939 List of Industries for non-manufacturing. Last revised in 1987, SIC codes are still used to identify the type of economic activity of a business, and are usually included in reports used by, or submitted to, the Bureau of Labor Statistics of the U.S. Census Bureau. When a government form asks for a SIC code, the preparer of the form should look up the table of SIC codes, and find the one that best identifies their primary type of business activity. See also Workers' Compensation Insurance.

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Standard 5th Field Earnings – In ADP, this is an additional Automatic Pay that can be setup for a salaried employee, in addition to their regular (Earnings 1) Automatic Pay set up as Rate 1.

State Code – In ADP and other payroll applications, a code entered on an employee's file to identify the state jurisdiction in which an employee lives and/or works for purposes of determining state income tax obligations (SUI obligations are determined by a separate SUI code). All employees must have at least one state code and one SUI code. If an employee lives in one state and works in another, and both states create income tax obligations, then two state codes are needed. Otherwise, only one state code (sometimes labeled the 'worked-in' state) should be coded. Every time an employee moves to or works in a different state that has an income tax, the state codes need to be changed. Contact with ADP should be made before doing this. See also SUI codes and Reciprocity. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

State Disability Insurance (SDI) – A few states (at this writing California, Hawaii, New Jersey, New York, and Rhode Island), require the provision of disability insurance for employees, in addition to SUI (See State Unemployment Insurance). The disability benefits are referred to as SDI when the insurance is handled by the state. Depending on the state, employers may deduct SDI contributions (read taxes) from employees, or employers may cover part or all of the cost of the SDI. Note that the employer paid SDI tax that would normally be paid be the employee, may be considered taxable income by the state as well as the Federal government. The employee/employer contributions are remitted to the appropriate state disability insurance fund. States may permit employers (or self-employed individuals) to provide for disability insurance through a private insurance carrier instead of through the state (See Voluntary Plan Disability Insurance).

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State Unemployment Insurance (SUI) – SUI is usually a tax paid only by the employer. In some states, however, the employee must also pay. Each state has a taxable wage limit. For the employer tax, each company has a specific tax rate, called an 'Experience Rate,' based on that company's past history terminating employees. For Texas, the basic experience rate is 2.7%, and the taxable wage limit is still \$9,000 for 2003.

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Statistical Summary – This report is produced for clients using ADP's Tax Filing Service. It lists all the taxes to be deposited by ADP to the appropriate tax agencies. The total amount to be deposited is debited from the client's designated bank account. The report also shows which taxes ADP will not deposit and are the client's responsibility. Tax Filing clients may also have ADP Check, FSDD, and/or ADP's 401(k) service. If they have any of these services, the related transactions will also show on this report. See also ADP Check, ADP 401(k), FSDD, and Tax Filing Service.

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Statutory – Mandated or specified by law, or meeting legal requirements. When used in reference to specific deferred compensation plans or stock options, indicates plans or options meet IRS rules to qualify for exemption from taxes or some other special tax treatment.

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Statutory Employee – This term refers to certain categories of independent contractors that, under specified statutory rules, must be treated as regular, common law employees for the purpose of certain employment taxes. The categories are: certain types of agent-commission delivery/pickup drivers, life insurance sales agents, homeworkers, and traveling and city salespersons. The three rules that must be met are: 1) The service agreement or contract indicates that the worker will perform all or nearly all of the services of the job; 2) The equipment is paid for by the employer, with little or no financial investment by the worker (except for means of transportation), and; 3) It is an on-going, as opposed to a one-time, job. When a worker meets the criteria of a statutory employee, Social Security, Medicare taxes must be collected, though federal income tax withholding is not required. For the statutory workers in the categories of drivers, and traveling and city salespersons, FUTA taxes also apply. For these workers, a Form W-2 should be issued, and the 'Statutory Employee' checkbox in box 13 should be checked.

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Statutory Nonemployees – This term refers to certain categories of workers that, under specified statutory rules, can be treated as independent contractors for all federal tax purposes. The workers are responsible for their own self-employment taxes. The categories are: direct sellers and licensed real estate agents. The direct sellers must sell their consumer products in locations other than a permanent retail outlet, sell to buyers on a buy-sell basis who will, in turn, sell the consumer products in locations other than a permanent retail outlet, or deliver/distribute newspapers or shopping news publications.

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Statutory Stock Options - These options are offers by a company to give employees the option to buy a company's stock at a predetermined, usually discounted, price at a future point in time. These options can be either part of an incentive stock option (ISO) program or part of an employee stock purchase plan (ESPP). Statutory stock options are distinct from non-statutory stock options in that statutory options can only be offered to employees, and must meet other requirements under I.R.C. Sections 421-423. An employee granted a statutory stock option under an ESPP or an ISO plan does not generally include any amount in gross income as a result of the grant or exercise of the option. However, the employee may be subject to Alternative Minimum Tax in the year of the exercise of an ISO (for more information, refer to the Instructions for Form 6251). When the stock received by exercising the option is sold by the employee, the gain is taxable. Generally, the difference between the cost and the sale price is treated as a capital gain or loss. However, if special holding period requirements are not met, the income from the sale is treated as ordinary income. In addition, if the stock was offered at a discount, the difference between the discounted price, and the actual market price at the time the option was granted, is treated as ordinary income (not as capital gains) when the stock is sold. For example, if a stock option was granted at \$100 a share when the stock was worth \$120, and was later sold for \$150 a share, the first \$20 per share is taxable as ordinary income,* and the remaining \$30 as capital gains. If the holding period was not met, all of the gain, \$50 per share, is taxable as ordinary income. Refer to IRS Publication 525 for more information. See also Employee Stock Purchase Plan; Non-Statutory Stock Options.

*Note that there is contradictory information from the IRS as to whether the gain from the discount price is to be treated as ordinary income, or as wages, which are subject to FICA taxes as well as FIT, and to withholding. To date, the general practice has been to treat as ordinary, but some regional IRS offices are contradicting previous IRS statements of non-enforcement of 'wage' interpretation of this income.

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Stock Options – See Non-Statutory Stock Options; Statutory Stock Options.

TEFRA - See Tax Equity & Fiscal Responsibility Act of 1982.

TFB - See Taxable Fringe Benefit.

Tax – The actual amount calculated as due to a tax jurisdiction. The amount can be based on income, or paid wages, taxable to that jurisdiction; or can be a fixed amount per employee (often referred to as a 'head tax'). In payroll, taxes are referred to as statutory, mandatory, or non-voluntary deductions.

Tax Equity & Fiscal Responsibility Act (TEFRA) of 1982 – This expansive law was designed to increase tax revenues through a variety of means such as tax increases and reform of tax law. Among its provisions are those on Tip Reporting & Allocation that pertain to food and beverage establishments with directly tipped employees, such as food servers, and that employ more than ten total employees on a day to day basis. It provides rules for determining if declared tips for each employee are less than eight percent of gross receipts attributable to each tipped employee. If less, the difference, referred to as Tip Allocation Shortfall, is reported in box 8 of the Form W-2. This calculated amount does not affect FIT, SS/Med, FUTA, tip credits, and actual tips reported, or provisions of the Fair

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Labor Standards Act. The shortfall for the establishment is reported to the IRS on Form 8027. Among many of its other provisions, TEFRA also set restrictions on the tax deductibility of certain investments, including some life insurance and pension products; the elimination of distinctions in tax law applicable to partnerships and sole proprietorships, and provided procedures for examining and processing partnership returns; amended the Age Discrimination in Employment Act (ADEA); and outlined restrictions and limits on Medicare reimbursements. Amended by the Tax Relief Act of 1997.

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Tax Filing Service – With this service, ADP takes on the duties of depositing taxes due with each payroll with the appropriate tax jurisdictions. The full feature includes also filing services, whereby ADP files the appropriate quarterly and annual employer tax returns, as well as handling any notices (tracers) from the pertinent tax agencies for the tax periods for which ADP has filed. ADP debits the client's account for the entire amount of the taxes due with each payroll the client has authorized ADP to handle, and the amount to be debited is displayed on the Statistical Summary that the client gets with the payroll reports. A very popular feature as most of ADP's payroll clients use the ADP Tax Filing Service. See also Statistical Summary.

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Tax Frequency – In the ADP system, this code identifies the period of time over which specific earnings should be taxed, such as a week, two weeks, semi-month, etc., and overrides an employee's permanent Pay Frequency. It affects federal income tax and any other progressive taxes similar to FIT. Typically, the lower the Tax Frequency (shorter period of time), the higher the resulting FIT withholding calculated, as this implies a higher annual income. A Tax Frequency entered in a pay number 1 will cancel Automatic Pay. See Pay Frequency and Automatic Pay.

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Taxable – Subject to taxation. Not to be confused with the actual tax amount. Usually applies to wages, as in "taxable wages," to indicate the wage amount to be used to calculate the actual tax due.

Taxable Fringe Benefit (TFB) – As a result of the Tax Reform Act of 1984, under certain circumstances, the value of non-cash fringe benefits given to an employee, such as the free use of a car, or free housing, is considered income, and is taxable in the same way as regular wages. Typically, these are benefits that are not directly related to the employee's job. For example, free use of a car for personal use may be a TFB. But, under certain tax rules, the free use of a car or the reimbursement of expenses for the use of a car, for business-related purposes, may be tax exempt (Note: going to work does not normally qualify for tax exemption). TFBs are reported on the Form W-2 in the same way as regular wages, and do not need to be reported separately, except for a specific type of car allowance whereby 100% of the annual lease value of a vehicle is taxable to the employee. In such a case, in addition to reporting as regular wages, the benefit must also be reported on box 14 of the Form W-2. With ADP, when recording a TFB in a live pay entry (as opposed to recording a manual check created outside the payroll system), the benefits are ordinarily recorded by using an earnings code so the system will add to taxable wages, and tax accordingly, and also with an offsetting deduction to prevent the employee from receiving the money created by the earnings entered (they already got the benefit). See also De Minimis Fringe Benefit. For more on fringe benefits, go to the IRS 15-B Fringe Web Page.

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Third Party Sick Pay (3PSP) – Wages paid to an employee by a third party, such as an insurance company, while the employee is on extended sick leave for up to six months (longer than six months, see Long Term Disability). The taxable portion of 3PSP is taxed the same as regular wages when it comes to federal taxes (state and local rules may vary). The taxable portion is based on what portion of the insurance premium was paid for by the employee. If an employee paid 40% of the premium, then 40% of the 3PSP is non-taxable to the employee, and 60% is taxable. The third party withholds SS/Med and FIT, and issues a pay for the net amount to the employee. Under the standard rules of the "liability transferred" option, the tax withheld is deposited with the IRS by the third party, and reported on the Form 941 under the third party's federal tax identification number. The employer share of SS/Med must then be paid by the employer and reported under the employer's Form 941. The Form W-2 reporting the taxable 3PSP income for the individual is produced and filed by the employer, while the third party files a Third Party Sick Pay Recap Summary Form W-2 reporting the same 3PSP income. [This is done for the purpose of making it possible for the IRS to reconcile Forms W-2 to Forms 941 (see Combined Annual Wage Reconciliation).] However, other options also exist, including having the third party assume responsibility for all tax deposits, as well as forms and tax return filings. Therefore, payroll administrators must determine the type of arrangement or option in place with a third party sick payer before recording any 3PSP in payroll. Non-taxable 3PSP is reported on Form W-2 in box 12 with a code J. Taxable 3PSP reported the same as regular taxable wages. For more details on 3PSP, go to the IRS 15-A 3PSP Web Page.

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Tip Credits – For hourly workers that receive tips in the course of performing their duties, such as waiters, employers are permitted to pay the employees at an hourly rate lower than the normally applicable standard minimum wage. In other words, employers get a 'credit' they can apply against the minimum wage for the tips the tipped employees are presumed to receive during the course of their work. The difference between the applicable minimum hourly wage rate (be it local, state, or federal - whichever is higher), and the actual hourly rate paid to the tipped employee (also referred to as cash wage), is the tip credit. For example, the current federal minimum wage rate is \$5.15 per hour. If an employer is paying an employee at the minimum tipped employee rate of \$2.13 an hour, the federal tip credit is \$3.02 per hour (5.15 - 2.13 = 3.02).

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Top-Hat Plans – A type of non-qualified deferred compensation plan targeted to highly compensated employees or key managers of a company, also referred to as a Supplemental Executive Retirement Plan (SERP) by the IRS (can also be "Top Hat Plans" – without the dash). This type of plan must be unfunded (carry a risk of forfeiture by participant employee or executive), and is not subject to the same ERISA protections covering qualified deferred compensation plans. Thus, income and income taxes may be deferred on larger amounts than allowed in conventional qualified pension plans, such as those under 401(k), but carry the risk of loss (for example, a company is not obligated to set aside funds for Top-Hat plan to safeguard for participant). See Deferred Compensation; Employee Retirement Income Security Act (ERISA) of 1974.

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Total Deposit – In ADP payroll reports, the sum of all live direct deposits.

Total Pay Card – An ADP feature that allows a client to issue a pay card to an employee, and then have ADP fund it with an electronic cash balance on payday, instead of issuing a regular check or direct deposit. The client issues a permanent, VISA-branded card to the employee. When the payroll is processed, ADP electronically debits the client's bank account and credits the employee's card with the calculated net pay amount, via the ACH system, just as it does for FSDD. The employee can then use it in the same manner as an ATM or credit card. The card is replenished each payroll processing with the employee's calculated net pay. This feature should not be confused with Instant Pay Card (see Instant Pay Card).

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TotalPay – Both FSDD and ADP Check services combined. See FSDD and ADP Check.

TotalSource - See ADP TotalSource.

Twelfth-of-the-Month Counts – Federal law requires employers to provide counts of employees earning wages taxable to SUI on the 12th day of each month, regardless of when the wages are actually paid. The determining factor as to whether an employee is counted is whether the employee was paid SUI taxable wages for a pay period that included the 12th of the month. In other words, period ending dates, not pay dates, should be used to make this determination. Counts for each of the three months contained within a quarter should be reported by employers on their SUI quarterly wage reports filed with the state unemployment agencies. *PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.*

U.S. Savings Bonds – See Bonds.

USERRA - See Uniformed Services Employment and Re-Employment Rights Act of 1994.

Uniformed Services Employment and Re-Employment Rights Act (USERRA) of 1994 – This law prohibits discrimination against persons because of their service in the Armed Forces Reserve, the National Guard, or other uniformed services. USERRA prohibits an employer from denying any benefit of employment on the basis of an individual's membership, application for membership, performance of service, application for service, or obligation for service in the uniformed services. USERRA also protects the right of veterans, reservists, National Guard members, and certain other members of the uniformed services to reclaim their civilian employment after being absent due to military service or training. The Department of Labor is responsible for issuing regulations implementing the law, and employees who believe their rights under this act have been violated can file a complaint with the Department of Labor. Prior to this law, veterans were protected by the Vietnam Era Veterans' Readjustment Act of 1974 and the Veterans Employment Opportunity Act of 1998. For more, go to the DOL's USERRA Advisor Page.

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VEOA – See Veterans Employment Opportunity Act of 1998.

VETS-100 Form - See Vietnam Era Veterans' Readjustment Act of 1974 and Veterans Employment Opportunity Act of 1998.

VEVRAA – See Vietnam Era Veterans' Readjustment Act of 1974.

VPDI – See Voluntary Plan Disability Insurance.

Variance Due to State Reciprocity – This refers to FIT that was included twice in the "Federal Income Tax by State" total in the ADP Payroll Summary. For example, if an employee is coded to 2 states (State 1 and State 2) for state income taxes, the FIT! (not SIT) withheld for that employee will be counted under the employee's State 1 and again under State 2, thus, overstating total FIT when added by state (the total on the Payroll Summary is incorrect and should be reduced by the variance).

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Veterans Employment Opportunity Act (VEOA) of 1998 – This law adds a new class of veterans to those already covered by earlier legislation. See Vietnam Era Veterans' Readjustment Act of 1974 (VEVRAA). The VEOA extends the VEVRAA protections and the annual reporting requirements on the form VETS-100, which applies to only to employers with federal contracts of at least \$25,000. The new VETS-100 reporting requirements now include a new class of "other protected veterans," defined as "any other veteran who served on active duty in the U.S. military, ground, naval or air service during a war or in a campaign or expedition for which a campaign badge has been authorized, other than special disabled veterans or veterans of the Vietnam era." It also raises the dollar threshold

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from \$10,000 to \$25,000 and aligns the annual reporting deadline with the September 30 deadline for submission of the EEO-1 Report. For more on the VETS-100 go to the DOL Fed Contractor Web Page.

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Veterans' Reemployment Rights Act of 1974 - See Vietnam Era Veterans' Readjustment Act of 1974.

Vietnam Era Veterans' Readjustment Act (VEVRAA) of 1974 – Also known as the Veterans' Reemployment Rights Act, this law provides employment protection for two classes of veterans: Vietnam era veterans and special disabled veterans. When initially implemented, this law required employers with federal contracts in excess of \$10,000 to annually report their efforts toward the hiring of qualified veterans in these categories using the VETS-100 form. This law has been expanded by the Veterans Employment Opportunity Act of 1998 (See Veterans Employment Opportunity Act of 1998) and later by the Uniformed Services Employment and Re-Employment Rights Act of 1994 (see Uniformed Services Employment and Re-Employment Rights Act of 1994). For more on the VETS-100 go to the DOL Fed Contractor Web Page.

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Voluntary Plan Disability Insurance (VPDI) – Some states provide an option that allows employers to obtain private disability insurance from private carriers instead of the State Disability Insurance (SDI - See State Disability Insurance). Employers (or self-employed individuals) may purchase private disability insurance, remitting payments to a private carrier, instead of making payments to a State Disability Insurance fund. The plan must be approved by the state and offer benefits equal to or greater than provided by that state's SDI rules

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Voucher Suppression – When employees receive all their pay via electronic transactions such as direct deposit, employers may decide to offer on-line access, via the Internet or some other medium, to pay statement information, instead of producing hard copy (paper) vouchers (see iPayStatements). Currently, the Federal government does not have rules regarding the issuance of pay day vouchers in paper form. Also, most state laws also do not specifically address the question of paper suppression, which means they do not have any laws that specifically prohibit the issuance of pay statement information in a manner other than hard copy. However, with the advent of this new medium, some states have issued regulations governing the accessibility of on-line pay statement information, such as requiring employers to provide access to company computers on company time. Some states have gone further and require employee consent to receive their vouchers on-line instead of via hard copy. Furthermore, laws are changing all the time, so it is incumbent on multi-state employers to keep abreast of new statutes governing pay vouchers. Note that the Federal government does have rules regarding the issuance of hard copy annual filing forms such as 1099 forms and Forms W-2, whereby employee consent is required to only provide an on-line form.

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WGPS – See Wage and Garnishment Processing Service.

Wage and Garnishment Processing Service (WGPS) – This ADP service uses legal complex formulas to calculate garnishments, liens, and levies applied against an employee's wages. These are processed as deductions. Most clients also have the money-movement part of the service whereby ADP also collects the money withheld from the employee checks and sends to the appropriate agency. In such a case, ADP debits the client's account for the entire amount of the garnishment/liens deductions, and the amount to be debited is displayed on the Statistical Summary.

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Week - See ADP Payroll Week.

Welfare Reform Act of 1996 – See Personal Responsibility and Work Opportunity Act of 1996

Workers' Compensation Insurance – States require employers to pay premiums into insurance funds, either private or administered by the state, that cover employees should they suffer an injury while on the job. The premiums the employer pays are based on the danger level of the job classification of their employees and the wages paid to those employees (what wages are included in the calculation vary by state). The job classifications, identified by Workers' Compensation (WC) Codes, are based on SIC or NAICS job codes (See Standard Industrial Classification Codes; North American Industry Classification System). Employers identify the proper job classification for each of their employees, based on the SIC or NAICS codes (depending on which system the state is using), and then premiums are calculated accordingly. Thus, how an employee is coded for their WC code (which is actually a SIC or NAICS code) in a payroll system, and how much they are paid, will determine the premium liability of the employer.

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W-2, Form - See Form W-2.

W-5. Form - See Form W-5.

3PSP - See Third Party Sick Pay.

12th of The Month Counts – See Twelfth of the Month Counts.

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3020, BLS Form - See Multiple Worksite Reporting.

401(k) – Section of Internal Revenue Code covering cash-deferred retirement plans for non-government and other non-exempt organizations, such as businesses. See Deferred Compensation.

403(b) – Section of Internal Revenue Code covering tax-sheltered annuity plans for public educational institutions such as schools, colleges or universities, churches, public hospitals, or a charitable entity under section 501(c) and other non-exempt organizations, such as businesses. Works in very much the same way as 401(k) plans. See Deferred Compensation. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

529 Plan — A qualified tuition program (formerly called qualified state tuition program or QSTP) set up under section 529 of the Internal Revenue Code to allow an individual to either pre-pay, or to contribute to an account established for paying, a student's qualified higher education expenses at an eligible educational institution. While the pre-payments, or contributions, are not tax exempt, the withdrawal of funds, or use of the of the pre-paid benefits, are tax free so long as they are applied towards qualified educational expenses. Therefore, any payroll deductions for contributions to a 529 plan are not tax exempt. Prior to 2002, a program could only be established and maintained by a state or an agency or instrumentality of the state. Beginning in 2002, a program can also be established and maintained by eligible educational institutions. The program must meet certain requirements. Your state government or the eligible educational institution in which you are interested can tell you whether or not they participate in a QTP. PayTemps Basic Dictionary of Payroll Terms, www.paytemps.net, PayTemps, Inc. © 2003, 2009. All Rights Reserved.

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