BusinessManagement DAILY

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10 simple payroll rules HR should know

As predictably as the sun will rise tomorrow, every April 15 the local news will show people lined up at post offices frantically getting their 1040s in the mail before midnight.

For your colleagues down the hall in the Payroll Department, there are many tax days every year—one for each monthly or semiweekly deposit, as well as a quarterly reckoning with the IRS. That means that Payroll is anything but simple, requiring regular communication with HR.

It would be helpful if HR knew some basic payroll rules. If you're in Payroll, pass these along to your HR co-workers. If you're in HR …

… Listen up!

Here are the 10 payroll rules we think HR should know. (Payroll folks, if you have any more rules, send them along, and we'll update this list.)

1. Employees who claim an exemption from federal income tax withholding on their W-4s still have taxable income that's reported in Box 1 of their W-2s.

2. Employees who claim an exemption from federal income tax withholding on their W-4s still have FICA taxes withheld from their pay.

3. The validity of an employee's W-4 should not be questioned. However, if you know or have a reason to know that a W-4 is false, you must withhold federal income taxes at the single/zero rate until the employee provides a new, valid form. (If you can find an old, valid form somewhere in the files, you can also withhold based on that.)

4. If an item is not specifically excluded from taxation by a section of the Internal Revenue Code, it's taxable. (This is important to bear in mind when HR contemplates adding a new fringe benefit.)

5. The IRS has never put a dollar value on *de minimis* fringe benefits. *De minimis* fringes are noncash, provided infrequently to employees. They are, overall, administratively difficult to administer.

6. Gift cards are a cash equivalent, and therefore are always taxable.

7. Cash is always taxable, except for occasional meal money that enables employees to work late or local taxi or car service fares provided to employees who can't take public transportation at night, because it's not safe.

8. There is rarely a *bona fide* reason to include a spouse in a business dinner or trip, which means that the value of any benefit provided to a spouse is taxable to the employee.

9. Income is taxable to the entity that earns it. So while employees can instruct you to pay their favorite charities or single-member LLCs, for example, they are still taxable on it.

10. Taxable income or benefits paid to a former employee are still reported on a W-2, since the payment arose out of the employment relationship.

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