NEWSLETTER

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Employee Retention Credit: What's Happening Today?

Many businesses, their accountants, and advisers have been wondering what's happening with the employee retention credit, a refundable tax credit for businesses and tax-exempt organizations that had employees and were affected by the COVID-19 pandemic. In recent weeks, the IRS has been focusing on weeding out companies that applied but were not eligible. Copies of Letter 105 C, Claim Disallowed, are on their way. Recipients are being notified that their claims are being disallowed since either the entity did not exist or it did not have paid employees during the period of eligibility.

For those with pending claims who realize that they may have filed an inaccurate tax return, there is an opportunity to withdraw from the program. Those taxpayers who have not yet received any refund have until the end of the year to withdraw their claim. By doing so, they can avoid any future repayment, interest and penalties. Withdrawals are also possible if a check was issued but was not cashed or deposited. Additionally, a voluntary disclosure program will allow those who received questionable payments to avoid any further IRS action.

The word from the top

As IRS Commissioner Danny Werfel tells it, "As we continue our audit and criminal investigation work involving the employee retention credits, we continue to urge people who submitted a claim to review the rules with a trusted tax professional. If they filed an inaccurate claim, we urge them to consider withdrawing their pending claim or use the upcoming disclosure program to repay improper refunds to avoid future action."

As of Sept. 14, the IRS had put a halt on processing ERCs at least until the end of 2023. Those claims submitted prior to Sept. 14 will receive enhanced compliance reviews. This is a crucial step in protecting against fraud and to protect businesses and organizations from facing penalties or interest payments stemming from bad claims touted by promoters. A legitimate claim is a refundable tax credit designed to reward those businesses that continued to pay their employees during the COVID-19 pandemic. The operation of these businesses were fully or partially suspended in compliance with the government order or saw significant losses of gross receipts during the eligible period.

The disallowance letters that identify ineligible claims before they're paid serve several purposes that help taxpayers and tax administration. They:

- Help ineligible taxpayers avoid audits, repayment, penalties and interest.
- Protect taxpayers by preventing an incorrect refund from going to an ERC promoter.
- Save IRS resources by disallowing incorrect credits before they enter the audit process.

During this period, the agency urges taxpayers applying for the ERC to use extreme caution about aggressive marketers and potential scammers. It is recommended they consult with a trusted tax professional about their eligibility.

How to Avoid Pay Miscalculations

Employees can use a pay stub to confirm what was withheld from their gross pay so they can understand how the final net pay amount was arrived at. While no federal law requires pay stubs, most states do. Pay stubs should have these basic elements:

- Year-to-date pay.
- Basic identifying information: name and address of the employer, name and address of the employee, and the employee's Social Security number.
- Pay period and total hours worked.
- Gross wages, or the total amount earned for the pay period before taxes. If an employee worked 15 hours at $20 per hour, gross wages are $300. Pay stubs should note hours worked, what the pay rate is and any additional earnings or accrued time off.
- Tax deductions, including federal tax withholding, state tax withholding, unemployment taxes, Social Security tax and Medicare withholding.
- Employee benefits deductions, including things like health insurance, health savings accounts, life insurance payments and retirement contributions.
- Voluntary deductions, which include the amount an employee chooses to withhold monthly and may include a regular charitable contribution.
- Involuntary deductions such as wage garnishments, past taxes owed and court-ordered child support payments.
- Net pay, the amount of money employees take home after all deductions are made.

If you miscalculate, the withholding amounts for taxes may include errors that may cost you penalties. Also, take care to pay taxes to the correct agency. Once you enter all the relevant information, the pay stub tool creates a pay stub for you. Many professional employer organization services take over the payroll work, providing employees with pay stubs.

Transparency works for everyone

Pay stubs offer employees transparency in how they're getting paid, noting gross income, deductions and net income. Workers get year-to-date information. Transparency helps you, too, so that you refrain from overpaying or underpaying employees, making erroneous retroactive payments, or missing the first paycheck for new hires. You don't want to deduct the wrong amount for benefits or other payroll deductions. You also want to be sure you're properly paying employees who are on disability or other leaves.

You may miscalculate or fail to pay overtime, which can result in the wrong pay, leading to the need to make corrections — which can span multiple tax years. Here's how overtime errors may arise:

- Calculating work during break times.
- Including time traveling between worksites.
- Counting participation in activities outside normal hours like training or team building or company parties.
- Figuring in such additional taxable earnings as equity compensation, bonus awards, private medical insurance, employee rewards, company car or allowance.

Payroll systems are only as good as the quality of the data input and the skills of the people responsible for the payroll run. Keeping on top of tax codes is crucial to ensure employees are paid correctly and the right amount of tax is collected by the tax authority. Tax codes adjust with personal circumstances:

- New starters
- Company benefits such as car or private medical insurance
- Furloughed employees
- Remote working
- Hybrid working

Be on your guard for data entry mistakes, including mismatching employee name and Social Security number and/or poor logging of time and attendance. Those handling payroll are responsible for sending to appropriate recipients such payments as monies owed by court order or deducted from pay. Failure of funds to reach the recipient can constitute a breach.

Employee well-being is more than pay; it includes feeling in control and secure, knowing they can pay bills, deal with unexpected costs and provide for a healthy financial future, while being able to make choices that allow them to enjoy life.

When payroll errors happen, there's a legal and moral responsibility to correct them rapidly. With the ever-changing nature of work and pay, along with the fast changes in technology, a regular payroll audit will provide recommendations on where to improve and how to avoid future issues.

Get Ready To File in 2024

The beginning of the new year is the time for taxpayers to start gathering their documents for filing their 2023 returns. And the IRS has announced some important enhancements taxpayers should be aware of to ease the yearly burden.

It's hoped taxpayers will find that the enhancements made by the IRS to the online filing process will ease the filing experience. By accessing their online accounts, taxpayers can view, approve and electronically sign power of attorney and tax information authorizations for their tax professional. Taxpayers can also perform any of the following tasks when logging into their accounts:

- View their tax owed and payment history, and schedule payments.
- Request tax transcripts.
- View or apply for payment plans.
- See digital copies of some IRS notices.
- View key data from their most recently filed tax return, including adjusted gross income.
- Validate bank accounts and save information of multiple accounts, eliminating the need to reenter bank account information every time they make a payment.

Once the tax return has been submitted, the IRS issues most refunds within 21 days. This is not a hard-and-fast rule, and taxpayers should be prepared for delays in receiving their refunds. This is especially true if the IRS suspects fraud or identity theft, if the return has missing information, or there is a possible error. Some people claiming the earned income tax credit or the additional child tax credit should not expect to see their refunds before mid-February. The reason is that the IRS cannot legally issue only a portion of the refund; the entire refund must be held until February 27.

Everything in its place

As with all important documents, taxpayers should develop a system for organizing their electronic or paper records in one convenient place. This includes year-end income documents like Forms W-2 from employers, Forms 1099 from banks or other payers, Forms 1099-K from third-party payment networks, Forms 1099-NEC for nonemployee compensation, Forms 1099-MISC for miscellaneous income or Forms 1099-INT for interest paid as well as records documenting all digital asset transactions. This increases the likelihood that returns will be processed easily and refunds will not be delayed.

The IRS delayed the new $600 Form 1099-K reporting threshold for third-party settlement organizations for calendar year 2023. This year will be treated as a transition year to reduce any confusion caused by Forms 1099-K being sent to taxpayers who wouldn't expect one and may not have a tax obligation. As a result, reporting will not be required unless the taxpayer receives more than $20,000 and has more than 200 transactions in 2023. Taxpayers should understand why they receive Form 1099-K and how to use it to report their correct income on their tax form. If they should not have received the form in the first place, taxpayers need to know what to do to correct the mistake.

Those purchasing a vehicle in 2023 will want to review the changes under the Inflation Reduction Act of 2023. If you purchased an eligible electric vehicle in 2022 or before, or bought a new clean-energy vehicle in 2023, you may qualify for the credit. To claim either credit, submit the vehicle's vehicle identification number and file Form 8936, Qualified Plug-in Electric Drive Motor Vehicle, with your tax return.

Tax credits may also be available if you qualify for expenses related to energy improvements in your home. To claim the credit, taxpayers need to file Form 5695, Residential Energy Credits, Part II, with their tax return.

Finally, the fastest way for taxpayers to receive their refunds is to file electronically and to opt for direct deposits to their bank accounts. Prepaid debit cards are another option to allow taxpayers to directly deposit their tax refunds. Contact a tax professional for additional guidance on filing your tax return accurately and to make sure you receive the credits and refund you earned.

Indeed, this is just a summary, and there are other federal rules as well as state and local rules that affect your tax situation. All the more reason to work with a qualified tax professional.

Consider the Best Payroll Method

The ways to pay employees — especially as money continues moving into the digital sphere — have proliferated. You have options. Choose the one that best fits your business. You may want to peruse the different methods to see which makes the most sense for your business in terms of costs and employer responsibilities.

Consider the pros and cons

Paychecks — Some employees may prefer the privacy of receiving paychecks because they don't enjoy sharing banking information. But checks can get lost or stolen. Handwriting a paycheck can be time-consuming for employers.

What about using a printer instead of handwriting them as a form of preparing your checks? Something could go wrong with the printer; for example, it could run out of ink and you'll have to resort back to issuing handwritten checks. Or you might need to go with a special MICR printer that prints checks that bank check machines read with ease and uses magnetic ink.

Direct deposit — A whopping 93% of payments are made this way. A big benefit? Convenience. Employees still receive wages even when they're on vacation. An important consideration, though, is the time frame for processing. The most time-consuming part is setting up direct deposit.

This method comes with fees: setup fees, monthly fees and a small fee per pay period. Transaction fees might be $1.50 per transaction. If you have online payroll software, direct deposit may be incorporated at no added cost.

Payroll cards — Prepaid cards are something that you give to employees each payday. Each card is loaded with the employee's wages. The card is used like a debit card. Wages can be withdrawn from an ATM or by visiting a bank cashier. Unbanked workers who need cash from ATMs will be subject to ATM fees. Bank accounts aren't needed to receive wages through payroll cards.

You won't be surprised to discover there are fees involved, including setup costs as well as fees that employees may incur; depending on your state, you may be required to pay these employee fees on their behalf.

Cash — If you pay employees with cash, you must be extra careful about keeping records. The IRS takes special notice to make sure you're taking out the correct tax amounts. There isn't an automatic audit trail when you pay in cash. But — there are no immediate fees like with the other methods — just a higher risk of an IRS audit.

Mobile wallet — These are increasing in popularity, using systems such as Venmo or Apple Pay. You deposit wages into employees' phone electronic accounts. Employees can use the funds to directly make purchases. Expect small fees when paying with a bank account. Employees, too, pay a fee when withdrawing money from their mobile wallet.

You'll be required to get a pay stub to employees no matter what payment method you choose. Why? Pay stubs show employees what you've paid them and what taxes were taken out. There are pay stub requirements by state.

The best payroll method for your company depends on your business's compliance requirements, your employees' preferences and the tools you use to run payroll. Review state laws and relevant federal laws. You can't make direct deposit mandatory in every state — so review laws to prevent mistakes and penalties. Whether you need to track hours worked and holiday pay for an hourly employee, or to log paid time off or employee benefits for a salaried employee, there's a payroll app that can help.

Nonprofits Run Payroll, Too

By nature, nonprofits operate with the selfless assistance of volunteers. However, what if we told you that nonprofits also have paid employees who rely on regularly scheduled paydays?

Nonprofits face payroll challenges similar to those of for-profit businesses

Just like for-profit businesses, nonprofits have to learn how to accurately withhold payroll taxes on behalf of their employees. But because they are nonprofits, they are required to work within tight and limited budgets while determining reasonable executive compensation for each employee.

Interestingly enough, many people believe a common misconception that suggests nonprofits do not have to pay their employees, which would mean they don't have to run payroll or withhold taxes. However, that's not entirely true. If a nonprofit employs staff members who are classified as employees, they are subject to the same payroll taxes as for-profit firms.

What types of taxes do nonprofits have to pay?

Nonprofits are required to pay the Federal Insurance Contributions Act (FICA) tax. They fulfill this responsibility by withholding federal income taxes — as well as Social Security and Medicare — from the paychecks of their employees. Nonprofits are also required to match the contributions their employees make toward Social Security and Medicare.

When it comes to 501(c)(3) organizations, they are not liable for Federal Unemployment Tax Act (FUTA) taxes. That said, nonprofits that do not fit this particular classification are liable. Furthermore, nonprofit organizations must pay applicable state and local taxes. One example of this type of tax is the State Unemployment Tax Act (SUTA).

While there are certain exemptions that charitable nonprofits are eligible for, it's imperative that you check the city and state tax requirements in your area. Also, in some cases, quarterly SUTA tax payments can be dispensed with in favor of directly paying the state for unemployment benefits regarding former employees.

Of course, keep in mind that there are different kinds of nonprofits, with subtle but important differences. Be sure to work with professionals to understand what laws and regulations apply to yours.

How should nonprofits deal with volunteer workers?

If taxable gifts are offered to volunteers in exchange for their work, then taxes must be withheld from the monetary gift just like they would be for payroll on behalf of employees. Volunteers are required to report the value of the gifts as being taxable income when submitting their tax information to the IRS.

What about grants that nonprofits receive?

Nonprofits might receive grants from foundations. The intention behind the grants is for the nonprofits to use said grants for specific projects that are designed to further the mission of the nonprofit. Grants can also be used to cover payroll costs associated with employees whose work-related duties support the progression of the project.

Also, while carrying out projects funded by grants, it is important to track the amount of time that people within the nonprofit allocate toward the project. If you need help doing so, consider utilizing a mobile app that can capture the number of hours spent on the project. Then, make sure the hours being tracked in real time connect directly to a payroll application for recordkeeping purposes.

IRS rules are in effect

In the eyes of the IRS, nonprofit officers and directors must meet specific requirements for reasonable compensation. This must account for total compensation, including wages, fringe benefits, and paid time off.

Professional development costs, bonuses, and health insurance are part of this as well, if applicable. To stay on top of the value of everyone's total compensation, nonprofits should regularly review the salaries of their employees. This will help ensure that they uphold total compliance with the IRS' rules.

Payroll taxes that are withheld by nonprofits need to be submitted to the IRS. However, they won't be automatically transferred when they are withheld by the nonprofits. Instead, payroll taxes are recognized as business liabilities until the deadline by which the nonprofit must transfer the funds.

To assist you and your nonprofit with payroll processing, consider opting into an accredited payroll service. Another option is to implement HR software. For the greatest peace of mind, hire an accountant instead.

Third-party services with experience in the world of nonprofits can ensure that your nonprofit is entirely tax-compliant. Just keep in mind that payroll services can be expensive. Most of them are priced in ways where you have to pay a flat-rate monthly fee in addition to a per-employee monthly fee.

Since many nonprofits are operating within limited budgets, it's typically easier to establish an in-house payroll process instead. If this is what you decide to do within your nonprofit, make sure nobody has isolated access to payroll-related information. Whenever someone is entering, approving, or processing payroll, a second person must be present to verify the payroll data prior to processing and issuing checks or direct deposits. This is necessary for security reasons.

When it comes to payroll for nonprofits, one of the most challenging aspects is learning how to balance budgets while maintaining payroll compliance. This can help your nonprofit simultaneously minimize penalties and save money.

If you decide to use a third-party payroll platform, it's wise to ensure that the platform works with your existing bookkeeping and time-tracking software. Also, double-check that it updates alongside tax laws and regulations as they change.

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