

Employers Year End Processing

*** Below is a list of tasks that employers should perform in December and January to make year-end payroll processing go more smoothly. This will help you get the current year closed accurately, as well as prepare you for the changes that are coming in the new year. If you have a payroll service process your payroll, they may perform some of these items for you. Please consult with your payroll processing company to make sure you are covered in all of these areas.**

December

- Remind workers who have had life changes, such as marriage, divorce, or a change in the number of dependents, to make the appropriate changes to their withholding on Form W-4.
- Remind employees who wish to continue claiming exemption from withholding to submit a new Form W-4 by Feb. 15, 2011.
- Advise employees receiving the advance earned income credit (AEIC) that the AEIC is no longer available after Dec. 31, 2010.
- Collect benefit and payroll adjustment information and post to employees' payroll records. This information should include relocation, educational assistance, group-term life insurance, third-party sick pay, company cars, manual checks, and voided checks.
- Order enough W-2 Forms for all the employees who have worked for you this year, as well as some extras to allow for any mistakes. Consider preparing, printing, and filing W-2s online at the Social Security Administration website, if you don't do this already.
- Verify employees' names and Social Security Numbers (SSNs) at [SS# Verification](#)
- Run a special payroll, if necessary, to record all manual and voided checks issued between the last regular payroll and December 31st.
- Conduct a final review of the general ledger for hidden wages (generally, taxable non cash fringe benefits).
- Verify that the bank reconciliation is complete through November and ask the bank to prepare an early cutoff statement for December, if your statement date is any day other than the last day of the month.

- Make sure your payroll system will be updated by January 1 to take into account any changes in federal tax-free limitations.
- Obtain new forms, withholding tables, and publications.
- Let employees know about changes to tax figures. You may also want to remind employees who have been receiving the Making Work Pay credit that they will no longer be receiving this credit in 2011. In addition, it may be beneficial to send out a letter or e-mail to employees to let them know that their withholding taxes are likely to increase in 2011, unless Congress acts to extend some expiring tax provisions (see RIA Payroll Guide Newsletter 10/01/2010). The above communications may help reduce the number of questions that you receive from employees during the busy year-end filing season.

December - January 1

- Reset all year-to-date balances to zero.
- Reset all wage bases, rates, and taxable limits.
- Discontinue payment of the advance earned income credit to all employees.

January

- Reconcile W-2 totals against the four 2010 Forms 941.
- Run a report to verify W-2 information before printing forms. Make sure you have a SSN for each employee. Review the report for employees with wages over the Social Security wage base (\$106,000 for 2010), benefits that must be reported in box 10 or 12, or statuses that must be checked in box 13.
- Buy postage for mailing Forms W-2.
- If your company offers any pre-tax deductions, prepare a notice for employees that explains the calculations of the numbers in boxes 1, 3, and 5 of Form W-2.
- W-2s must be mailed or delivered to employees by Jan. 31, 2011.
- Beginning Feb. 16, 2011, you must begin withholding based on a marital status of "single" with zero withholding allowances for employees who claimed exemption from withholding in 2010, but who have not submitted a 2011 Form W-4.