

IMPORTANT YEAR-END INFORMATION FOR 2022

**** This information is also available on your AllPay home page ****

Dear Friends,

The end of 2022 is quickly approaching, so it's time to begin planning your year-end review. We encourage you to start the year-end process by reviewing employee data, entering void/manual checks, gathering benefit data, etc. With the IRS and state filing deadlines approaching, you should review the "Key Deadlines" section below. The items that follow will give you helpful reminders for review, as well as important general information. Corrections, updates, and adjustments to your payroll records must be processed before Friday, December 30.

By working together, we can make the process smooth and provide you with accurate W-2 forms as quickly as possible!

W-2 Hold Requests - Important!

- **To hold your W-2 processing for any reason, log in to AllPay and go to Configuration>>Utilities>>W-2 Status. Click on "Add Hold," complete the information requested and then choose "Submit Hold Request."**
- Without a "Hold Request," we will begin scheduling your W-2 forms for processing and printing following your final scheduled check date of 2022.
- If you do not have access to AllPay, contact your customer service representative to request a W-2 hold.
- Release any holds on your W-2 forms by January 6 so that we can promptly process and print them. All W-2 holds will be released on January 7 and W-2 forms will be printed afterward. W-2 forms corrected after the initial processing will not be available until after February 15 and will be processed in the order received.
- All W-2 forms will be processed and shipped by Monday, January 16.

Key Deadlines by Form

- **W-2 forms:** Must be delivered to individual employees on or before January 31. AllianceHCM will submit your W-2 files to the Social Security Administration (SSA). **NOTE:** The deadline for submitting files to the SSA and the majority of states is also January 31.

- **1099 forms:** Must be delivered to individual contractors on or before January 31. The contractor's 1099 forms and your IRS filing copies will be prepared and delivered to you for your convenience. **NOTE:** AllianceHCM does not file your 1099 forms. It is your responsibility to file your IRS paper copies by January 31.
- **ACA 1095-C forms:** Must be delivered to subject employees by March 2, and the deadline for electronically filing employer data is March 31.
- **Holds:** Because of a significantly reduced time frame for us to submit your W-2 files and deliver your 1099 employer copies, please release any W-2 or 1099 holds by Friday, January 6.

1095-C Processing

Applies to clients using our Affordable Care Act (ACA) year-end filing service

- Without a "Hold Request," we will begin scheduling your 1095-C forms for processing and printing on January 16th, 2023.
- Each client is responsible for delivering the 1095-C forms to their employees.
- You should have received emails regarding ACA errors/warnings that need attention. The errors/warnings also may be accessed on your AllPay home page.
- AllianceHCM will not process 1095-C forms for any company with unresolved "Errors." Although AllianceHCM will process 1095-C forms with unresolved "Warnings," you should review all "Warnings."
- AllianceHCM will electronically file all 1095-C/1094-C information with the IRS.
- Find additional information regarding the Affordable Care Act on your AllPay home page or the IRS website: <https://goo.gl/ZeMPDb>

Year-End Adjustment Runs and Bonus Payrolls

- Make sure to process any 2022 adjustment runs by Thursday, December 29, for timely tax deposits.
- 2022 adjustment runs processed after January 1 will be subject to late tax deposits and penalties. AllianceHCM cannot be responsible for these late deposit penalties.

1099 Processing

Applies to clients who have paid 1099 wages during 2021

- We will begin processing 1099 forms on Friday, January 6, and will deliver them to your office by Thursday, January 19.
- AllianceHCM will provide you with the following paper forms:
 - Employee copy to distribute accordingly.
 - IRS “Red” copy of Form 1096 and 1099-MISC to file with the IRS.
 - Employer copies for your records.
- **NOTE:** AllianceHCM does not file 1099-MISC forms as part of our tax filing service. It is your responsibility to file the 1099 forms and Form 1096 with the appropriate agencies.

Estimated Tax Deposits

If you anticipate an adjustment will need to be processed after January 1, AllianceHCM can collect and deposit an estimated tax amount to avoid a penalty situation. Contact our tax department before January 1 to discuss this option.

Void or Manual Checks

Any 2022 void or manual checks that need to be posted must be processed along with or before your final scheduled 2022 payroll. **NOTE:** Please review your final payroll upon receipt and notify your customer service representative immediately regarding any changes or corrections!

Review Employee Demographics

- Encourage current employees to review the demographic information on their checks, which matches how it will appear on their W-2 and 1095-C. You may print a complete “W-2 Edit” report in AllPay or contact your customer service representative to have one printed and delivered.
- AllPay clients can make demographic corrections before you submit your final 2022 payroll.
- Phone/fax clients may submit employee corrections via fax before you process your final 2022 payroll.

- **NOTE:** Your company could face substantial penalties for filing W-2 or 1095-C forms with missing SSN or addresses. AllianceHCM is not responsible for these penalties. Therefore, please review your employee demographic information thoroughly.

Additional Review Items for December 2022

- **Third-Party Sick Pay:** These amounts should have been received as your provider paid them. Please ensure that all amounts are entered before January 1. If this information will not be entered until after January 1, please submit a W-2 hold request (see page 1).
- **Group-Term Life:** If you paid more than \$50,000 for group-term life insurance for an employee, you must report the cost of the excess coverage. See IRS Pub 15-B for more information.
- **Health/Accident Premiums paid on behalf of > 2% S-Corp Shareholder:** These amounts must be included in Box 1 of the W-2 but are not subject to Social Security or Medicare.
- **Fringe Benefits:** You may have additional fringe benefit amounts that must be included as taxable wages. See IRS Pub 15-B for more information.

Employer-Sponsored Health Coverage - Reported in W-2 Box 12DD

(Requirements are the same as 2021 W-2 reporting.)

If your company issued 250 or more W-2 forms in 2021, you must report the cost of employer-sponsored health premiums on employee 2022 W-2 forms (issued in January 2023). This requirement is optional if you filed less than 250 last year. This relief will continue until further guidance is provided. **NOTE:** Please see the information sheet (Appendix A) that follows this document for more information and helpful links.

Medicare Withholding Rates Are Unchanged

Medicare tax withholdings are 1.45% on employee Medicare wages paid up to \$200,000. Employee wages that exceed \$200,000 will continue to be subject to the additional .9% withholding (total of 2.35%). The employer portion is not affected by these limits and will continue at 1.45% on all Medicare wages.

Social Security Wage Base Is Increasing for 2023

The Social Security withholding tax rate continues at 6.2% for 2023. The social security wage limit will increase to \$160,200 in 2023. The 2022 wage base is \$147,000.

FUTA Credit Reduction States – California, Connecticut, Illinois, New York, VI

NOTE: Additional FUTA tax will be due if you have employees in California, Connecticut, or the Virgin Islands.

The Department of Labor has released its final listing of 2022 FUTA credit reduction states. If you pay wages in California, Connecticut, Illinois, New York, or the Virgin Islands, your company will be subject to additional FUTA taxes when you file Form 940 for 2022 (in January 2023). **NOTE:** The states are not known until November of each year. As a result, each payroll tax calculation does not include the additional tax. Any additional taxes due will be calculated and collected in January 2023.

NOTE: Please see Appendix B of this document for more information.

2023 State Unemployment Rates and Filing/Deposit Frequency Notices

In the coming months, states will mail all employers any state unemployment rate notices and filing frequency changes. Please forward these notices to the AllianceHCM Tax Department to help us provide you and the tax agencies with accurate and timely payroll tax information. Send us notices through one of these channels:

- Fax: (832) 616-3553
- Email: taxsupport@alliancehcm.com
- Mail: 9110 Forest Crossing Dr., The Woodlands, TX 77381

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As always, if you have any questions regarding this letter or year-end in general, please get in touch with your customer service representative. We appreciate your business and hope each of you has a happy holiday season and a prosperous 2023!

Sincerely,

Your AllianceHCM Team

Appendix A: W-2 Reporting of Employer-Sponsored Health Coverage

Employers are required to report the cost of employer-sponsored health premiums on the employee's 2022 W-2 form (issued in January 2023). **However, relief continues for employers that filed less than 250 W-2 forms for 2021.** This relief will continue until further IRS guidance is provided.

Here are some of the key points and helpful information:

- Amounts are reported on Form W-2 in Box 12 using code DD.
- The IRS has stressed that these reported amounts are informational and are not taxable.
- In general, the amount reported would include the portion the employee pays and the employer portion. Calculate the reportable cost with one of the following methods:
 1. COBRA applicable premium method
 2. Premium charged method (the premium amounts charged by your insurance carrier)
 3. Modified COBRA premium method

NOTE: These methods are discussed in IRS Notice 2012-9 (see Q&A #24-27). Please consult your benefits advisor for more information about the value of coverage reportable for your plan or which calculation method to choose.

- You must report the cost of group health plans. However, you can exclude the cost of benefits such as stand-alone vision, stand-alone dental, or long-term care benefits.
- You are not required to include employer contributions to a Medical Savings Account, Health Savings Account, or Health Reimbursement Account in the reported coverage amount.
- You do not need to report contributions to Flexible Spending Accounts unless the contribution amount exceeds the amount of the employee's payroll deductions.
- The IRS provides guidance on this topic, along with a Q&A covering various scenarios, in IRS Notice 2011-28 and IRS Notice 2012-9. The IRS also has a more general Q&A and a helpful chart showing what should and should not be reported. Below are the links to these items:
 - IRS Info & Chart: <https://goo.gl/2UIT4v>
 - General Q&A: <https://www.irs.gov/newsroom/employer-provided-health-coverage-informational-reporting-requirements-questions-and-answers>

Box 12DD: FAQ

1. What must be done in the payroll system to allow the entry of the 12DD health care premiums amounts?

- You must have a memo earning code(s) set up and mapped to W-2 Box 12DD. **NOTE:** Box 12DD must include the total premium (employee and employer portion) as mentioned above.
- Amounts may be entered with payrolls throughout the year or you may choose to enter one annual amount for each employee on a payroll processed prior to 12/31/2022. We can also import amounts from an Excel spreadsheet.
- Send any questions regarding the memo code(s) setup or spreadsheet questions to 12DD@alliancehcm.com.

2. How can I review the codes and amounts mapped to Box 12DD?

There is a report in AllPay with the Report ID “Box 12DD” titled “Healthcare Reporting Codes.” Run this report for a given date range to generate a listing of employees with their amounts sorted and totaled by memo code. **NOTE:** If the amount/memo code does not appear on this report, it will not be recorded on the employee’s W-2 form.

3. What if I am also using the AllPay Benefits Module?

Some clients already have memo codes set up and linked to amounts recorded in the Benefits Module. If so, you should still review the report mentioned in Question 2 to ensure all expected amounts are reported in Box 12DD.

Appendix B: Final FUTA Credit Reduction States for 2022 (November 2022)

Please review as additional FUTA taxes may be due at year end.

The Department of Labor released the final list of 2022 FUTA “credit reduction” states. Employers paying wages in these states will be subject to additional FUTA taxes when the Form 940 is filed for 2022 (in January 2023). **NOTE:** If you pay wages in one or more of the listed states, the additional tax could be significant depending on the number of employees you have in those states. See below for more information and a report in AllPay to assist in calculating the additional tax.

Which states are affected for 2022?

The following are subject to the additional tax:

- California: 0.3%
- Connecticut: 0.3%
- Illinois: 0.3%
- New York: 0.3%
- Virgin Islands: 3.6%

What is a “credit reduction” state?

A “credit reduction” state borrowed money from the federal government to pay unemployment benefits and still has an outstanding loan balance as of November 10. As an employer in one of the applicable states, this has been an issue for the past several years. More information can be found on the IRS web site.

Can I calculate an estimate based on payrolls processed this year?

AllPay has an export available that will calculate the additional amount due based on the applicable states. Go to Reports>>Exports to run the export with Report ID “FUTACredRed” titled “FUTA Credit Reduction.” If the export is not listed please select “Add New” and add the export to your company. Enter the date range for the current year to calculate the additional tax based on the payrolls processed.

When will the additional amount be collected and paid?

The additional tax is calculated and paid when we prepare your annual Form 940 as part of your Q4 tax package. The additional tax is not included in each payroll’s tax calculation, but will be calculated and collected in January 2023. If you are using our tax filing services, we will send you a notice regarding the collection and draft your account in mid-January 2023.

We hope this information will help you budget for the additional FUTA tax. If you have additional questions about this notification or need help running the export, please feel free to contact the AllianceHCM tax department at 800-789-7655.