

# —2020— YEAR-END INSIGHT



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January 2021

## Important Reporting Reminders When Preparing 2020 Forms W-2

By Peter O. McDonald, CPA  
Member of the Firm

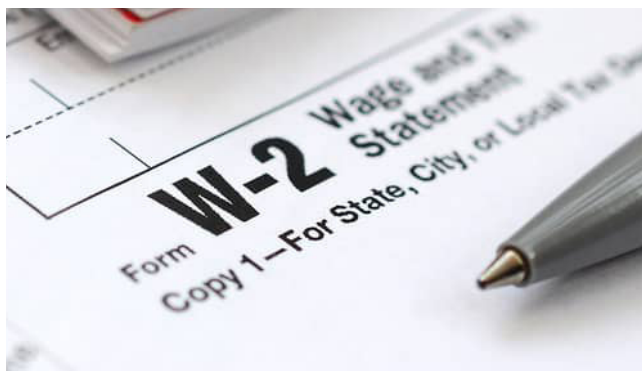
As a refresher, the Families First Coronavirus Response Act (FFCRA) required employers to provide employees with up to 80 hours of paid sick leave (up to \$511 per day) if the employee was unable to work or telework because the employee was:

- (a) subject to a Federal, state, or local, quarantine order related to COVID-19,
- (b) advised by a health care provider to self-quarantine due to COVID-19,
- (c) experiencing symptoms of COVID-19 and was seeking medical diagnosis,
- (d) caring for an individual who was subject to a Federal, state, or local quarantine order related to COVID-19,
- (e) caring for a child of the employee if the school or daycare was closed or childcare provider was unavailable due to COVID-19,
- (f) experiencing any other substantially similar condition specified by the Secretary of Health and Human Services in consultation with the Secretaries of the Treasury and Labor.

The FFCRA also required employers to provide expanded paid family and medical leave to employees who were unable to work or telework because the employee was caring for their child whose school or daycare were closed or childcare provider was unavailable due to COVID-19.

The expanded paid family and medical leave was 2/3 of the employee's regular pay rate, up to \$200 per day and \$10,000 in the aggregate.

In order to provide self-employed individuals who may also receive compensation as employees with the necessary information to claim any equivalent credits for qualified sick leave and qualified family leave, guidance issued by the IRS in Notice 2020-54 requires employers to report amounts paid to employees for qualified sick leave and qualified family leave wages on Form W-2, Box 14, or on a separate statement.



Employers must report to each employee the following type and amount of wages that were paid, with each amount separately reported in either Box 14 of Form W-2 or on a separate statement:

1. total amount of qualified sick leave wages paid and label the amount using the following, or similar, language: "sick leave wages subject to \$511 per day limit."
2. total amount of qualified sick leave wages paid and label the amount using the following, or similar, language: "sick leave wages subject to the \$200 per day limit."
3. total amount of qualified family leave wages paid and label the amount using the following, or similar, language: "emergency family leave wages."

If a separate statement is provided, the statement must be included with the W-2 when provided to the employee. If the W-2 is provided electronically, the statement must be provided in the same manner and at the same time.

The IRS has provided model language for employee instructions regardless of whether the reported wages are included in Box 14 or are reported on a separate statement. The language is as follows:

*"Included in Box 14, if applicable, are amounts paid to you as qualified sick leave wages or qualified family leave wages under the Families First Coronavirus Response Act. Specifically, up to three types of paid qualified sick leave wages or qualified family leave wages are reported in Box 14*

- Sick leave wages subject to the \$511 per day limit because of care you required;
- Sick leave wages subject to the \$200 per day limit because of care you provided to another; and
- Emergency family leave wages

Suppose you have self-employment income in addition to wages paid by your employer, and you intend to claim any qualified sick leave or qualified family leave equivalent credits. In that case, you must report the qualified sick leave or qualified family leave wages on Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, included with your income tax return and reduce (but not below zero) any qualified sick leave or qualified family leave equivalent credits by the amount of these qualified leave wages. If you have self-employment income, you should refer to the instructions for your individual income tax return for more information." ♦

# Advantages of QuickBooks Online

By Bonnie Aleshire  
QuickBooks Advanced ProAdvisor

QuickBooks Online is one of the more popular cloud-based accounting packages available for small to mid-sized businesses, and its popularity continues to grow. So why are so many businesses moving to QuickBooks Online? Some of the key advantages are:

- **Three Subscription Levels:** Choose from Essentials, Plus, and Advanced. Be sure to see the note below on wholesale billing for the best price.
- **Access:** QuickBooks Online can be accessed 24/7 anytime and anywhere you have internet access.
- **Mobile App:** For service-based businesses, the mobile app will allow you to generate estimates on the spot, bill customers when work is completed, and receive payments.
- **User-Friendly Navigation:** Like QuickBooks Desktop, QuickBooks Online offers user-friendly navigation with a Dashboard and quick links that will take you to the most frequently used tasks.
- **Add-On Apps & Integration:** There are hundreds of Intuit approved apps and third-party programs that integrate with QuickBooks Online.
- **Payroll:** QuickBooks Online has a built-in payroll solution with varying service levels and price points.
- **Bank Integration and Downloads:** Connecting your bank and credit card accounts in QuickBooks Online can significantly reduce data entry time, streamline bank reconciliation, and help keep account balances up to date.

## Are you new to QuickBooks Online?

If you have not used QuickBooks before and are considering QuickBooks Online, please contact one of our ProAdvisors. We can answer any questions you have, demo the program, and assist you with the setup. In addition, we can offer our clients a wholesale billing discount (see below).



## Are you considering switching from Desktop to Online?:

If you are currently using QuickBooks Desktop and considering switching to QuickBooks Online, we have good news. Your Desktop file can be converted and most of your data will transfer into QuickBooks Online. Please contact one of our ProAdvisors before making the move.

## Wholesale billing:

SEK offers clients a 50% discount on the list price of QuickBooks Online. It's important to note that you must contact us BEFORE subscribing to QuickBooks Online. If you are transitioning to SEK from another firm where you receive wholesale billing, we can add you to our plan so you can continue with the discounted pricing.

Email [QuickBooksExperts@sek.com](mailto:QuickBooksExperts@sek.com) to get started today! ♦

## Helpful Resources

We have been busy revamping our [Blog](#) and keeping it fresh by posting new content regularly!

You can also view our Payroll Tax Bulletin, Rates & Dates Schedule, Records Retention Schedule, and more on our [Publications](#) page.

## About Our Insight Newsletter

This informal newsletter of accounting, tax, and investment developments is published annually for use by clients and friends of SEK, CPAs & Advisors.

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## Around the Firm



SEK's Emerging Professionals Committee coordinated a firmwide animal shelter drive for four local charitable organizations. They donated at total of 251 items.



The Hanover office collected various items for donation for New Hope Ministries Christmas Blessings Express & Food Pantry for the holidays.



Our Hagerstown office participated in the United Way of Washington County's Annual Day of Caring.



# New Form 1099-NEC

By Peter O. McDonald, CPA  
Member of the Firm

The IRS has re-introduced Form 1099-NEC for reporting of non-employee compensation. For tax years 2020 and forward, payments of \$600 or more to individuals and unincorporated businesses for services treated as non-employee compensation must be reported to the IRS on Form 1099-NEC. In prior years, non-employee compensation was reported on Form 1099-MISC, Box 7.

The IRS moved the reporting of non-employee compensation to Form 1099-NEC to separate the reporting from the remaining

payments reported on 1099-MISC. This change provides taxpayers with more time to prepare and file Form 1099-MISC by the annual February 28 deadline (or March 31 deadline if filing electronically), while still meeting the annual January 31 reporting deadline for non-employee compensation by filing Form 1099-NEC.

With the exception of changes to Box 7, Form 1099-MISC largely remains unchanged. Payments for royalties, rents, prizes and awards, other income, medical and health care payments, and payments to attorneys are still reported on Form 1099-MISC. ♦

## Bonuses Under FLSA and Calculation of Overtime

By Laura L. Stover, SHRM-SCP, SPHR  
HR Manager  
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Payroll Supervisor

There are two types of bonuses employers need to be aware of to ensure they pay their employees the proper overtime wages. Understanding the difference between these bonus types can help the employer avoid any potential grievances filed by employees and ensure they pay overtime wages according to the Fair Labor Standards Act (FLSA). Understanding these bonuses the term 'regular rate of pay' are key components to maintaining compliance with FLSA standards.

### Regular Rate of Pay

Regular rate of pay is not the same as the employee's hourly rate of pay. Regular rate of pay is all remuneration for employment paid to the employee divided by the total number of hours worked during the week. The regular rate of pay is based upon facts, cannot be sidestepped by an agreement, and may not be lower than minimum wage.

The formula to compute the regular rate is:

Total compensation\* in the workweek  
(except for statutory exclusions)  
÷ Total hours worked during the  
workweek = Regular Rate for the  
workweek

\*Total compensation = hourly rate x  
hours worked + bonus

### Discretionary Bonus

A discretionary bonus is a form of variable pay where the amount, timing, requirements, and knowledge of the bonus are not disclosed to the employee in advance. Discretionary bonuses are

excluded from the regular rate of pay. A few examples of the discretionary bonus are:

- An employee overcomes a challenging or stressful situation
- Extraordinary efforts not awarded according to pre-established criteria
- Employee of the month
- Severance
- Referral bonus to employees not primarily engaged in recruiting activities (subject to additional criteria)



## Tax Calendar

### February 1, 2021

- Furnish copies of Form W-2 to employees and Form 1099 as required to other payees
- File Form W-2, Copy A, along with Form W-3, to the Social Security Administration
- File most federal, state, and local payroll tax returns and final payments for 2018
- File Form 1096 and Form 1099-MISC for forms reporting non-employee compensation

### February 16, 2021

- Begin withholding income tax from employees who claimed exempt status in 2020 but did not submit a Form W-4 for 2021

### March 1, 2021 (Paper Filing)

- File Forms 1096 and 1099 reporting all other amounts besides non-employee compensation
- File Form 8027, Tip Income & Allocated Tips

### March 31, 2021 (Electronic Filing)

- File Forms 1096 and 1099 reporting all other amounts besides non-employee compensation
- File Form 8027, Tip Income & Allocated Tips

### April 15, 2021

- File most federal, state, and local payroll tax returns for the 1st quarter of 2021

### July 15, 2021

- File most federal, state, and local payroll tax returns for the 2nd quarter of 2021

### October 15, 2021

- File most federal, state, and local payroll tax returns for the 3rd quarter of 2021

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# Bonuses Under FLSA and Calculation of Overtime

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## Non-Discretionary Bonus

A non-discretionary bonus must be paid out if certain criteria are met. The bonus is established ahead of time, is announced, and is expected to be received by the employee upon meeting the required criteria. Non-discretionary bonuses are included in the regular rate of pay. Employees will know about and expect the bonuses. A few examples are:

- Predetermined formula, such as an individual or group production bonus
- Quality and accuracy of work
- Announcement to employees to induce them to work more efficiently
- Attendance bonuses
- Safety bonuses

## Calculating Overtime When Non-Discretionary Bonuses Are Paid

When an employer pays a bonus covering a time period when an employee has worked overtime, the employer will need to review the employee's work hours for the pay week(s) in question and review the bonus type (discretionary or non-discretionary) to determine if additional overtime pay is owed to the employee. The requirement to pay additional overtime applies even if the bonus is paid after the pay period to which the bonus relates.

The following examples illustrate possible scenarios where additional overtime is required.

**Example #1** - A non-exempt employee is paid \$10 per hour and receives a \$50 bonus for the week as promised for helping to produce a special order for a customer two weeks earlier than previously scheduled. The employee worked 43 hours during the week.

- Employee has 3 hours of overtime
- Employee was promised a bonus; therefore, this is a non-discretionary bonus
- Bonus is based on a predetermined formula, individual/group production bonus

Calculation of pay:

$\$10 \text{ per hr} \times 43 \text{ hrs} = \$430$   
(total compensation for straight time)  
 $\$430 + \$50 \text{ bonus} = \$480$   
(total compensation)  
 $\$480 \div 43 \text{ hrs} = \$11.16$   
(regular rate of pay)  
 $\$11.16 \times .5 = \$5.58$   
(half time premium pay rate)  
 $\$5.58 \times 3 \text{ overtime hours} = \$16.74$   
(overtime pay due)  
 $\$480 + \$16.74 = \$496.74$   
(total due to employee)

**Example #2** - Employee worked 45 hours, 30 of which were evening shifts. The hourly rate is \$15 per hour plus an evening shift differential of \$1 per hour. The employee receives a promised \$100 bonus.

Calculation of pay:

$\$15 \text{ per hr} \times 45 \text{ hrs} = \$675$   
(compensation for straight time at \$15 per hr.)  
 $\$1 \times 30 \text{ hrs} = \$30$   
(shift differential for the evening shift)  
 $\$675 + \$30 \text{ (shift diff)} + \$100 \text{ bonus} = \$805$  (total compensation)  
 $\$805 \div 45 \text{ hrs} = \$17.89$   
(regular rate of pay)  
 $\$17.89 \times .5 = \$8.95$   
(half time premium pay rate)  
 $\$8.95 \times 5 \text{ overtime hours} = \$44.75$   
(overtime pay due)  
 $\$805 + \$44.75 = \$849.75$   
(total due to employee)

**Example #3** - A non-exempt employee is paid a \$400 monthly non-discretionary bonus. The bonus is paid a month after the bonus was earned. Since wages were already paid during the week the bonus was earned, the employer must:

- Review the employee's workweeks of the previous month to determine if overtime hours were worked
- Determine additional amount of overtime compensation due to employee for each week overtime hours were paid
- If the employer is unable to allocate which workweek the employee earned the bonus, the employer may assume the employee earned an equal amount of bonus each week.
- For this example, there are four weeks in the month the bonus was earned -  $\$400 \div 4 = \$100$  per week

The employee worked one week in the previous month with overtime. During that week, the employee worked 43 hours at \$10 per hour.

Calculation of regular rate of pay for overtime calculation:

$\$10 \text{ per hr} \times 43 \text{ hrs} = \$430$   
(total compensation for straight time)  
 $\$430 + \$100 \text{ bonus} = \$530$   
(total compensation)  
 $\$530 \div 43 \text{ hrs} = \$12.33$   
(regular rate of pay)  
 $\$12.33 \times .5 = \$6.17$   
(half time premium pay rate)  
 $\$6.17 \times 3 \text{ overtime hours} = \$18.51$   
(half time premium pay due)

Employee originally received gross overtime pay of \$45 (3 hours at \$15/hr.).

Calculation of additional compensation due:

$3 \text{ hrs} \times \$10.00 =$   
 $\$30.00$  Straight time compensation  
 $3 \text{ hrs} \times \$6.17 =$   
 $\$18.51$  Premium half time compensation  
 $\$48.51$  Total overtime compensation  
 $3 \text{ hrs} \times \$15.00 =$   
 $\$45.00$  Previously paid overtime  
 $\$ 3.51$   
(Additional overtime compensation due)

To avoid employee grievances and possible findings and penalties when undergoing Department of Labor audits, it is important to properly communicate the type of bonuses being awarded to the employees with your payroll staff or payroll provider.

While the above examples reflect small amounts of additional compensation due to the employee, the results could be substantially larger if the bonus and hourly rate of pay has greater value. Regardless of the adjusted amount due to the employee, to maintain compliance with the FLSA, the regular rate of pay must be calculated to ensure the proper overtime compensation is being paid when non-discretionary bonuses are awarded. ♦

## 2021 Standard Mileage Rates



Effective January 1, 2021, the standard mileage rate for business use of autos decreased to 56 cents per mile, down 1.5 cents from the 57.5 cents per mile rate in 2020. The medical or moving rate decreased to 16 cents per mile, down from 17 cents per mile in 2020, and service to a charitable organization remains unchanged at 14 cents per mile. ♦