

## Reward employees with bonuses and fringe benefits — and report them correctly!



### AT A GLANCE

As the end of the year approaches, your employees will appreciate a little something extra in their paychecks. If you want to reward them but you're dreading the havoc it might cause in your QuickBooks company file, look no further — we'll show you how to include bonuses and fringe benefits in your employees' paychecks, whether you're using the Enhanced Payroll Service or the Standard Payroll Service.

To set up payroll items for bonuses and fringe benefits, and then include them in year-end paychecks, we'll:

- Review your responsibilities for reporting and taxing bonus checks and non-cash fringe benefits.
- Create payroll items to include non-cash fringe benefits and bonuses in a regular paycheck.
- Write a separate bonus check with the Enhanced Payroll Service.
- Generate end-of-the-year paychecks that include bonuses and fringe benefits with the Standard Payroll Service.

Many companies pay employees bonuses at the end of the year. Also, many companies include the income and payroll taxes associated with non-cash fringe benefits, such as the value of personal use of a company-furnished car, in their employees' paychecks. In this article, we'll show you how to handle these "payroll extras."

### Grant employees a bonus

Bonus pay is taxable, so you should create bonus paychecks using the payroll features in QuickBooks. The method you use to create a bonus paycheck depends on the payroll service to which you subscribe.

Users of QuickBooks 2005 or later who also subscribe to the Enhanced Payroll Service can use a new feature to create a bonus check. You can supply the net amount of the bonus and let QuickBooks calculate the gross

pay and all the taxes for you. The process is often referred to as "grossing up" a check.

If you intend to create a bonus check by grossing up, you must create a separate bonus check because QuickBooks doesn't permit you to include any payroll items in the Earnings section other than the bonus.

If you don't subscribe to the Enhanced Payroll Service, QuickBooks can't gross up a bonus check for you. So, you can include bonus pay on a regular paycheck or write a separate check. In this article, we'll include bonus pay on a regular paycheck.

### Report non-cash fringe benefits

When you permit an employee to use a company-owned car, you aren't giving the employee cash, but you must include the value of non-cash fringe

benefits in the employee's gross income and withhold payroll taxes accordingly. You should include fringe benefits on a regular paycheck so that you'll have regular cash earnings from which to withhold taxes.

The amount of taxes you need to withhold is calculated from an IRS table that uses the original cost, the fair market value or lease value of the car and the percentage of personal use the employee makes of the employer-owned vehicle. If the employee doesn't report percentage of personal versus business use to you, you must assume that 100 percent of the car was used personally and calculate taxes due based on 100 percent of the value of the car. If the employee reports the percentage of personal versus business use, the fringe benefit amount is calculated by multiplying the value by percentage of personal use. Ask your accountant to make the calculation for you.



The on-going challenge of increasing productivity and decreasing inefficiencies can be overwhelming — often leaving business owners wondering where to begin. By Design Solutions helps you put together the pieces of the complex puzzle of accounting and business management systems. We not only help you evaluate and **S**elect the right version of QuickBooks, but help you **I**mplement it, **M**aximize it's use, **P**erform tasks more efficiently, **L**earn through hands on training, and then **E**nlist our help when you need support! It's just that **SIMPLE!** View our website for more information at [www.ByDesignSolutions.com](http://www.ByDesignSolutions.com)

## Set up new payroll items

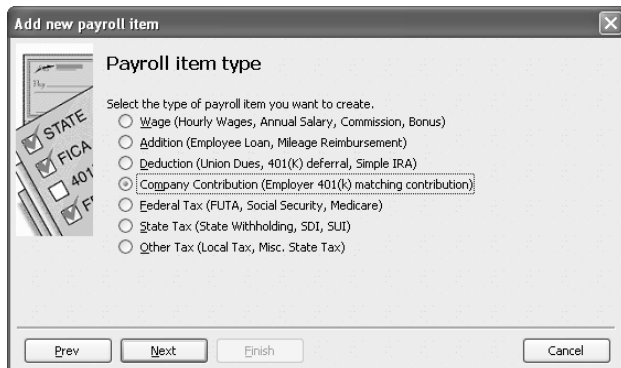
To report a non-cash fringe benefit such as the personal use of a company car, you need a payroll item. And, regardless of whether you subscribe to the Enhanced Payroll Service (and therefore intend to gross up checks), you also need a Bonus payroll item.

### To access your payroll items:

1. Launch QuickBooks and open your company file.
2. Choose Lists | Payroll Item from the menu bar to open the Payroll Item List window.
3. Press [Ctrl]N to display the Add New Payroll Item wizard.

### To create a payroll item for a non-cash fringe benefit:

1. Select the Custom Payroll Item Setup option button in the first screen of the wizard and click Next.
2. As shown in **Figure 1**, select the Company Contribution option button and click Next.
3. Enter *Company Car* in the Enter Name For Company Contribution text box and click Next to advance in the wizard.
4. Choose your payroll expense account from both the liability and the expense account dropdown lists, as shown in **Figure 2**. Click Next. QuickBooks displays a warning message about using the same account; click Yes.



1: QuickBooks considers a non-cash fringe benefit a Company Contribution payroll item type.

**Note:** A non-cash fringe benefit should have no effect on your company's books, so selecting the same account here makes QuickBooks debit and credit the same account, negating the effect of the transaction on the company's books.

5. Choose Fringe Benefits from the dropdown list on the Tax Tracking Type screen.
6. Click Next through the rest of the wizard until you reach the last screen, where you'll click Finish.

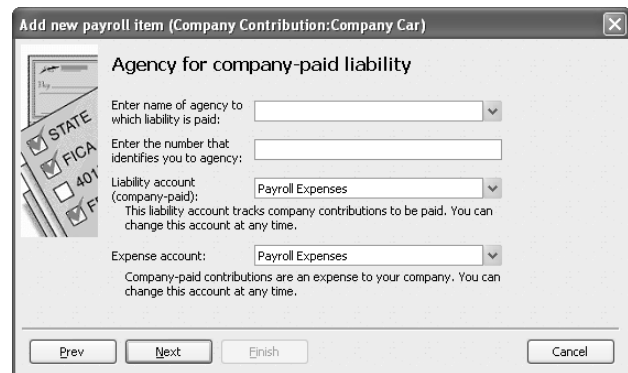
When you select Fringe Benefits as the tax tracking type, QuickBooks suggests that all taxes apply to the payroll item and QuickBooks automatically displays the amount for the payroll item in Box 14 on the W2 form. If your company car should be included in gross wages to calculate some but not all taxes, change the settings for taxes before you click Finish. As of this writing, the company car

non-cash benefit is subject to FIT, Social Security and Medicare.

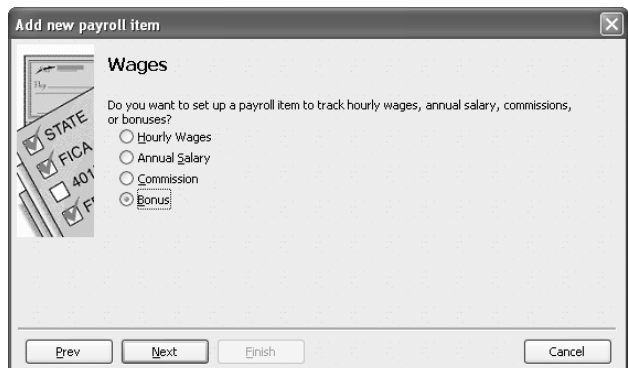
**Important:** Check your Circular E or consult your accountant to identify the taxes applicable to the benefits you offer.

### To create a payroll item for bonuses:

1. In the Payroll Item List, press [Ctrl]N again to start the New Payroll Item Wizard.
2. Select the Custom Payroll Item Setup option button and click Next.
3. Choose the Wage option button and click Next. (Typically, bonuses are treated like regular wages.)
4. Select the Bonus option button, as shown in **Figure 3**, and click Next.
5. Enter *Annual Bonus* in the text box, or some other name that will help you distinguish it from your other payroll items. Click Next.



2: Select the same account for both the payroll liability and the payroll expense.



3: QuickBooks already supplies a Bonus payroll item type.

- Click Finish to accept the default expense account — Payroll Expenses — for tracking this payroll item.

## Pay bonuses with the Enhanced Payroll Service

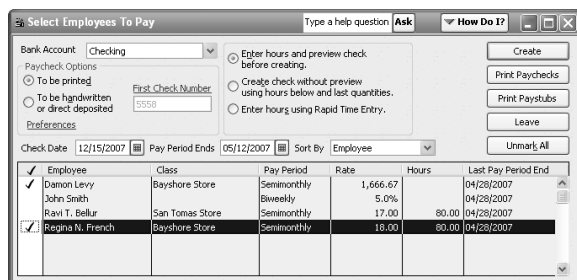
As we described earlier in this article, you can easily create a separate grossed up bonus paycheck if you subscribe to the Enhanced Payroll Service.

### To create a grossed up bonus check:

- Choose Employees | Pay Employees to display the Select Employees To Pay window.
- Select the Enter Hours And Preview Check Before Creating option button.
- Click on the employee(s) for whom you want to write bonus checks. A check mark should appear to the left of each selected employee, as shown in **Figure 4**.

**Important:** If QuickBooks warns you that there is already an existing paycheck for the employee you select, you can click Continue. Since we're creating a separate check for this bonus, it is possible that the employee will receive both a regular paycheck and a bonus check in the same week.

- Click the Create button to open the Preview Paycheck window.
- Remove all payroll items from both the Earnings section and the Other Payroll Items section.
- Select the Do Not Accrue Sick/ Vac check box. Since this isn't a regular paycheck, we don't want the employee to accrue any paid time off.



**4:** You can write bonus checks for one or more employees through the Select Employees To Pay window.

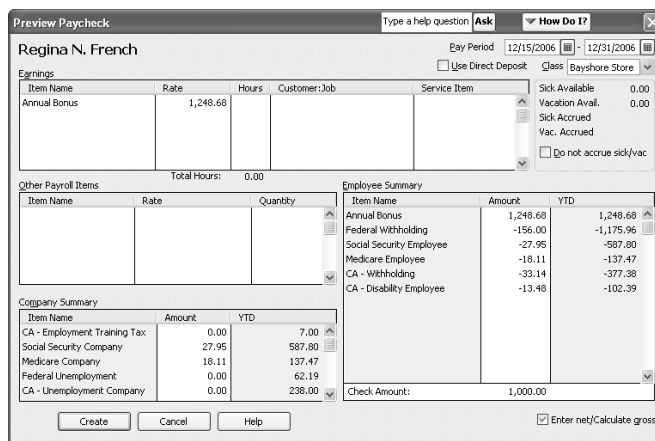
- Choose the new bonus payroll item, Annual Bonus, from the Item Name column's dropdown list.
- Select the Enter Net/Calculate Gross check box in the lower-right corner of the window.
- Type the net amount of the bonus check in the Check Amount field. QuickBooks calculates taxes and gross pay, as shown in **Figure 5**.

## Dole out bonuses with the Standard Payroll Service

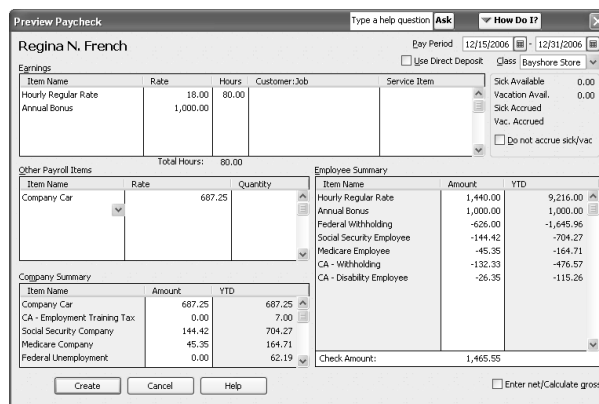
If you aren't using the Enhanced Payroll Service, you can include bonus pay and a non-cash fringe benefit on a regular paycheck instead of creating a separate grossed up check.

### To add a bonus to a paycheck with the Standard Payroll Service:

- Choose Employees | Pay Employees from the menu bar to open the Select Employees To Pay window.
- Select the Enter Hours And Preview Check Before Creating option button.
- Choose the employees to whom you want to grant bonuses and then click the Create button to open the Preview Paycheck window.
- Leave the employee's regular wages in the Earnings section, but add a line item by choosing Annual Bonus from the Item Name column on the next blank line.
- Enter the bonus amount in the Rate column, as shown in **Figure 6**.



**5:** QuickBooks works backwards — you enter the net amount and QuickBooks calculates the taxes and gross pay.



**6:** You can add a bonus to a regular paycheck if you don't subscribe to the Enhanced Payroll Service.

QuickBooks adds the bonus to the Employee Summary on the right and recalculates the amount of the paycheck.

**To include a fringe benefit on a regular paycheck:**

1. In the Preview Paycheck window, click in the Item Name column of the Other Payroll Items section.
2. Choose Company Car from the dropdown list.
3. Enter the amount in the Rate column, as shown in **Figure 6**. QuickBooks uses the amount you enter to adjust the taxes on the paycheck and recalculate the amount of the paycheck.

*Create an end-of-the-year checklist based on these simple questions*

Is your business a...	...sole proprietorship?	Create a journal entry that closes out both the Owner's Drawings and Owner's Investments accounts
	...partnership?	Create a journal entry that distributes your net income to each of the partners' capital accounts
Do you employ independent contractors?	Yes	Process 1099 tax forms (For more information, check out the article "Skip the wizard in favor of more accurate 1099 forms," available in this special report.)
	No	No additional tax forms required
Do you hire an accountant to conduct an end-of-the-year review of your QuickBooks data?	Yes	Make your accountant's work easier by creating an Accountant's Copy of your company file. (For more information, check out the Quick Tip "Prepare your company file for your accountant in seconds," available in this special report.)
	No	Skip to the next question.
Do you handle your own tax preparation?	Yes	Run the Income Tax Preparation report to ensure that your accounts match up with the proper tax lines
	No	Consult your accountant for further instructions
Do you have employees on your payroll?	Yes	Process W2 and W3 forms as necessary. (For more information, check out the article "Report employee wages from the previous year with W2 and W3 forms," available in this special report.)
	No	No additional tax forms required
Is your company file running slowly or taking up too much disk space?	Yes	It may be time to condense your company file (For more information, check out the article "Tidy up your QuickBooks data file and watch its performance improve," found in the May 2006 issue of <i>QuickBooks Extra</i> .)
	No	Even if you don't need to condense your file, you should still create a backup at the end of each fiscal year as a precautionary measure.
Do you provide financial reports to investors or banks?	Yes	You should print and save any necessary year-end financial reports — at the very least, you'll want to keep a Balance Sheet and a Profit and Loss report.
	No	Even if it's only for your own records, you should still archive a hard copy of your year-end Balance Sheet and Profit and Loss report.
Have you completed all of your work in the previous fiscal year?	Yes	If you're certain that you'll never need to change any data from the previous fiscal year, you can choose to set a closing date for that year. This ensures that others can't make changes to the year's data any longer.
	No	QuickBooks won't automatically "close" your fiscal year. As long as you don't designate a closing date, you can still work with the previous fiscal year's data.

**From  
The  
Offices  
Of:**

**By Design Solutions, Inc.**

658 Mendelssohn Ave N  
Golden Valley, MN 55427