

Answer ID:	27476	Last Updated:	1/17/11
		Version:	2009 & Later
Summary:	W-2 Reporting for Employer-paid benefits for S-Corporation Officers with greater than 2% shareholder stake		

Question:

How do I add employer-paid health/medical benefits to Box 1 (Federal Income Tax Wages) of the W-2 payroll tax form for S-Corporation officers that are a shareholder of 2% or more of the business?

Answer:

This article serves as a supplement to Answer ID 7727 "*What is the process for filing my W-2s and W-3 in Peachtree*", to properly report employer-paid health insurance on the W-2 for an employee who is a 2% or greater shareholder of an S-corporation. For more information, please see **IRS Notice 2008-1**:

<http://www.irs.gov/pub/irs-drop/n-08-01.pdf>

For purposes of demonstration used throughout this document, we will assume that in the sample company, Bellwether Garden Supply, *Gary Kellogg* is the officer in the S-Corporation whose Federal wages need to be increased by the amount of the Employer-paid Health/Medical related benefit.

Section I: Copy the existing S-Corporation Officer's Employee Record

1. From the **Maintain** menu, select **Employees Sales Reps**.
2. From the **Employee ID** field, select the Employee record that contains the S-Corporation officer's/shareholder's information.
3. In the **Employee ID** field, place the mouse cursor at the end of the existing ID and type the number "2". For example, select **GKELLOGG** and add the number "2" so that the ID becomes **GKELLOGG2**.
Note: If desired, type another identifier instead of the number two, like "HSA" or "MED".
4. Click the **Save** button.
5. Another employee record based on the officer is created.

Section II: Modify the Record

This newly created record will need to be modified. Follow the steps:

1. With the record you created in the section above highlighted in **Maintain Employees & Sales Reps**, click the **Pay Info** tab. In the example used, that record would be **GKELLOGG2**.

- The Pay Method of the officer should already be salaried. Enter \$1.00 as the pay rate of the first pay level field item, as shown in **Figure 1**.

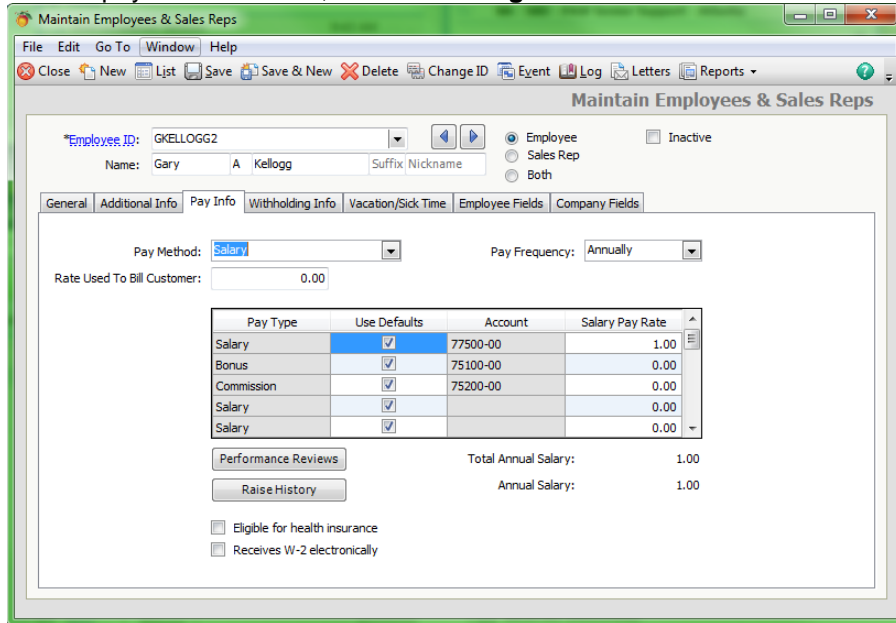


Figure 1

- Click the **Employee Fields** tab.
- You will notice the *Field Name* of each **Employee Field** that is configured in the company for any tax item, benefit item and/or other deduction item. It will be necessary to disable these items from calculating, with the exception of Federal Income Tax or Fed_Income/FIT.
Note: It may be required in your State to add the total amount of the Employer-paid benefit into State Wages reported on the W-2 as well. Please check with your State/Local tax agency/authority for specific requirements.
- Remove the check mark in the box under the **Use Defaults** column for any **Field Name** item that is not the Federal Income Tax (Fed_Income), and if applicable State Income

Tax item, as shown in **Figure 2**.

The screenshot shows the 'Maintain Employees & Sales Reps' application window. The title bar reads 'Maintain Employees & Sales Reps'. The menu bar includes 'File', 'Edit', 'Go To', 'Window', and 'Help'. The toolbar contains icons for 'Close', 'New', 'List', 'Save', 'Save & New', 'Delete', 'Change ID', 'Event', 'Log', 'Letters', and 'Reports'. The main content area is titled 'Maintain Employees & Sales Reps' and contains the following information:

*Employee ID: GKELLOGG2
Name: Gary A Kellogg Suffix Nickname
Employee (selected), Sales Rep, Both, Inactive

General | Additional Info | Pay Info | Withholding Info | Vacation/Sick Time | **Employee Fields** | Company Fields

[Should I edit this information?](#) [How do I enter employee contributions?](#)

Gross Payroll Account:

Field Name	Use Defaults	Account	Calculated	Formula	Adjust	Amount
Fed_Income	<input checked="" type="checkbox"/>	23400-00	<input checked="" type="checkbox"/>	FIT	>	0.00
Soc_Sec	<input type="checkbox"/>	23400-00	<input type="checkbox"/>		>	0.00
Medicare	<input type="checkbox"/>	23400-00	<input type="checkbox"/>		>	0.00
State	<input type="checkbox"/>	23600-00	<input type="checkbox"/>		>	0.00
K401	<input type="checkbox"/>	23300-00	<input type="checkbox"/>		>	0.00
Medical	<input type="checkbox"/>	23350-00	<input type="checkbox"/>		>	0.00
Dental	<input type="checkbox"/>	23350-00	<input type="checkbox"/>		>	0.00
	<input type="checkbox"/>		<input type="checkbox"/>		>	0.00
	<input type="checkbox"/>		<input type="checkbox"/>		>	0.00
	<input type="checkbox"/>		<input type="checkbox"/>		>	0.00

Figure 2

6. Remove the check mark in the box under the **Calculated** column for any **Field Name** item that is not the Federal Income Tax (Fed_Income), and if applicable State Income

Tax item, as shown in **Figure 3**.

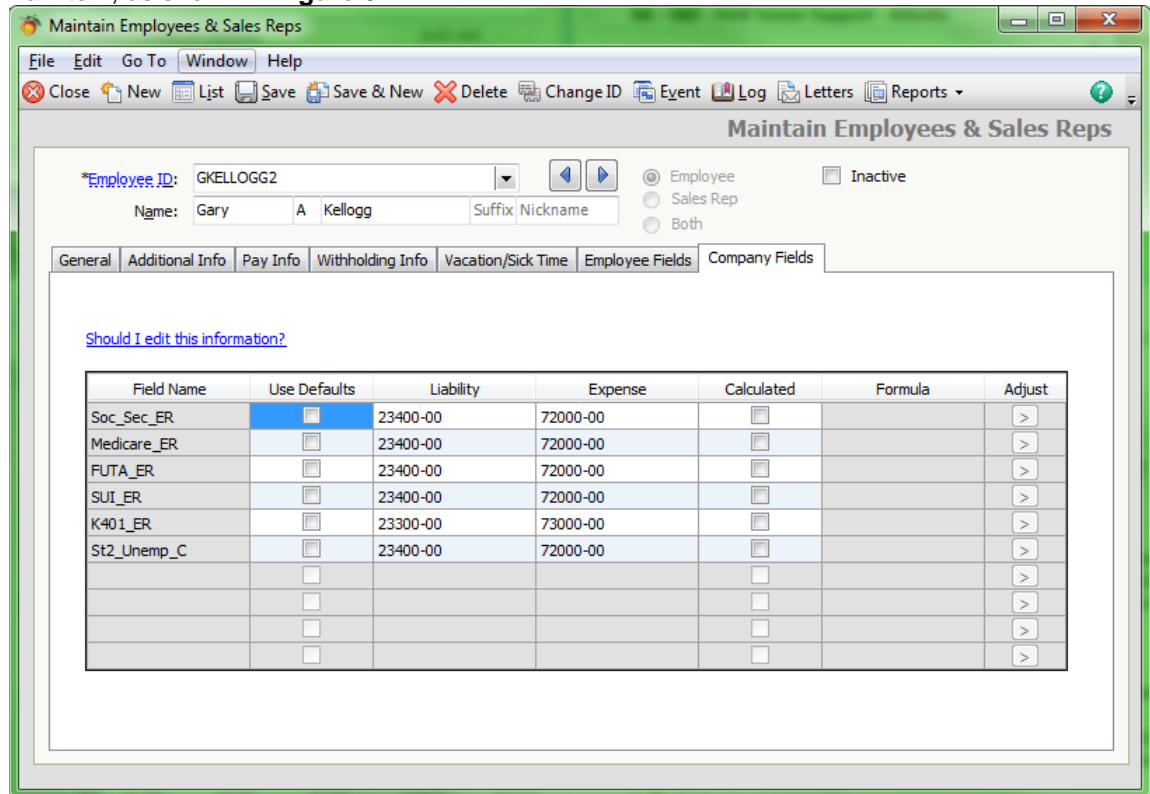


Figure 3

7. Click the **Company Fields** tab.
8. Remove the check mark in the box under the **Use Defaults** column for any Field Name with the option enabled.
9. Remove the check mark in the box under the **Calculated** column for any Field Name with the option enabled.
10. Click the Save button on the toolbar to save the record, then click the Close button.

Section III: Enter the Employer-paid benefit payroll check:

1. From the **Tasks** menu, select **Payroll Entry**.
2. Select the officer's second Employee ID record created in this document. For example, **GKELLOGG2**.
3. The employee's record appears, but differs from the record used to process payroll normally. This record is used strictly for identifying the Employer-paid benefit on the employee's W-2. Enter the amount of the Employer-Paid Health benefit made on behalf of the employee during the 2010 payroll tax year on the left under the salary field. For example, Gary Kellogg was paid \$7,800 in 2010.
4. Date the check for the 2010 Payroll year, i.e., 12/31/2010.

5. Ensure that no withholding is applied for any of the items under Taxes, Benefits and Liabilities area, as shown in Figure 4.

Payroll Entry

Bellwether Garden Supply

Employee ID: GKELLOGG2

Check Number: 35003

Date: Dec 31, 2010

\$ 7,800.00

Seven Thousand Eight Hundred and 00/100 ***** Dollars

Pay to the Gary A. Kellogg
Order of: 522 Neese Road
Woodstock, GA 30188

Cash Account: Payroll Checking Account

Cash Account Balance: Uncalculated

Pay Period Ends: Dec 31, 2010

Weeks in Pay Period: 2

Salary Amounts	
Salary Fields	Salary
Salary	7,800.00
Bonus	0.00
Commission	0.00

Add another pay type Gross Pay: 7,800.00

Taxes - Benefits - Liabilities		
Name	Amount	Memo
Fed_Income	0.00	<input type="checkbox"/>
Soc_Sec	0.00	<input type="checkbox"/>
Medicare	0.00	<input type="checkbox"/>
State	0.00	<input type="checkbox"/>
K401	0.00	<input type="checkbox"/>
Medical	0.00	<input type="checkbox"/>
Dental	0.00	<input type="checkbox"/>
Soc_Sec_ER	0.00	<input type="checkbox"/>
Medicare_ER	0.00	<input type="checkbox"/>
FLTA_ER	0.00	<input type="checkbox"/>
SUI_ER	0.00	<input type="checkbox"/>

Change order of payroll fields

Figure 4

6. Enter a reference number, such as the HSA account number, or other identifier as desired.
7. Click the Save button.

Section IV: Continue W-2 Processing

1. When resuming step 14 in Answer ID 7727, *What is the process for filing my W-2s and W-3 in Peachtree*, after clicking the **Next** button, you will notice the **"Duplicate SSN Check"** window appears, which informs you that at least one employee has two records with the same Social Security Number. In the example we have been using throughout this document, Gary Kellogg is the employee identified. Select the option that states

"Combine these records into 1 row automatically", as shown in Figure 5.

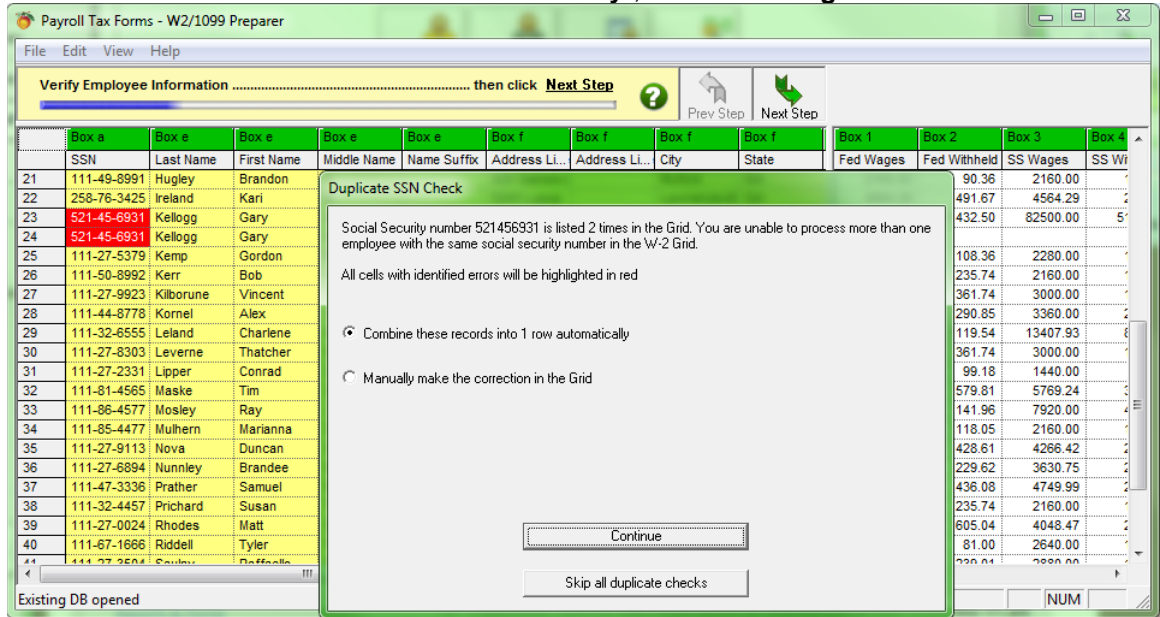


Figure 5

2. Click the **Continue** button.
3. The *Verify State Wages* window appears. Notice the amount displayed in **Box 1-Fed Wages** for Gary Kellogg reflects the additional \$7,800 of the Employer-paid health/medical benefit on top of the base salary of \$82,500 for a combined total of \$90,300, as shown in **Figure 6**.

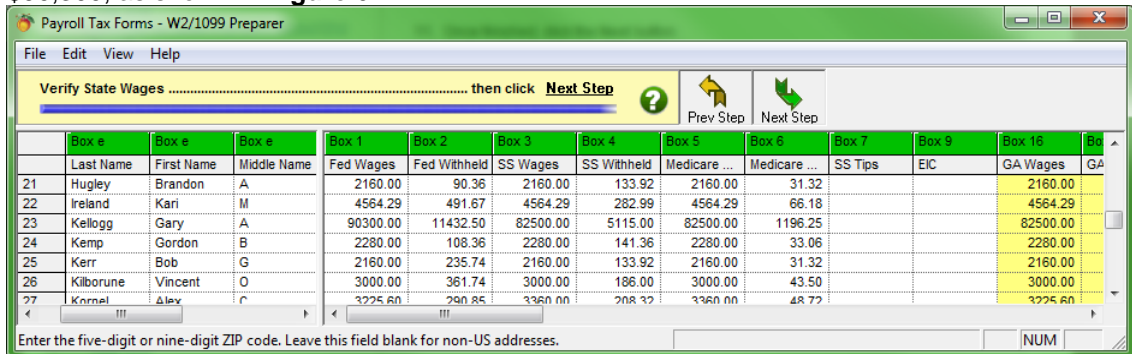


Figure 6

- After completing the W-2 Preparer wizard, the amount will be reflected on the Federal W-2 Tax Form in Box 1, as shown in **Figure 7**.

The screenshot shows the 'Payroll Tax Forms - W-2 Employee' software window. The title bar indicates 'Report 1 of 1: Employee W-2'. The interface includes a menu bar (File, Edit, View, Tools, Help), a toolbar with navigation and printing options, and a main area displaying two W-2 forms side-by-side. Both forms are for the year 2010 and are for Employee W-2. The forms are identical, showing the following data:

1 Employee's SSN 521-45-6931	1 Wages, tips, other compensation 90,300.00	2 Federal income tax withheld 11,432.50
OMB No. 1545-0008	3 Social security wages 82,500.00	4 Social security tax withheld 5,115.00
5 Employer identification number 58-2560752	5 Medicare wages and tips 82,500.00	6 Medicare tax withheld 1,196.25
6 Employee's name, address, and ZIP code Bellwether Garden Supply 1505 Pavilion Place Norcross GA 30093-3203		
9 Employee's first name and initial Gary A Kellogg		
10 Employee's address and Zip code Woodstock GA 30188		
13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		
15 State Employer's state ID number GA 1 2789123-MM		
16 State wages, tips, etc. 82,500.00		
17 State income tax 4,510.00		
18 Local wages, tips, etc. 8,500.00		
19 Local income tax 6.80		
20 Locality name ADAMT		

The software interface also shows a page number of 23 out of 44 and a 'Click Print Final, then click Next Step.' instruction.

Figure 7

Section V: Enter General Journal Entry to Correctly Adjust Payroll Checking Account Balance on General Ledger

If you have already recorded the Employer-paid health/medical benefit on behalf of the employee in a separate transaction already reflected on the General Ledger, you may desire to offset the dollar amount of the payroll check entered in Section III by entering a General Journal Entry by following the steps:

- From the **Tasks** menu, select **General Journal Entry**.
- Date the entry for **December 31, 2010**
- For the reference number, type "Adj" then enter the reference/check number used for the Payroll Entry check in *step 6* in Section III.
- On the first line of the General Journal Entry, place the cursor in the **GL Account** field.
- Select or type the **GL Account** number used as the Cash Account used in Section III. In this example, we used Payroll Checking Account, which is 10300-00.
- On the same row line, place the cursor in the **Description** field. Type the S-Corporation officer's name with a reference to the adjustment entry for auditing purposes, for instance, "Gary Kellogg – S Corp Fed Wage Adjustment Entry".
- On the same row line, place the cursor in the **Debit** column. Type the amount entered in Section III, which in this case is **\$7,800**.

