

2020

Paychex Year-End Reference Guide for Accountants



Make Year-End More Efficient



Offset the year-end frenzy created by the COVID-19 pandemic with **AccountantHQ (AHQ)**, our platform designed specifically for accountants.

- Manage all client HR and payroll data on a single platform
- Access more than 150 reports to help with year-end planning
- Use tools from our extensive resource library

Plus, through Paychex Flex® — recognized with a 5-Star Rating from *CPA Practice Advisor* in 2020 — you can help your clients who have Paycheck Protection Program (PPP) loans take advantage of our PPP Loan Forgiveness Estimator and save time in the application process with signature-ready forms.

Harness the power.

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Overview

Paychex is committed to providing the highest quality service to you and your Paychex clients. As we support your clients’ tax filing and payment activities amid the COVID-19 pandemic, we’re sensitive to their challenge of focusing on their business. This Reference Guide for Accountants has been created to help you and your Paychex clients prepare and plan for year-end needs. We value our business relationship with you and trust that this information will assist with your year-end processing and planning. More details regarding year-end information can be found in the *Paychex Client Year-End Reference Guide* located at payx.me/yend.

If you have any questions, please contact your sales representative. Additional year-end resources can be viewed online at payx.me/ye-guide.

This publication is designed to provide accurate information as of Oct. 14, 2020, about the subject matter covered. It is furnished with the understanding that Paychex, Inc. is not engaged in rendering legal, accounting, or other professional advice. If legal advice or other expert advice is required, the service of a competent professional should be sought. Insurance sold and serviced by Paychex Insurance Agency, Inc., 150 Sawgrass Drive, Rochester, NY 14620. California license #OC28207



Updates

COVID-19 and 2020 Form W-2

The IRS issued [Notice 2020-54](#) providing guidance on reporting the amount of qualified sick leave wages and expanded family leave wages paid to employees under the Families First Coronavirus Response Act (FFCRA).

To comply with this requirement, Paychex will report the following information on 2020 Forms W-2:

- Boxes 1, 3, and 5 as taxable wages
- Box 14:
 - **ESL1** — Emergency Paid Sick Leave wages, subject to the \$511 per day limit, that are for employees directly impacted by COVID-19.
 - **ESL2** — Emergency Paid Sick Leave wages, subject to the \$200 per day limit, that are for employees who are caring for someone else impacted by COVID-19.
 - **EFML** — Expanded Family Medical Leave for employees caring for their children whose school or place of care is closed. Please make sure you explain this information to any affected employees.

Added on Nov. 9, 2020:

On Oct. 31, 2020, the IRS released guidance for 2020 W-2 reporting of the Employee Social Security Tax Deferral provided in IRS Notice 2020-65.

- Employers who deferred the employee portion of Social Security should include any wages that withholding, and payment was deferred in **Box 3** (Social Security wages) and/or **Box 7** (Social Security tips).

- Employers should **not** include any amount of employee Social Security tax that has not been withheld in **Box 4** (Social Security tax withheld).
- All employee Social Security tax withheld in 2021 for the deferred amounts in 2020 should be reported in **Box 4** (Social Security tax withheld) on Form W-2c, Corrected Wage and Tax Statement. The W-2c is used to correct previously reported information on Form W-2. This will not impact the 2021 W-2.

Paychex will report this information as required by the IRS on the 2020 Forms W-2.

Form W-2 and ESR Paychex Business Continuity Plans

To remain prepared for unusual circumstances that may arise due to the COVID-19 pandemic, we have developed the following processes in the event we need to provide year-end returns online, through Paychex Flex®.

- **Form W-2.** An updated service agreement was sent to all Paychex customers requiring them to register for a Paychex Flex® account to access and print 2020 Forms W-2 online if necessary. Your Paychex clients can click [here](#) to begin the secure setup.
- While we are planning to print and deliver Forms W-2 to our customers as we normally do, we want to be prepared in case they cannot receive their print delivery on time. If we need to deliver your Paychex clients' Forms W-2 online only, we will notify them by mid-January 2021.

Paychex Employee Shared Responsibility (ESR) Service

We're making similar plans for Forms 1094-C and 1095-C for our ESR clients to meet Affordable Care Act regulations.

Updates *(cont.)*

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security (CARES) Act created the employee retention tax credit. This credit is fully refundable for eligible employers and is equal to 50 percent of qualified wages (including allocable qualified health plan expenses) paid to employees after March 12, 2020, and before Jan. 1, 2021.

The maximum amount of qualified wages for each employee for all calendar quarters is \$10,000, therefore the maximum credit for qualified wages paid to any employee is \$5,000.

Employers can report the employee tax credit on Form 941 in the second, third, and/or fourth quarters of 2020.

For additional information about Employee Retention Credits, visit the IRS website FAQs: [Employee Retention Credit under the CARES Act](#)

How is Paychex handling the employee retention credit?

Paychex updated our software to include earnings codes that automatically take half of the wages entered and apply this amount to the credit up to \$10,000 in wages for each employee. The credit is calculated at 50% of the eligible wages, up to a maximum of \$5,000 per employee.

By reporting amounts through the earnings codes, we'll calculate the credit and reduce clients' federal tax liability. Any excess amount will be carried over and applied as a credit to the next payroll. Any excess credit at the end of the quarter will be marked for a refund by the IRS on Form 941.

It's important that your clients report this information to Paychex so we can accurately complete their Forms 941. **For additional information about how Paychex is handling the Employee Retention Credit, go to [Customer Support during COVID-19/Employee Retention Credit](#).**

Form 7200, Advance Payment of Employer Credits Due to COVID-19

If your Paychex clients have filed Form 7200 and have received any advances, we will need them to report to us so we do not apply credits to payroll that was already requested directly from the IRS. Your clients should report:

- Copies of all Forms 7200 filed in any quarter of 2020 (if not already reported to us), no later than Dec. 31, 2020
- Date(s) the Form(s) 7200 was filed
- Which quarter(s) the Form 7200 was filed for
- Contact name, phone number, and email address

Updates *(cont.)*

Employer Social Security Tax Deferral

Employers and self-employed individuals are allowed to defer payment of the employer share of Social Security taxes beginning March 27, 2020 and ending Dec. 31, 2020.

Your clients should inform Paychex if they are deferring the employer Social Security tax so we can set up the deferral for them.

The deferred amount must be paid over the following two years:

- Half the amount is required to be paid by Dec. 31, 2021, and
- The other half by Dec. 31, 2022.

Employee Social Security Tax Deferral

[IRS Notice 2020-65](#) provides guidance to defer the withholding, deposit, and payment of the employee share of Social Security tax. The deferral period is from Sept. 1, 2020 to Dec. 31, 2020. Employers who have elected to defer the employee Social Security tax are responsible for collecting and paying back deferred taxes. Payments will be due between Jan. 1, 2021 and April 30, 2021.

If your Paychex clients choose to defer employee Social Security tax, they should contact their Paychex representative. To opt-in to the service, we will require clients to agree to terms and conditions of an addendum.



Form 1099-NEC, Nonemployee Compensation

For tax year 2020, the IRS created a new form, the 1099-NEC, which is due Feb. 1, 2021.

The 1099-NEC is for reporting nonemployee compensation, formerly Box 7 of the 1099-MISC.

The 1099-MISC is still valid and will be used for Rents/Royalties/Other, but will not include nonemployee compensation. The 1099-MISC will be due March 1, 2021. States need to determine if they will follow these new federal requirements.

Year-End Reminders

The year-end deadline to report information or changes for 2020 is Dec. 31, 2020, by 4 p.m.

or before the first payroll that has a 2021 check date is processed, whichever comes earlier. Our offices will be closed Friday, Dec. 25, 2020, and Friday, Jan. 1, 2021. For specific holiday processing schedules, contact your Paychex representative.

Reminder:

The IRS may charge employers a penalty of up to \$280 for each return or Form W-2

that has a missing or incorrect SSN or federal employer identification number (FEIN).

We cannot file your clients' federal Forms W-2 electronically if a substantial percentage of the SSNs are missing and your clients have more than 10 employees.

☐ Verify that tax liabilities were collected for bonus checks

- Bonus checks are often processed with regular payroll, but they must be processed independently if a separate payroll journal is necessary or the bonus payroll has a different date from the normal payroll date.
- Verify with your clients how the bonus checks are to be taxed and any adjustments that need to be withheld, as bonus checks might be handled differently than regular payroll checks.

☐ Confirm employee names and addresses

- Have your clients review all employee names and addresses and report changes to us by the year-end deadline.
- Ensure that your clients have the necessary federal and state withholding forms available when reporting new employees.
- It is important to verify the correct name and Social Security number (SSN) for each employee.
A mismatched name or number can affect the employee's Social Security wage benefits; wages reported on Form W-2 with mismatch errors will not be credited to that employee's personal earnings record. Instead, the wages will be housed in a "suspense file" until the error is corrected. If the error is not corrected, the wages will never be credited to that individual.

☐ Report other amounts on Form W-2, Box 14

The IRS allows employers to use Form W-2, Box 14 (Other), to report certain adjustments to an employee's pay (e.g., charitable contributions). These can be set up to print in Box 14. Your clients should use the following guidelines when choosing a title for the adjustment:

- Only the first five letters of the adjustment (earnings or deduction) will print in Box 14.
- Be descriptive. For example, "Misc" might not clearly substantiate a charitable contribution.
- The Paychex payroll representative can change your client's adjustment title before processing their Form W-2.

☐ Report third-party sick pay (disability payments)

Third-party companies are required to furnish employers with a sick pay statement of any disability insurance benefits paid to employees during 2020. If a client receives this information after reporting the last payroll of the year, they should call their Paychex payroll representative.

If they have not already done so, clients should notify their insurance company that Paychex will include third-party sick pay on Forms W-2.

Since this pay might affect quarter-end and year-end returns, including Forms W-2, the processing of returns will be delayed if sick pay is reported after the year-end deadline date.



Year-End Reporting

Again, the year-end deadline to report information or changes for 2020 is **Dec. 31, 2020, by 4 p.m.** or before the first payroll that has a 2021 check date is processed, whichever comes earlier.

Taxpay[®] and Non-Taxpay Clients

Action Item	Taxpay Clients	Non-Taxpay Clients
If not already done, these items should be reported to your client's payroll representative before Dec. 31, 2020:	<ul style="list-style-type: none"> • In-house payroll checks • Voided payroll checks • Third-party sick pay (disability payments) 	<ul style="list-style-type: none"> • In-house payroll checks • Voided payroll checks • Third-party sick pay (disability payments) • Any tax deposits that were due but not remitted • Tax deposits paid for an amount other than the one reflected on the deposit notice
If additional 2020 payroll entries are reported after the deadline, Paychex will:	Collect and deposit any additional liability that might be required, but will not be responsible for any penalties or interest as a result of a late payment	Generate a new or replacement deposit notice
If any client voids 2020 payroll entries after the deadline date, Paychex will:	<ul style="list-style-type: none"> • Prepare their federal tax return, Form 941 or 944, showing the overpayment, and request a refund for them • Prepare any required state quarterly returns or annual reconciliations, showing the overpayment. We will either request a refund or apply the overpayment to the next state tax deposit, based on the state's requirements 	

Year-End Reporting *(cont.)*

Year-End Reporting – Fringe Benefits

Any taxable cash or non-cash benefit — for example, personal use of company cars — must be included on Form W-2.

Advise your clients to report these benefits before the last payroll of the year. Reporting taxable benefits with cash wages allows the appropriate withholding taxes to be deducted from an employee's check.



Common benefits your clients might have that should be reported:

- Health and Accident Insurance Premiums Paid by an S corporation
- Group Term Life Insurance
- Dependent Care Assistance
- Flexible Spending Account (FSA)
- Educational Assistance Program
- Deferred Compensation Plans
- Employer Contributions to Retirement Plans

For more details on the specific reporting requirements of the benefits above, please contact your Paychex payroll representative or refer to the online *Paychex Client Year-End Reference Guide* located at payx.me/yend.

Additional Reporting Requirements

Taxable adjustments for separated employees

Taxable adjustments [for example, personal use of a company car (PUCC), or imputed value of group term life insurance] should be reported with regular payroll whenever possible. This allows any required employee taxes to be withheld from wages.

- **If taxable adjustments are reported without wages**, your clients might be liable for the employee portion of taxes. Please keep this in mind if employees separate from employment, whether voluntarily or involuntarily, during the year.
- **If a client pays any part of an employee's income tax or FICA withholding**, the amount paid must be reported as additional taxable wages for the employee. Additional employment taxes, both employee and employer portions, are due on this added income.
- **If a client cannot report taxable adjustments with an employee's last check**, Paychex can help them calculate the additional amount required to cover the employee FICA. This situation should be discussed with their Paychex payroll representative.

Cost of coverage under employer-sponsored health plan

Do you have clients issuing 250 or more Forms W-2 for the previous year? The IRS requires them to report the cost of coverage for any employer-sponsored group health plan on Forms W-2. For Paychex to report these amounts for 2020, your clients must provide them to us before the year-end reporting deadline.

Important Tax Agency Notices



It is ultimately the taxpayer's responsibility to ensure that all taxes are being remitted to the IRS on time. Using a payroll service does not absolve the employer of this responsibility.*

* The IRS requires us to notify our Taxpay clients that although Paychex is designated as the Reporting Agent on Form 8655 (Reporting Agent Authorization), this does not relieve our clients from liability if tax payments and/or returns are not remitted by the due date. The IRS recommends that clients enroll in and use EFTPS to ascertain whether an agent has made all required deposits on time. Most state agencies provide ways to verify tax payments as well, so contact your state agency for this information. Please be assured that Paychex makes every effort to remit tax payments and returns on time. If any issues do arise, we work with your clients and the agency to resolve the situation.

Federal Deposit Frequency Notices

Your clients' deposit frequency should be determined for 2021 by using the lookback period. Refer to IRS Notice 931 at [irs.gov](https://www.irs.gov) for additional information about deposit rules and lookback periods.

For clients who do not subscribe to our Taxpay® service, we will instruct them to make deposits based on the deposit frequency we calculate using their previous payroll liability. Their January tax deposit notice will state their 2021 federal deposit frequency.

EFTPS® Enrollment

For clients who are not on our Taxpay® service, they can enroll with the Internal Revenue Service on their own using Form 9779, or visit [eftps.gov](https://www.eftps.gov). This will allow them to make a payment, and verify that payments are being posted properly to their account.

Clients on our Taxpay® service may also enroll in the Electronic Federal Tax Payment System (EFTPS) to verify that payments are being posted properly to their account.

State Deposit and Electronic Funds Transfer (EFT) Requirement Notices

If a client receives a deposit-frequency notice or state notification of EFT requirements, please send us a copy of the document with their client number noted.

State Unemployment Insurance (SUI) Rate Update

Your clients should receive notification of their SUI tax rate for 2021. We need this rate to calculate their SUI tax and SUI expense correctly. Please send us a copy of the document with the client number noted.

Electronic/Magnetic Media Filing

Federal Forms W-2/W-3

The IRS requires employers with 250 or more Forms W-2 to file electronically. Any employer who fails to do so may incur a penalty.

Paychex will electronically file employer federal Forms W-2 and W-3 to the Social Security Administration (SSA) for all clients.

- Unless requested to not print, your clients will still receive paper copies of employee Forms W-2 for their employees to file with their individual tax returns.
- We will include a Form W-3 facsimile in your clients' January tax packages.

Please be aware we will not be able to file Forms W-2 and W-3 electronically if:

- We do not have a valid federal employer identification number (FEIN)
- Your client has more than 10 employees and a substantial percentage of the Social Security numbers (SSN) are missing or invalid
- Your client has fewer than 250 employees and leaves our service on or before Dec. 31, 2020

Note: Incomplete employee information (name, address, SSN) could result in inaccurate or non-filing for certain agencies.

Social Security Administration Note

The SSA has cautioned payroll service providers to watch for duplicate Form W-2 reporting. Duplicate filing occasionally occurs when clients transfer from one payroll service provider to another mid-year.



Paychex will prepare and file Forms W-2 for tax year 2020 for all your clients who are on our service at the end of the year. In addition, if specifically requested and paid for, we will prepare Forms W-2 for your clients who were on our service in 2020 but left before the end of the calendar year.

Employee Access Online

Your clients can offer their employees on-demand access to view their Forms W-2, check stubs, retirement balances, and personal and payroll information. With convenient 24/7 access from any browser, mobile device or tablet, employees no longer have to rely on management for timely information.

Electronic/Magnetic Media Filing *(cont.)*

Federal Form 1099/Form 1096

The IRS requires payers with 250 or more Forms 1099 to file electronically. A payer who fails to do so may incur a penalty. Paychex will electronically file payer federal Forms 1099 and 1096 for all active clients. Your clients will still receive paper copies of their payer reference copy and payee Forms 1099. We will include a Form 1096 facsimile in your clients' January tax packages.

We will not be able to file Form 1099 electronically if:

- We do not have a valid FEIN for your client; or
- Your client has fewer than 250 employees and leaves our service on or before Dec. 31, 2020.

Declining Electronic/Magnetic Media Filing

If any client would prefer to file employer Forms W-2 or 1099 on their own, they must complete a form that is available from their payroll representative. Clients who use the Taxpay service through Dec. 31, 2020, cannot decline electronic/magnetic media filing.

Federal Form 8027/8027-T for Restaurant Clients

There are additional tip reporting requirements for large food or beverage establishments. Paychex will file Forms 8027 and 8027-T to report tip allocations on behalf of your clients with our Tax Equity and Fiscal Responsibility Act (TEFRA) service.

State Forms W-2/1099

Paychex will electronically file state Forms W-2 on magnetic media for clients who use our Taxpay service through Dec. 31, 2020, and clients who are required to electronically file their information on magnetic media.

For a list of states where Paychex files for all clients, regardless of whether they use our Taxpay service, please see *State and Local Updates* located at payx.me/yend.

We will not be able to electronically file Forms W-2 and 1099 on your client's behalf if:

- We do not have a valid state identification number for them; or
- They have fewer employees than the state agency requirement, and leave our service on or before Dec. 31, 2020.

Certain states require a valid Social Security number for each employee for electronic/magnetic media filing. We will electronically file Forms 1099 on magnetic media for any client who meets the state and local requirements listed in *State and Local Updates* located at payx.me/yend.

Reminder: If we process only a portion of your client's payroll and they are required to electronically file state information on magnetic media, their payroll representative should be notified.

2020 Year-End Checklist

Please verify these items with your Paychex clients before the end of the year:



Has this information been reported?

- All in-house payroll
- Voided checks
- Employee pension information
- Group term life adjustments
- Tax deposits made for an amount other than the amount on the deposit notice
- Tip allocations for TEFRA
- Compensation adjustments paid to employees who need to be included on employee Form W-2 (e.g., charitable contributions, union dues)
- Any premiums for health and accident insurance paid by an S corporation on behalf of 2% shareholder/employees
- Other amounts in Form W-2, Box 14
- Taxable cash and non-cash fringe benefits (e.g., personal use of a company car)
- Third-party sick pay insurance benefits
- Educational assistance reimbursements
- Any dependent care services provided to employees under an employer-sponsored program
- Identification numbers for every tax agency

Have COVID-19 related items been reported?

- All wages for qualified sick leave and family leave wages
- All qualified health plan expenses on qualified sick and family leave wages
- All qualified wages for the employee retention credit
- All qualified health plan expenses on wages reported for the employee retention credit
- Any employer Social Security tax deferred
- Any employee Social Security tax deferred
- Any advances received from filing Form(s) 7200

Has this information been verified?

- Employees' names and addresses
- Employees' Social Security numbers (SSNs)
- Clients' Forms W-2 delivery address
- Form 1099 payees' SSNs or taxpayer ID numbers
- Identification numbers for state and local agencies on each return

2020 Year-End Checklist *(cont.)*



Additional reminders: bonus payrolls

- Bonus checks can be run with clients' regular payroll. If a different check date or period-end date is desired, the bonus checks must run as a separate payroll.
- Clients can temporarily override the direct deposit coding on bonus checks so their employees can receive "live" bonus checks.
- For clients using Taxpay or PAYEFT, we automatically pay deposits incurred by bonuses (even if checks are not generated by Paychex) as part of the service, provided that the information is reported by the year-end deadline date.
- If your clients are using a Paychex 401(k) plan offered through Paychex Retirement Services, we will automatically deduct any 401(k) contributions from the bonus checks of the employees participating in the plan. According to the plan, bonus pay is defined as compensation, and therefore must be reflected on Form W-2.

Year-end deadline date

- The year-end deadline date for clients to report changes for 2020 is Dec. 31, 2020, by 4 p.m. or before your clients' first payroll with a 2021 check date is processed, whichever is earlier.
- If payroll adjustments are necessary after the year-end deadline date, Paychex can reprocess tax returns. There is, however, an additional charge and a processing delay. If your clients anticipate the need for payroll adjustments, they should contact Paychex immediately so returns can be processed at no additional charge.

Funding responsibilities

Processing large payroll liabilities might require funding Direct Deposit/Readychex® and/or Taxpay® liabilities by a secure wire method. Clients will be contacted after their payroll is processed when a wire is required.

The Right Tools When Needed Most



At Paychex, we keep working so you can keep working, continuously developing the tools and technology to support you and your clients — especially when changing times create more complexity.

AccountantHQ (AHQ) helps manage all your clients' payroll and HR data on a single dashboard to save you time.

payx.me/ahq

Accountant Knowledge Center (AKC) gives you access to industry news on compliance issues, financial calculators, downloadable forms, and more.

payx.me/akc

Accountant HR Support provides real-time answers and best practices from dedicated HR professionals to help formalize your Client Advisory Services model.

payx.me/hr-support

A Paychex Promise® membership includes payroll protection, helps protect against unexpected business interruptions when temporary cash flow issues occur.

payx.me/promise

An alternate 12-page pdf of the print brochure is available for [download here](#).

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