



Article # 1046

Technical Note: How to handle Federal, State, and Local Tax Withholdings for an Employee who received Third Party Payroll Payments

Difficulty Level: Beginner Level AccountMate User

Version(s) Affected: AccountMate 12 for SQL and Express
AccountMate 11 for SQL and Express
AccountMate 10 for SQL, Express, and LAN
AccountMate 9 for SQL, Express, and LAN
AccountMate 8 for LAN

Module(s) Affected: PR

Posting Date: 06/30/2021

DESCRIPTION

There are situations where third party organizations including health insurance companies cover the wages of employees for the duration of their sick leave and the payments are required by law to be entered or accounted for in your system to update your Employee's Federal, State, and Local withholding records. This document guides you how to record these transactions in the AccountMate **Payroll** module.

SOLUTION

For illustration purposes, assume the following scenario:

Employee EBB1, a salaried employee of National Office Supply, Inc., files a two-month disability/sick leave from July 1 through August 31, 2021. Employee EBB1 normally receives his salary (\$5,000.00 per month) twice a month, specifically on the 10th and 22nd day of the month. Being insured with CA Insurance Company, Employee EBB1 will receive from the former an amount equivalent to his two-month compensation (\$10,000.00). Since the CA Insurance Company is not Employee EBB1's direct employer, the former is not responsible for withholding the latter's Federal, State, and Local tax dues. It is National Office Supply, Inc.'s responsibility to record the appropriate tax amounts due for tax reporting purposes. Assume further that employee EBB1 reports back to work on September 1, 2021.

Perform the following procedures to record the above transaction:

1. To avoid a situation where the employee tax liability is greater than the earnings, split the payroll application into four separate pay periods:
 - September 10
 - September 22
 - October 10
 - October 22

2. Apply payroll for employee EBB1 for the pay period ending September 10, 2021.
 - a. Access the **Apply Payroll/Payment** function and select the **Manual Apply** method. Since Employee EBB1 is earning \$5,000 each month, his gross earnings will be \$2,500 for the pay period. AccountMate will initially calculate the withholding taxes and deductions based on this amount.

The screenshot shows the 'Apply Payroll/Payment' window. At the top, there are buttons for Save, Delete, Copy, Clear, and Close. Below that, the 'Employee #' is EBB1, Name is Balanger, Edward, Dept # is SALES, and Tax State is CA. The window is divided into several sections:

Seq	Earning Code	Base On	Hours	Rate	Amount	Taxable
10	SALARY		88.00		2,500.00	<input checked="" type="checkbox"/>
20	COMMISSION		0.00		0.00	<input checked="" type="checkbox"/>
30	PERSONAL	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
40	VACATION	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
50	HOLIDAY	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
60	SICK	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
70	OTHERNONTX		0.00		0.00	<input type="checkbox"/>

Buttons: Add, Insert, Delete

Deduction	Type	Amt/Pct/Rate	Deduction Amt	M/C Amt
401K	%	15.0000	375.00	81.25
CREDITUN	\$	25.00	25.00	0.00
MEDICAL	\$	33.33	33.33	0.00
UNION	\$/Hr	0.05	4.40	4.40

Summary Section:

Pay Period Range	08/27/21-09/10/21
Total Hours	88.00
Earnings	2,500.00
Total Taxable	2,500.00
Total Non-Taxable	0.00
Total Wages	2,500.00
Total Deductions	437.73
Federal Tax	405.98
State Tax	97.75
Local Tax	0.00
Prepaid	0.00
Net Amount	1,558.54

Buttons: Edit Wages, Apply Summary

Accrue Leaves

Figure 1-1. Apply Payroll Payment – Regular Pay

Note: Screenshots used in this document are from AccountMate 12.1 for SQL/Express. Your screen may vary if you are using a different AccountMate version.

- b. Apply an additional compensation equivalent to one pay period (\$2,500.00), which is the amount received by Employee EBB1 from his insurance company. This is to update the withholding taxes for the periods for which Employee EBB1 took his disability/sick leave. In the **Amount** field, enter 2,500 for "OTHERTAX" (Other Taxable) earning code. If you want a specific earning code for this type of transaction, create an earning code record and add it to the employee record; then, enter the \$2,500 for that earning code when you apply payroll. AccountMate will add \$2,500 to the total earnings for the pay period; thus, the **Total Wages** will be \$5,000.

Apply Payroll/Payment

Save Delete Copy Clear Close By Employee #

Employee # EBB1 Name Balanger, Edward Dept # SALES Tax State CA

Earnings/Deductions Tax Withholdings Paid Leave Worker's Comp GL Distribution

Seq	Earning Code	Base On	Hours	Rate	Amount	Taxable
10	SALARY		88.00		2,500.00	<input checked="" type="checkbox"/>
20	OTHER TAX		0.00		2,500.00	<input checked="" type="checkbox"/>
30	COMMISSION		0.00		0.00	<input checked="" type="checkbox"/>
40	PERSONAL	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
50	VACATION	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
60	HOLIDAY	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
70	SICK	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>

Add Insert Delete

Deduction	Type	Amt/Pct/Rate	Deduction Amt	M/C Amt
401K	%	15.0000	750.00	162.50
CREDITUN	\$	25.00	25.00	0.00
MEDICAL	\$	33.33	33.33	0.00
UNION	\$/Hr	0.05	4.40	4.40

Edit Wages Apply Summary

Pay Period Range 08/27/21-09/10/21

Total Hours 88.00

Earnings 5,000.00

Total Taxable 5,000.00

Total Non-Taxable 0.00

Total Wages 5,000.00

Total Deductions 812.73

Federal Tax 1,070.88

State Tax 337.84

Local Tax 0.00

Prepaid 0.00

Net Amount 2,778.55

Accrue Leaves

Figure 1-2. Apply Payroll Payment – Other Taxable

- c. The deductions and withholding taxes calculation are based on Total Wages. This will account for the deductions and withholding taxes due from Employee EBB1 for one period that he had been on leave from work.

To offset the amount that the insurance company paid to the employee, and to exclude it from the amount that will be printed on the payroll check, treat \$2,500 as a prepayment and enter 2,500 in the **Prepaid** field (see Figure 1-3).

Note: The prepaid amount will be deducted from the Net Amount. The total check amount that employee EBB1 will receive for September 10 is the total wages for the pay period less the pre-payment from CA Insurance Company, less the deductions and taxes for two pay periods. Instead of receiving \$1,558.54 (see Figure 1-1), Employee EBB1 will receive a net check amount of \$278.55 (see Figure 1-3).

- Print a check for the applied payroll transaction.
- Repeat the procedures outlined in steps 2 and 3 for each payroll cut-off date, specifically September 22, October 10, and October 22.

Apply Payroll/Payment

Save Delete Copy Clear Close By Employee #

Employee # EBB1 Name Balanger, Edward Dept # SALES Tax State CA

Earnings/Deductions Tax Withholdings Paid Leave Worker's Comp GL Distribution

Seq	Earning Code	Base On	Hours	Rate	Amount	Taxable
10	SALARY		88.00		2,500.00	<input checked="" type="checkbox"/>
20	OTHERTAX		0.00		2,500.00	<input checked="" type="checkbox"/>
30	COMMISSION		0.00		0.00	<input checked="" type="checkbox"/>
40	PERSONAL	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
50	VACATION	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
60	HOLIDAY	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>
70	SICK	SALARY	0.00	28.85	0.00	<input checked="" type="checkbox"/>

Edit Wages Apply Summary

Pay Period Range 08/27/21-09/10/21

Total Hours 88.00

Earnings 5,000.00

Total Taxable 5,000.00

Total Non-Taxable 0.00

Total Wages 5,000.00

Total Deductions 812.73

Federal Tax 1,070.88

State Tax 337.84

Local Tax 0.00

Prepaid 2,500.00

Net Amount 278.55

Accrue Leaves

Add Insert Delete

Deduction	Type	Amt/Pct/Rate	Deduction Amt	M/C Amt
401K	%	15.0000	750.00	162.50
CREDITUN	\$	25.00	25.00	0.00
MEDICAL	\$	33.33	33.33	0.00
UNION	\$/Hr	0.05	4.40	4.40

Figure 1-3. Apply Payroll Payment – Prepaid Amount

Effects on Tax Calculation

The procedures described above may result in an overstatement of the employee withholding taxes. Since AccountMate performs the calculations based upon the \$5,000 salary for a single pay period, the base amount is higher, which in turn results in a higher tax amount. The following options are applicable in this situation:

- You may leave the calculation as is because the Federal and State Tax Agencies will consider the employee withholding tax overstatement as overpayment and will refund the employee at the end of the year; OR
- Correct the discrepancy by manually amending the withholding taxes in the **Apply Payroll/Payment** function ► **Tax Withholdings** tab. To do this, manually calculate the taxes based upon the \$2,500 total earnings; then, multiply the amounts by 2 and change the previously calculated amounts.

Effects on Accounting Entries

During payroll application for employee EBB1, AccountMate will generate the following journal entries pertaining to the prepaid amount:

Wages Exp. – Administrative Staff*	2,500.00 (DR)	
Accrued Payroll		2,500.00 (CR)

* Wage/Service Expense GL Account ID assigned to the "OTHERTAX" earning code.

Refer to Figure 1-4 for the complete set of accounting entries.

09/10/21 02:21:18 PM		National Office Supply, Inc.				Page 1 of 2
Printed By: Supervisor		PR Transfer to GL Report				
Date	GL Account ID	Account Description	Employee #	Employee Name	Trs Desc	Transfer Amt
Posting Period: Sep 21 (09/01/21 to 09/30/21)						
09/10/21	220150-000-00	Accrued Employer's Tax	EBB1	Balanger, Edward	Accr Employer Taxes /OTHERTAX /EBB1	-191.25
09/10/21	220150-000-00	Accrued Employer's Tax	EBB1	Balanger, Edward	Accr Employer Taxes /SALARY /EBB1	-191.25
09/10/21	810380-000-00	PR Accrual - Sick	EBB1	Balanger, Edward	Accr Leaves /SICK /EBB1 /1000000173	96.12
09/10/21	220380-000-00	PR Accrual - Sick Time	EBB1	Balanger, Edward	Accr Leaves /SICK EBB1 /1000000173	-96.12
09/10/21	810385-000-00	PR Accrual - Vacation	EBB1	Balanger, Edward	Accr Leaves /VACATION EBB1	188.28
09/10/21	220385-000-00	PR Accrual - Vacation	EBB1	Balanger, Edward	Accr Leaves /VACATION EBB1	-188.28
09/10/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Matching/Contribution 401K /EBB1	-162.50
09/10/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Matching/Contribution UNION /EBB1	-4.40
09/10/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Worker Comp EBB1 /1000000173	-16.50
09/10/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Worker Comp EBB1 /1000000173	-16.50
09/10/21	810300-100-00	PR Taxes - Administrative	EBB1	Balanger, Edward	Employer Taxes /OTHERTAX /EBB1	191.25
09/10/21	810300-100-00	PR Taxes - Administrative	EBB1	Balanger, Edward	Employer Taxes /SALARY /EBB1	191.25
09/10/21	810360-000-00	Employer Matching	EBB1	Balanger, Edward	Matching/Contribution 401K /EBB1	162.50
09/10/21	810360-000-00	Employer Matching	EBB1	Balanger, Edward	Matching/Contribution UNION /EBB1	4.40
09/10/21	220110-000-00	Accrued Payroll	EBB1	Balanger, Edward	Wages /OTHERTAX /EBB1 /1000000173	-2,500.00
09/10/21	800200-100-00	Wages Exp - Administrative	EBB1	Balanger, Edward	Wages /OTHERTAX /EBB1 /1000000173	2,500.00
09/10/21	220110-000-00	Accrued Payroll	EBB1	Balanger, Edward	Wages /SALARY /EBB1 /1000000173	-2,500.00
09/10/21	800200-100-00	Wages Exp - Administrative	EBB1	Balanger, Edward	Wages /SALARY /EBB1 /1000000173	2,500.00
09/10/21	810340-000-00	Workers Compensation Insur	EBB1	Balanger, Edward	Worker Comp EBB1 /1000000173	16.50
09/10/21	810340-000-00	Workers Compensation Insur	EBB1	Balanger, Edward	Worker Comp EBB1 /1000000173	16.50
Sep 21: 20 Record(s)						Total for Sep 21: 0.00
						Total for this Report: 0.00

Figure 1-4. GL Entries (Apply Payroll/Payment)

When the payroll check is printed, AccountMate will generate the following journal entries pertaining to the prepayment:

Accrued Payroll	2,500.00 (DR)	
Misc. Prepaid Expenses*		2,500.00 (CR)

* GL Account ID assigned in the **PR Module Setup ► GL Accounts tab ► Prepaid Payroll** field

Refer to Figure 1-5 for the complete set of accounting entries.

Since the transaction is actually not a prepayment (i.e., the company did not pay the employee in advance; rather, a third party pays the employee), the Miscellaneous Prepaid Expenses GL Account ID is now understated by \$2,500 and the Wages Exp. – Administrative Staff GL Account ID is overstated by the same amount due to the additional wages. In this case, we suggest that you record in the **General Ledger** module the following adjusting entries to correct the account balances.

Misc. Prepaid Expenses	2,500.00 (DR)	
Wages Exp - Administrative Staff		2,500.00 (CR)

09/10/21 02:24:06 PM		National Office Supply, Inc.				Page 1 of 2	
Printed By: Supervisor		PR Transfer to GL Report					
Date	GL Account ID	Account Description	Employee #	Employee Name	Trs Desc	Transfer Amt	
Posting Period: Sep 21 (09/01/21 to 09/30/21)							
09/11/21	220150-000-00	Accrued Employer's Tax	EBB1	Balanger, Edward	Accr Employer Taxes /OTHERTAX /EBB1	191.25	
09/11/21	220150-000-00	Accrued Employer's Tax	EBB1	Balanger, Edward	Accr Employer Taxes /SALARY /EBB1	191.25	
09/11/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Matching/Contribution 401K /EBB1	162.50	
09/11/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Matching/Contribution UNION /EBB1	4.40	
09/11/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Worker Comp EBB1 /1000000173/	16.50	
09/11/21	220160-000-00	Accrued Other Payroll	EBB1	Balanger, Edward	Accr Worker Comp EBB1 /1000000173/	16.50	
09/11/21	220310-000-00	401K Plan	EBB1	Balanger, Edward	Employee Deduction 401K /EBB1	-750.00	
09/11/21	220320-000-00	United Fund	EBB1	Balanger, Edward	Employee Deduction CREDITUN /EBB1	-25.00	
09/11/21	220350-000-00	Medical Plan	EBB1	Balanger, Edward	Employee Deduction MEDICAL /EBB1	-33.33	
09/11/21	220340-000-00	Union Dues	EBB1	Balanger, Edward	Employee Deduction UNION /EBB1	-4.40	
09/11/21	220210-000-00	Federal Withholding Taxes	EBB1	Balanger, Edward	Federal W/H EBB1 /1000000173/ 400144	-688.38	
09/11/21	220220-000-00	FICA Taxes Payable	EBB1	Balanger, Edward	Fica EBB1 /1000000173/ 400144	-620.00	
09/11/21	220360-000-00	Employer Matching Liab -	EBB1	Balanger, Edward	Matching/Contribution 401K /EBB1	-162.50	
09/11/21	220340-000-00	Union Dues	EBB1	Balanger, Edward	Matching/Contribution UNION /EBB1	-4.40	
09/11/21	220220-000-00	FICA Taxes Payable	EBB1	Balanger, Edward	Medicare EBB1 /1000000173/ 400144	-145.00	
09/11/21	110300-000-00	Cash In Bank - Payroll	EBB1	Balanger, Edward	Payment Wages EBB1 /1000000173/	-278.55	
09/11/21	140200-000-00	Misc Prepaid Expenses	EBB1	Balanger, Edward	Prepaid Wages EBB1 /1000000173/ 400144	-2,500.00	
09/11/21	220261-000-00	Disability - CA	EBB1	Balanger, Edward	Sd; EBB1 /1000000173/ 400144	-60.00	
09/11/21	220230-000-00	State Withholding Taxes	EBB1	Balanger, Edward	State W/H EBB1 /1000000173/ 400144	-277.84	
09/11/21	220110-000-00	Accrued Payroll	EBB1	Balanger, Edward	Wages/OTHERTAX /EBB1 /1000000173/	2,500.00	
09/11/21	220110-000-00	Accrued Payroll	EBB1	Balanger, Edward	Wages/SALARY /EBB1 /1000000173/	2,500.00	
09/11/21	220270-000-00	Workers Compensation Insur	EBB1	Balanger, Edward	Worker Comp EBB1 /1000000173/ 400144	-16.50	
09/11/21	220270-000-00	Workers Compensation Insur	EBB1	Balanger, Edward	Worker Comp EBB1 /1000000173/ 400144	-16.50	
Sep 21: 23 Record(s)						Total for Sep 21:	0.00
						Total for this Report:	0.00

Figure 1-5. GL Entries (Print Check)

The law requires that you record third party payroll payments received by your employees for tax reporting purposes. Knowing how to record this transaction in AccountMate helps ensure accuracy of the employee withholding tax and helps you meet the tax reporting requirements.

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