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Each year, employers across the country realize that they need to adjust their payroll data after their final payroll run of the year. Below are three of the most common adjustments that can be avoided with just a little planning.

1. W-2 Information Verification

Errors on employees' W-2 forms are one of the most common year-end challenges

Incorrect or mismatched employee names or Social Security numbers can result in penalties imposed by the Internal Revenue Service (IRS) as well as some states. It is recommended that each of your employees verify that their SSN is recorded correctly in your payroll. Federal, state and local employer identification numbers should be checked for accuracy. Information regarding federal EINs and how to apply for one can be found in IRS Publication 1635.

Ensure that all year-end adjustments are recorded in your payroll. If any manual checks have been written, including bonus checks, be sure to report those payments in your totals to your payroll provider. Verify that proper withholdings for taxable fringe benefits have been recorded. Fringe benefits can be in the form of services, property, and cash or cash equivalent. Be sure to report wages in the year in which they are received.

Errors on employees' W-2 forms are one of the most common year-end challenges employers face. Typically, errors on W-2s include incorrect employee Social Security numbers, employee names, the wrong Employer Identification Number for taxing authorities, errors in earnings and taxable fringe benefits withholdings reporting. By reviewing basic information prior to the last payroll of the year, adjustments to W-2 forms may be eliminated completely.

2. Bonus Payments:

An employee bonus is defined as compensation in addition to wages and is generally given as a reward for performance. With a few exceptions, both cash and non-cash bonuses are considered supplemental wages by the IRS and are subject to income tax withholding and other payroll taxes.

If the bonus is non-cash, such as a trip or stock option, the fair market value of goods

before running the bonus payroll.

There are several methods used when calculating taxes for bonus payrolls, such as the percentage and aggregate methods. Some employers choose to "gross up" the amount of the bonus to account for taxes so that the employee receives the full intended bonus amount. Using this method, the gross amount of the payment is determined by calculating the tax and adding it to the net pay.

Regardless of the tax calculation method used, it is crucial that all applicable federal, state and local taxes needed are withheld from an employee's check when bonuses are paid and that all bonus pay information is entered into payroll.

3. Third Party Sick Pay

When a third party, usually an insurance company, issues sick pay to an employee, it isn't always clear who is responsible for taxes and tax reporting. There are separate earnings codes that need to be reported for different types of third-party sick pay (e.g. short-term vs. long-term disability). Based on the plan contract, the responsibility for remitting payroll taxes withheld to federal, state and local jurisdictions can fall to either the third-party administrator or the employer.

The employer, generally, still must remit matching shares for Social Security and Medicare tax and report for state and federal unemployment taxes even if the third-party remits the withheld taxes. It is important to understand that regardless of which party is responsible for remitting the taxes, the responsibility for issuing a Form W-2 to the employee for sick pay may again fall to either party. The key to understanding who carries these responsibilities depends on the terms of the plan contract.