

HSA / CAF 125 Plans - OWNER > 2 % of ownership in Company

IRS rules require that the Contributions by the EMPLOYER (Pretax) be shown on Box 1 of the W2. The process below will assure that the Quarterly Reports reflect the contributions. All steps are important and must be followed.

1) Add a new deduction (PR / Payroll Setup / Master Deductions)

Make your NEW deduction look like the following 3 screens.

Select: PR / Payroll Setup / Master Deductions / [Insert]

GENERAL TAB

Add the Deduction Code: **HSAE**

Add the Description: **HSA CAFF**

Withholding GL Account: Enter your GL account for insurance, or the GL account that your HSA deposits were distributed. (Typically an expense account)

Deduction Type: **Other**

Employee Deduction – make sure EMPLOYEE is selected

State: [Enter your State]

NOTE: when complete your screen should look like the screen below

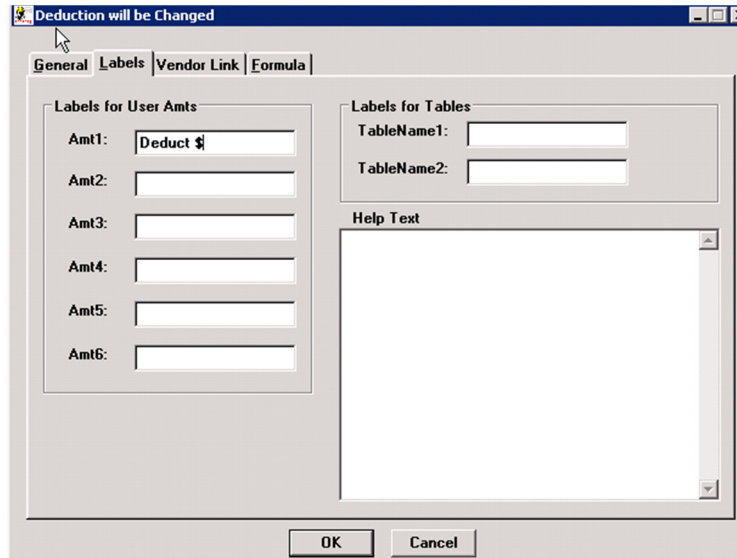
The screenshot shows a software dialog box titled "Deduction will be Changed" with a "General" tab selected. The fields are filled as follows:

- Deduction Code: HSAE
- Description: HSA-CAFF
- Deduction Group: (empty)
- Withholding GL Acct: ????????
- Allow Withholding Override:
- Variable Name: (empty)
- Union ID: (empty)
- Deduction Type: Other (selected in dropdown)
- Deduction Type ID: (empty)
- Employee/Employer: Employee Deduction, Employer Expense
- Expense Acct: (empty)
- In State ID: FL
- Load Sequence: 0
- Default Deduction:
- Reset at End-of-Year:

Buttons for "OK" and "Cancel" are at the bottom.

Select: LABELS TAB

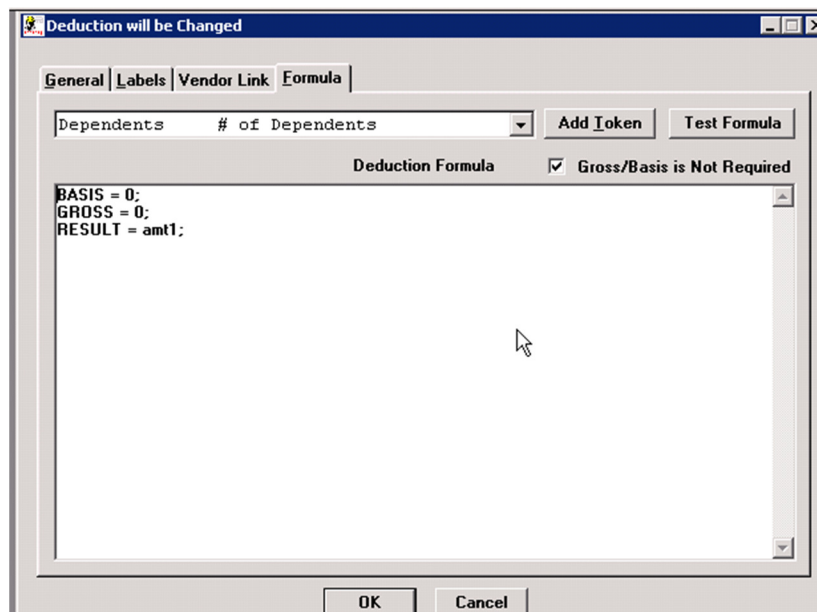
Type **Deduct \$** in the Amt1: field as shown below



Select: FORMULA TAB

1. Check the box "Gross/Basis is Not Required"
2. Change the 3rd line in the formula to read **Result = amt1;**

Note: your screen should look exactly as below after changes; semicolon at the end of each line IS REQUIRED.
Select OK to save your work.



2) Add the new deduction to any OWNERS

Select: PR / Employee List Maintenance (Highlight the employee)

Select [Change]

Select [DEDUCTIONS] at the bottom of the screen.

Select [INSERT]

Find the new deduction and choose [**Select**] to **ADD** the Deduction to the employee

Save your Selections

3) Making the entry to record the wages and Locking Deductions

Select: **Add/Edit PR (Highlight the employee and select [Edit])**

Enter **Additional Pay** for HSA Contribution amount

At the bottom of the screen you will need to Highlight each Deduction and

Select **EDIT Deductions**

Check the box [LOCK Deduction] at the bottom of the screen

Repeat the above process for all deductions

Note: The screen only shows a few deductions so make sure ALL have been marked

Once All Deductions are Locked

Re-Select FIT (Federal Income Tax) and make the following changes

Amount = 0

Basis = [Enter Contribution Amount]

Gross = = [Enter Contribution Amount]

Verify and LOCK FIT Deduction

Re-Select: HSAE (the new deduction)

Amount = [Enter Contribution Amount]

Basis = 0

Gross = 0

Verify and LOCK HSAE Deduction

4) Calculate Payroll and Print Proofing Report

Select: PR / Calculate Proofing Report

NOTE: *The DATES ARE IMPORTANT ----- USE 12/31/10 for the calculation date*

Print the Proofing Report

Note1: the NET PAY should be ZERO (system will print a ZERO Check)

Note2: All Deductions should be locked and have ZERO Basis and Gross

The **EXCEPTION** will be FIT and HSAE

Do not proceed until only FIT and HSAE have values as stated above

Print PR Checks – this will update 2010 with the Gross wages / since the check amount is ZERO you can put a check number that is not in your normal sequence.

NOTE: POSTING IN A PRIOR YEAR DOES NOT UPDATE W2 INFORMATION

The final step will take care of the W2 information

5) The Last Step – Correcting the W2 forms

Select: PR / W-2 Operations

- a) **Highlight** the employee and Select: **Change**
- b) Select: **Additional** TAB
- c) **Edit** your W2 FILE MANUALLY on Box 1 for each OWNER to include the HSA
- d) **MODIFY box 14**, to read **S-Health nnn.nn** where the nnn.nn is the actual amount / might take 2 lines
- e) Your quarterly reports will now print correctly and your W2's will also be correct.

Note: This document assumes the following:

1. HSA is taxable for FIT Only
2. Corporation paid Pre-Tax payments for Owner
3. Owner has 2% or greater interest in company
4. This rule ONLY applies to Tax Year 2010