Article # 1198

Technical Note: Using the State and Local Payroll Tax Codes Functions

Difficulty Level: Intermediate AccountMate User

Version(s) Affected: AccountMate 7 for SQL, Express and LAN
AccountMate 6.5 for SQL, MSDE and LAN

Module(s) Affected: PR

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DESCRIPTION

Requirements placed upon employers by various governmental organizations cause payroll to be one of the more complex accounting functions. Federal requirements are fairly straight forward; however, the large number of states, counties, parishes, and municipalities that also have requirements complicates the function. This document provides information about how to use the AccountMate Additional Tax Code and Local Tax Code functions to automate various state and local calculation and reporting requirements.

SOLUTION

The AccountMate Payroll (PR) module provides functionality to handle a wide variety of payroll taxation requirements. Processing payroll automatically handles federal taxation and state withholding, employer SUTA and SDI; however, the many unique combinations of state and local withholding and reporting requirements require user input so that PR can accommodate each company's specific needs.

Some examples of special payroll circumstances are as follows:

Example # 1: A state law requires that a portion of all employees' salary be withheld for state unemployment compensation or state disability insurance. For these two types of tax, AccountMate includes computation for the employer portion only.

Example # 2: An employee may reside in one state but because his work is performed in another, his wages are subject to taxation in both states. In certain circumstances, that employee may also be subject to both county and city payroll taxes.
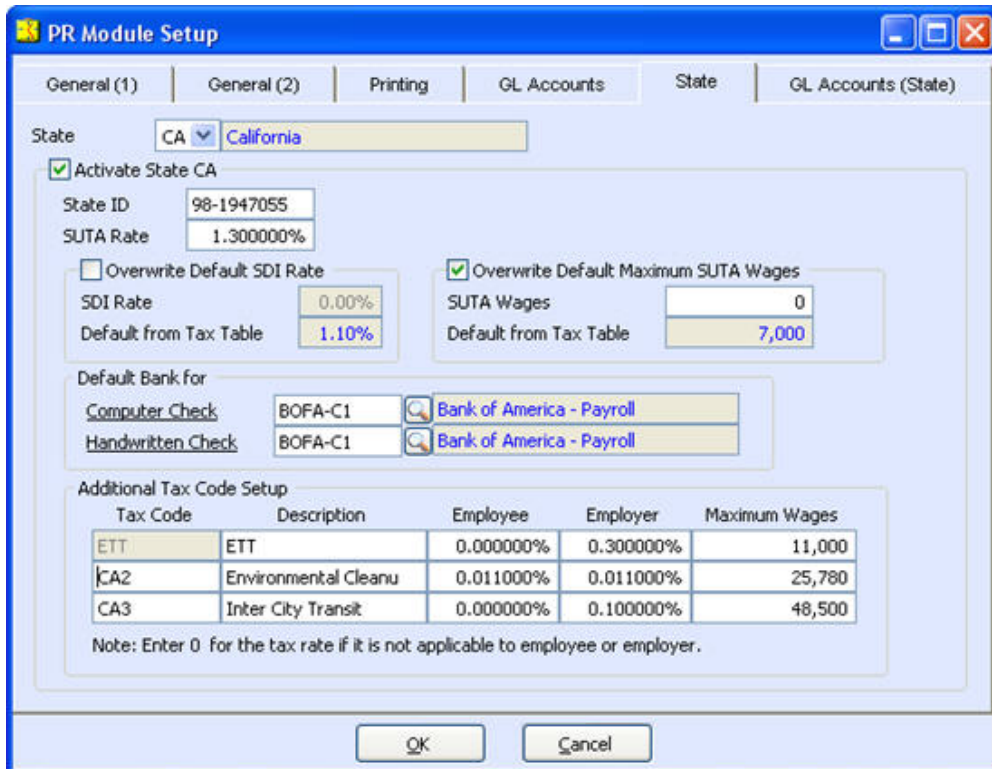
Method

AccountMate provides the ability to create up to three additional state tax codes that applies to all employees. The Local Tax Code Maintenance function is used to define the calculation values if taxation applies only to <u>some</u> of the employees. These local tax codes are assigned to the appropriate employee. It is also possible that taxation statutes will require the use of both tax code types.

<u>Step 1: Set up additional state tax codes</u>

Perform the following procedures to set up additional state tax codes that apply to all employees assigned to the state:
1. Access PR Module Setup.
2. Click the State tab.
3. You can enter up to three (3) tax codes in the Additional Tax Code Setup area.
    3.1 Enter a value in the Tax Code column that represents the additional tax required by the selected state.
    3.2 Enter a tax description in the Description column.
    3.3 Enter the appropriate percentage in the Employee column if the code represents a tax for which only the employees are responsible, and for which you as an employer are directed to withhold. Enter the appropriate percentages in the Employer and Employee columns if the code represents a tax for which both the employer and employees are responsible.
    3.4 Enter in the Maximum Wages column the value that represents the amount at which when an employee's total wages reaches that value, the tax will cease to be calculated.

Figure 1. PR Module Setup->State tab – Additional Tax Code Setup

<u>Step 2: Set up Local Tax Codes</u>

Perform the following procedures to set up local tax codes:
1. Access Local Tax Code Maintenance to set up tax codes for all required localities.
2. Choose a state code from the list box next to the Tax State field.
3. Enter in the Local Code field a 3 character value that will best help you to recognize the taxation type.
4. Choose from among the available local tax code types: Basic, Semi-Complex, and Complex.

Note: *The local tax code type feature is available in AccountMate 7 for SQL, Express, and LAN and AccountMate 6.5 for LAN with Upgraded Payroll. AccountMate 6.5 for SQL, MSDE, and LAN has a simple Local Tax Code Maintenance function where users can enter the resident and non-resident tax rate. Below is a screenshot of the Local Tax Code Maintenance in AccountMate 6.5.*

Figure 2-1. Local Tax Code Maintenance – AccountMate 6.5

The Basic local tax code type is appropriate for localities that require a single tax rate each for residents and non-residents. This type disregards individual taxable earnings bracket.

Perform the following steps to set up a basic local tax code. Refer to Figure 2-2 for an example.
1. Choose the Basic option in the Type area.
2. Review the value in the Default Liability Account field. You can mark the Overwrite Default checkbox if you want to use a different GL Account ID and enter in the Withholding Liability field the GL Account ID that you want AccountMate to use for the local tax code liability account.
3. Enter in the Local Name and Locality fields a value that indicates pertinent information about the local tax code.
4. Enter in the Resident Tax Rate and Non-resident Tax Rate fields the tax rate that AccountMate will apply to employees taxable earnings as residents or non-residents of the state that has jurisdiction over the locality.

Figure 2-2. Local Tax Code - Basic Type

The Semi-Complex local tax code type is appropriate for those localities that require a single tax rate for residents and nonresidents but with different exemptions depending on individual taxable earnings bracket.

Perform the following steps to set up a Semi-Complex local tax code. Refer to Figure 2-3 for an example.

1. Choose the Semi-Complex option in the Type area.
2. Perform Steps 2 and 3 in the Basic Local Tax Code Setup procedures.
3. Enter in the Resident Tax Rate and Nonresident Tax Rate fields the rate that AccountMate will apply to the net taxable earnings of employees subject to tax as a resident or nonresident.
4. Choose a pay period option and assign the taxable earning ranges by entering appropriate values in the **But Not Over** field. AccountMate uses the value in the **But Not Over** field to populate the **Over** field for the next earning range.
5. Enter in the **Exemption** field for each taxable earning range a value that will be deducted from the gross taxable earning to arrive at the net taxable earnings upon which AccountMate will apply the resident or nonresident tax rate.

Figure 2-3. Local Tax Code - Semi-Complex Type

The Complex local tax code type is appropriate for those localities that provide different withholding allowances depending on the resident and non-resident's marital status and pay period as well as different tax rates for residents and non-residents depending on their taxable earnings bracket.

Perform the following steps to set up a Complex local tax code. Refer to Figures 2-4 through 2-6 for an example.
1. Choose the Complex option in the Type area.
2. Perform Steps 2 and 3 in the Basic Local Tax Code Setup procedures.
3. Fill in the Withholding Allowance tab.
   Use this tab to assign different withholding allowances that AccountMate will use to calculate the employee's net taxable earnings. Enter in the Single or Married Withholding Allowance column the values that will be applied based on the employee's pay period. The Withholding Allowance tab settings apply only to residents.

Figure 2-4. Local Tax Code - Complex Withholding Allowance tab

4. Fill in the Percentage Formula (Resident) tab.
    Use this tab to implement graduated withholding tax, where the tax rate
    increases for higher taxable earning ranges. Set the different taxable earning
    ranges and tax percentages that will be applied based on employee's marital
    status and pay period. The Percentage Formula (Resident) tab settings apply
    only to residents.

Figure 2-5. Local Tax Code - Complex Percentage Formula (Resident) tab

5. Fill in the Percentage Formula tab.
    Use this tab to set the withholding tax rate, taxable earning ranges, and exemptions per pay period applicable to nonresidents. Enter an exemption amount for each taxable earning range that will be deducted from the gross taxable earnings to arrive at the net taxable earnings upon which AccountMate will apply the nonresident tax rate.

Figure 2-6. Local Tax Code - Complex Percentage Formula tab

Step 3: Assign appropriate local tax codes to employees

Perform the following procedures to assign local tax code(s) to employees:
1. Access Employee Maintenance.
2. Click the W-4 Info tab to assign the appropriate state and local tax codes to each employee to whom each tax applies. You may assign different values in each of the Tax State and SUTA State fields in the State area; and even assign a third value in the Tax State field in the Local area. Be aware that although you assign different values in both Tax State fields, the Allowances value in the Local area of this screen is provided by the value in the Allowances field in the State area.

   Figure 3 shows an example of an employee who has different state and local Tax State codes and for whom a Local Code has been assigned.

Figure 3. Employee Maintenance

AccountMate Payroll is designed to meet a wide variety of state and local taxation requirements. Understanding how the module handles each of these requirements will help to ensure that state and local statutes are correctly followed.