

Payroll Glossary

ABA/Trans Code A nine-digit numeric code created by the American Bankers Association that identifies an employer's bank and routing for electronic transactions.

Example: *The bank routing number can be found on the bottom left corner of the check.*

ACH Credit An electronic payment system where an employer initiates a credit against its bank account one day prior to the payment due date, as requested by the financial institution.

Example: *Ultimate will place money back into a bank account of a client electronically.*

ACH Debit An electronic payment system where a company authorizes a debit against its bank account for payments such as payroll taxes.

Example: *Ultimate will pull money out of a client's bank account electronically.*

Active Employee This is an employee who appears on your Payroll Timesheet and who is not currently terminated or inactive in the system.

Amended Rate Once the employer has established an unemployment history, states calculate tax rates annually. An amended rate notice may be issued to reflect a change in any of the components used in calculating the original tax rate. Changes in the tax rate may occur due to voluntary contributions, transfers of experience, employer adjustments to amended quarterly tax filings, removal of benefit charges and/or receipt of a favorable determination resulting from a protest of the components as they appeared on the initial tax rate notice. Changes resulting from state legislation, approved after the issuance of the original tax rate, may also affect the tax rate.

Example: *When a seasonal employer lays off his workers during the winter months and those employees file for unemployment, he will experience a higher percentage rate for his unemployment taxes.*

Amendment A corrected tax return intended to replace a previously filed quarterly or annual tax return.

Automated Clearing House A facility established to manage the exchange of electronic transactions among (ACH) participating depository institutions. ACH transactions are typically used in place of paper checks for recurring payments, such as payroll wages, insurance premiums, and Social Security Benefits. See also National Automated Clearing House Association.

Example: *Ultimate Payroll uses this service to pull the client's monies from their bank account.*

Backup Withholding Usually Federal Income Tax (FIT) withheld from interest payments to customer's bank account when no Social Security Number is on file. Financial institutions are required to deposit and report this withholding with their federal payroll taxes on Form 945. Banks, savings and loans, and similar types of institutions are required by law to withhold 31% of taxable interest or dividends paid on accounts that have failed to furnish correct taxpayer identification numbers (Social Security numbers).

Cafeteria Plan See (Section 125)

Chart of Accounts A listing of Accounts in a financial system generally using alphanumeric characters to designate the transactions that comprise the Balance Sheet and Income Statement. The chart of accounts is used as the basis for preparing financial reports from an accounting system.

Check Date The date which your employees should have access to their pay. In other words, the date which they can cash their paychecks.

City or Local Income Tax A withholding tax deducted from an employee's wages as required by a city or local jurisdiction. The amount of withholding varies with the amount of earnings, frequency of pay, number of claimed exemptions, and marital status.

Common Pay Agent Refers to the Internal Revenue Service (IRS) rules that allow employers with multiple Federal Employer Identification Numbers (FEINs) to consolidate tax returns and tax payments under one FEIN. The purpose of the Common Pay Agent program is to simplify employer tax reporting through the consolidation of filings (i.e., Form 941).

Example: *If your merchant has two locations with two federal ID numbers and they have an employee that works at both locations, the merchant is allowed to consolidate the taxes for that employee.*

Company Check A Company check is a check that will be issued as payable to the company, but will update an employee's year-to-date. This type of transaction is commonly used in a retail environment to reimburse the company for an employee who was paid by cash.

Company Number A 4-digit code issued by your Payroll Service Bureau to identify each client.

Contribution – Employee In most states the employer contribution finances 100% of the Unemployment Insurance Fund. In a limited number of states, the employee is also liable for contribution through payroll withholding. Failure to withhold employee contributions as directed will result in employer liability for all monies not withheld. Employers withholding for employee contributions in non-contribution states may be subject to fines and criminal prosecution.

Contribution – Employer Payments to the state unemployment fund as taxes, including voluntary contributions and special assessments paid by subject employers. The contribution amount is determined by multiplying the employer taxable payroll by the assigned unemployment tax rate.

Control totals The totals for each earning and temporary deduction that has been recorded for a payroll. The control totals should be manually calculated by adding entries posted to the payroll timesheet, timecards, etc. The calculated totals are then input in the Control Totals column of the Pay Input Control Totals screen. They will be compared to the system-generated totals and variances will be displayed in red. This procedure helps identify input entry errors.

Covered Employment Generally, any person performing services for a company is an employee if the company can control what, when and how the job functions are to be done. Federal law defines these individuals as "common law" employees. If an employer-employee relationship exists, it does not matter what terminology the employer uses to describe the employees. Employees can include managers, supervisors and corporate officers. (Directors of a corporations, as well as officers of a corporation that perform no services or that are paid no wages, are usually not considered employees.) An employer must report and consult the laws of the states in which business is conducted to determine if employees' wages should be reported. States will at times have different regulations than the FUTA guidelines.

Covered Wages Under FUTA, wages include all cash payments made to employees for services rendered, including salaries, commissions, vacation allowances, fees, bonuses, back pay, and many fringe benefits. It does not matter in what form the payment is made, when it is made, or on what measurement of production it is based. Wages also include the cash value of remuneration paid other than cash, such as the reasonable value of food or lodging allowed to an employee as part of the employment relationship. Certain payments and contributions are only exempt under FUTA, as an example, cafeteria plan expense contributions are only exempt in about half the states. Necessary business expenses incurred in connection with employment and reimbursed or advanced to employees (such as per diem allowances and traveling or moving expenses) are usually not considered taxable wages. For business expenses to be exempt from wages the employer must identify those payments on separate detailed records. If properly documented most states will consider such payments exempt, even if not specifically exempted by law or regulations.

Deduction Amount A dollar or percentage amount to be taken out of employees' check.

Example: *The deductions are set up during the time of conversion with the merchant.*

Deduction Code A 2-digit code that is assigned by your Payroll Service Bureau.

Example: *The deduction codes are set up during conversion.*

Delete To eliminate from system (can be a field or a record).

Delinquent Account An employer's account is considered delinquent if any of the quarterly contribution and wage reports and/or unemployment taxes have not been submitted to the state agency by the prescribed due date.

Example: *If a merchant is on Tax Alert and they do not pay their filing on time, they are considered a delinquent account. We assume all liabilities when we place the merchant on full tax service.*

Department Allocation An accounting method whereby employees earning are tracked based upon the department they were actually earned in.

Example: *Department Allocation is set up during conversion so that the merchant can easily track by department their payroll expenditures.*

Direct Deposit The transactions made to deposit all or a portion of an employee's pay directly into a bank account. If the entire net pay is directly deposited, the employee receives a bank voucher instead of a paycheck. If a portion of net pay is deposited, the employee receives a paycheck and a voucher.

Example: *This service is provided at no charge through Ultimate. We can allow up to 6 different splits for the money to be deposited into, as long as the last one is the net pay.*

Disability Insurance (DI) A monetary compensation plan provided by the government and/or an employer to support employees who are disabled due to illness or injury.

Doing Business AS (DBA) The name under which an individual or business operates.

Earned Income Credit (EIC) A special federal program that allows low-income employees to be reimbursed by their employers for a portion of their Federal Income Tax (FIT) withholding. Employer can then claim those reimbursements as credits on Form 941 (Quarterly Federal Return).

Electronic Federal Tax This is an electronic system for reporting and paying federal taxes.

Payment System (EFTPS) Typically refers to an Internal Revenue Services (IRS) regulation requiring that taxpayers within a specific threshold for federal employment tax deposits make all of their business tax payments electronically.

Example: A merchant or Payroll provider uses this system to make tax payments to the government

Electronic Funds Transfer Some states and federal agencies require employers to pay unemployment taxes by

(EFT) electronic funds transfer. There are several regulations for electronic funds transfer. For additional information or assistance contact HPC.

Electronic Funds Transfer System whereby the employer transfers employees' net pays to employees/ bank

System accounts with electronic equipment rather than issuing paychecks. (Vouchers are issued instead).

Employee Leasing Company A company that leases employees, to another business, on a contract basis. They

(PEO) handle all personnel matters and are generally considered the employer of the leased employees.

Example: PEO is the acronym for Professional Employment Organization. The merchant will use a PEO to save money on health benefits, worker's compensation and other types of benefit packages. If the merchant signs up with Ultimate, this will be considered a new business.

Employer Tax Identification) A 9-digit state identification number, e.g., 12-3456789, assigned to each employer

Number(EIN) by the Internal Revenue Service (IRS). This number must be used on all

Documentation submitted to the agency. In some states, the EIN is the same as the Federal Employer Identification Number (FEIN).

Federal Tax Deposit The amount of FICA tax (employer's liability and employees' withholding) plus federal income tax withheld, less advanced earned income credit payments required to be deposited to a qualified financial institution.

Federal Employer Identification The identification number assigned to employers by the Internal

Number (FEIN) Revenue Service to control reporting and accounting functions. Some states will use the FEIN as the core for employer account numbers, but they are not interchangeable.

Example: The federal ID number is compared to as social security number

Federal Income Tax (FIT) A withholding tax levied against employees. The amount of withholding varies with the amount of earnings, frequency of pay, number of claimed exemptions, and marital status.

Federal Insurance Contribution Act FICA is a tax consisting of Social Security and Medicare taxes

(FICA) levied against employers and employees. Employers must match employee Social Security and Medicare tax contributions, using the same rate and taxable wage amounts.

Example: The employee is responsible for 7.65% for Social Security and 7.65% for Medicare.

Federal Reserve Bank (FRB) An independent agency of the U.S. Government that plays a central role in monetary policy, the regulation of domestic payment systems (such as Fedwire and ACH), and the regulation of financial institutions. The FRB also acts as the fiscal agent for the U.S. Treasury.

Federal Tax Deposit The Federal Tax Deposit consists of Federal Income Tax and Social Security/Medicare.
Example: These taxes are pulled from the merchant by Ultimate each time that they process payroll.

Federal Unemployment Tax Federal law first enacted in 1939, which sets guidelines for the

Act (FUTA) administration of unemployment compensation programs. All liable employers pay a federal tax to fund administration of State and Federal unemployment insurance programs. These monies are also used to fund extended benefits. States must adhere to the minimum FUTA guidelines in terms of taxation and benefit administration but may set higher standards.

FICA Federal Insurance Contribution Act.

Fixed Deductions Deductions that are scheduled to automatically be taken from an employee's pay. These deductions are set up on the employee's deduction screen.

Example: These fixed deductions are set up during conversion.

Form 941 Form 941 is the IRS Employer's Quarterly Federal Tax Return. Form 941 is used by employers to report wages and other compensation, employment for quarterly pay periods including, income and social security tax withholdings, and related information to the IRS.

401K A cash or deferred arrangement that allows employees to authorize their employer to place pretax dollars in a retirement plan that invests the money. The contributions (including those matched by the employer) and any earnings on them are not subject to federal income tax (most state income taxes also) until they are withdrawn.

FUTA Federal unemployment tax.

FUTA Tax Return (Form 940) Annual federal unemployment tax return filed during January of each year. The report calculates the total federal unemployment tax for the completed calendar year. The return details each SUI account number, corresponding taxable wages, tax rate and contributions made.

Garnishment A court order to withhold earnings from an employee.

Example: Ultimate does not charge extra for wage garnishments.

General Ledger The general ledger is the core of a company's financial records. These constitute the central "books" of the system, and every transaction flows through the general ledger. These records remain as a permanent track of the history of all financial transactions since day one of the life of the company.

Gross Pay An amount calculated as total earnings (based upon the pay rate) paid to the employee prior to calculating taxes and deductions. Gross pay does not necessarily represent taxable gross.

Gross-Up An IRS-approved formula that employers can use to determine the taxable gross payment when the employer wishes to pay the employee's share of tax.

Gross Wage Total remuneration paid an employee before taxes and deductions.

Health Savings Account (HSA) HSA's are also referred to as Medical IRA's, allow individuals to use tax-deferred dollars to supplement income at retirement and tax-free dollars to pay for certain non-covered medical, dental, and vision care expenses.

Income Tax State The State where an employee's wages should be reported for income tax purposes. This is normally the state where the employee works, unless a *reciprocal agreement* exists between the states.

Independent Contractor An individual, who is self-employed, and is free from the direction and control of an employer covered under state and federal unemployment laws. The Internal Revenue Service uses certain guidelines to determine the independent contractor relationship. Many states utilize the same guidelines. Upon termination of the independent contractor's services, the individual may attempt to collect unemployment benefits. The company should be prepared to prove to the state that the contracted individual was not an employee within the meaning of the law.

Individual Retirement Account (IRA) A tax-deferred retirement account that can be established by any employed person.

JTD The acronym for Job-to-Date.

Labor Allocation An accounting method whereby employees' earnings are tracked based upon a labor or job number. This is useful when an employee's time must be billed based on different jobs or locations.

Labor Allocation Numbers Can be up to 12 characters (alphanumeric) in any desired format. Employees' earnings can be charged to labor numbers for accounting purposes.

Leased Employee Employees of a leasing agency who are hired and trained for the client firm through the agency. Withholding, depositing, and reporting responsibilities remain with the leasing agency.

Liability Date The date an employer must begin reporting wages and paying taxes for unemployment insurance purposes. An employer should be clear as to the regulation of the state the business is conducted in.

Lived In The city in which an employee resides.

Magnetic Media Reporting Use of a computerized method of filing information with government agencies, such as magnetic tape, diskette, cartridge, or electronic filing from one computer to another.

Master File The main file used by your payroll service bureau to store all of the records for each of your employees and company information.

MICR (Magnetic Ink Character) These are the characters at the bottom of checks. These

Recognition characters encode the account number, bank transit and check numbers. When properly prepared, checks with MICR encoding can be processed automatically by the bank's equipment costing the bank very little per check.

Monopolistic State A state that administers workers. Compensation premiums and benefits solely through a state fund, prohibiting employers from purchasing insurance from a private insurance carrier. Ohio, West Virginia, Washington and North Dakota.

MTD The acronym for Month-to-Date.

National Automated Clearing A banking industry trade association that promotes the rules and

House Association (NACHA) operating guidelines for electronic payments through the ACH Network. NACHA's members provide automatic debit and deposit service for companies and consumers.

Net Amount The amount calculated as gross earnings minus taxes and deductions.

New Hire A new employee to be added to the company master file.

New Hire Reporting Federal law requires employers to report information on newly hired employees, usually to the state's Child Support Enforcement (CSE) Division. CSE uses this information to locate parents that are delinquent in child support payments, and in some states, to detect unemployment fraud. The requirements for reporting vary.

Non-sufficient Funds (NSF) Referring to a bank account lacking the proper amount of funds to cover a debit; resulting in a monetary transaction that cannot be completed.

Normal hours The number of regular hours an employee usually works in one payroll period. For example, on a weekly payroll a part-time employee's normal hours might be 25 and a full-time employee's might be 40 hours.

Official Bank Check (OBC) Checks drawn on a bank account maintained and reconciled by the providing bank.

Example: Since the OBC check has been pre-funded, it is considered to be good as cash. OBC checks can be used in many forms such as expense checks, mortgage applications, accounts payable checks and payroll checks.

Pay Input A term used to refer to payroll hours and earnings information.

Pay Input Screen The screen used to enter payroll data for each employee. Transactions include hours, dollars, temporary deductions, etc.

Payroll Cycle Refers to the length of time between payrolls. For example, in an employer processes payroll every week, each week is considered a new payroll cycle.

Payroll Register A report listing and summarizing the compensation paid and deductions taken from each employee's wages for the payroll period.

Payroll Service Bureau An organization that specializes in processing payroll data for its customer firms.

PEO The Acronym for Professional Employment Organization (See Employer Leasing Company).

Period Ending Date The date used to designate the last day that hours were recorded for a payroll period.

Power of Attorney (POA) A legal document authorizing HPC to act as an agent for our clients when dealing with state and federal agencies. Without a valid Power of Attorney form on file, the agencies are not authorized to release information to any party other than the employer.

Example: Ultimate application has the Power of Attorney section listed.

Precalculated Check A check that must be issued with specific (precalculated) tax amounts (usually at the request of an accountant). This type of adjustment allows you to specify the tax amounts to be deducted from the check, instead of allowing the system to calculate them. A check for these exact amounts will be generated when the payroll is processed.

Prenote Cycle The number of days required by a banking institution between the date when they electronically receive bank account information and the date when funds can be electronically transferred to that account. This prenote period provides the bank enough time to receive and verify the bank account information that was electronically transferred.

Pretax Deduction A deduction taken from gross pay that reduces taxable wages

QTD The acronym for Quarter-to-Date

Quarterly Contribution and Tax report filing during April, July, October and January for the previous calendar

Wage quarter. Reported information for the quarter will include gross payroll, taxable payroll, non-taxable payroll, SUI tax rate and SUI tax due. Certain states reporting will include or require information regarding supplemental taxes, surcharges, credits, penalties and monthly employee counts. The information reported is used by the state agency in determining future SUI tax rates and may also be utilized by the state agency in determining future SUI tax rates and may also be utilized by the federal government for statistical purposes in labor reporting.

Reciprocity An arrangement between taxing jurisdictions where a Lived In jurisdiction allows a credit for employee taxes paid to the Worked In jurisdiction.

Remuneration Any payments of wages, as defined by the state. Can include payment of regular wages, vacation pay, severance pay, bonuses and options. The definition of wages varies by state.

Replacement Check Issued to a client when a refund check is not received.

Reporting Agent File (RAF) Also known as the Representative Address File, this refers to the service bureau that deposits and/or files payroll tax returns on behalf of an employer. The federal government directs some inquiries, notices, and other written communication to both the employer and the service bureau.

Returned Item The return of an ACH debit or Pre-Authorized Draft; or the rejection of a reverse wire transfer to HPC's bank. A returned item is a result of a bank's failure or refusal to honor the charge presented, or the inability of the depository bank or the federal system to process the item because of erroneous information.

Reversal Any ACH entry or file that is sent within the required deadlines to correct or reverse an erroneous entry or file.

Seasonal Company Companies, such as summer camps and farms, that do not process payrolls in every quarter of the calendar year.

Section 125 Flexible Spending Account A flexible spending account allow employees to pay for certain eligible

Account (FSA) health care and dependent care expenses with pre-tax dollars. Using pre-tax dollars helps employees and employers pay less in taxes.

Social Security/Medicare (SS/MED) Referring to the requirement by the Federal Insurance Contribution Act that employers and employees contribute to retirement, medical, and disability insurance. The combined (FICA) rate is withheld from employee wages up to a set taxable limit and matched by a required employer contribution.

Sole Proprietorship The singular owner of a business.

Example: If a Sole Proprietor wants to begin payroll with a Payroll Service Bureau, they must obtain a Federal ID Number.

Standard Industrial Classification Each employer, upon application for a federal employer

Classification identification number (FEIN) is assigned a SIC number. The Standard Industrial

(SIC) Classification was developed for use in the classification of businesses by type of activity in which they are engaged as a way to promote uniform collection of data at the federal level. SIC codes are based upon the primary activity or output that a company is engaged in.

State Disability Insurance (SDI) Referring to a state-established compensation plan for the support of employees unable to work due to an illness or injury. Some states require employee and employer (EE/ER) contributions to a disability insurance fund for payment of SDI benefits.

State Income Tax (SIT) A withholding tax deducted from an employee's wages as required by a state. The amount of withholding varies with the amount of earnings, frequency of pay, number of claimed exemptions and marital status.

State Unemployment Insurance A quarterly tax paid to a state unemployment agency. An **(SUI)** experience rate assigned to the employer and a taxable wage limit established by the agency determine the amount of the tax due. The SUI tax can be paid by the employee (SUIEE) or paid by the employer (SUIER) or both – depending on the state's rules.

State Unemployment Insurance The identification number assigned to employers by the state agency to control

Identification (SUI ID) unemployment related reporting and accounting functions. The number will not be the same as the FEIN issued by the federal government.

Statement of Deposits and Quarterly and annual documents provided to HPC Tax Filing Service clients.

Filings (SOD) SODs summarize filings and deposits made by HPC on a client's behalf to authorized jurisdictions.

Status The employee's present position within the payroll (active, terminated, etc.).

SUI Exempt Some nonprofit employers are excluded from paying State Unemployment Insurance Tax. Exempt employers are not required to file any quarterly returns or Employee Wage Detail Reports.

SUI Less FUTA Used to refer to cases where the employee wages are exempt from State Unemployment Insurance (SUI) taxes, but not from Federal Unemployment (FUTA) taxes. When SUI taxable wages are less than FUTA taxable wages, the employer is liable for the full FUTA tax rate on the exempt wages.

Tax Transfer When an employee changes his Income Tax State, unemployment tax state, or local tax jurisdiction.

Taxable The actual amount of wages or compensation that are subject to a tax type and used to calculate the tax due.

Taxable Wage Base/Taxable The portion of the gross payroll that does not exceed the annual SUI taxable wage

Payroll base for an individual employee. The amount of the taxable payroll varies from state to state. Gross payroll that exceeds that annual taxable wage base for an individual employee is not taxable for SUI purposes. Each state determines the minimum taxable wage base that must meet or exceed the minimum amount outlined by FUTA.

Taxable Wages The amount of wages that is considered subject to a particular tax, such as FICA.

Tax Rate The unemployment tax rate assigned to an employer by the state agency. The rate multiplied by taxable wages is the amount of quarterly contributions owed by an employer.

Tax Rate Analysis This analysis compares the tax rates of two or more years. The tax savings/loss is calculated for the current year or the cumulative of two or more years.

Tax Rate Notice Annual report issued by the state agency showing the unemployment tax rate assigned for the year period. Most states utilize a calendar year period while a small number utilize a fiscal year period.

Tax Rate Verification HPC-UCS verifies the accuracy of the SUI tax rate and its components. Tax rate assessment found to be in error is protested to the appropriate state agency. Protests made to the state agency are closely monitored and the result is communicated to the employer.

TEFRA Tax Equity and Fiscal Responsibility Act of 1982. According to the IRS, only 16% of tip income was being reported by restaurant and bar owners. By law, all employees who receive tips are required to report as income all tips received. With TEFRA, the government increased efforts to collect taxes on the unreported amounts of tip income by the employees of food and beverage establishments.

Example: TEFRA reporting is done on an annual basis.

Temporary Deductions An amount deducted from an employee's pay in the current pay cycle only. These are also referred to as a one-time deduction.

Temporary Rate A rate to be used for an employee for one payroll only.

Unemployment Tax State The State where an employee's wages should be reported for unemployment tax purposes. This is usually the state where the employee works.

Voucher A bank item showing that pay was directly deposited into a bank account.

W-2 A statement of an individual's annual wages and taxes provided by an employer that must be included with the employee's federal, state and city income tax returns.

W-3 Transmittal of Income and A form summarizing a company's total wages and tax

Tax Statement withholdings. The W-3 accompanies a W-2 statement and is to be filed with the Social Security Administration.

W-4 Employee's Withholding A government form used to indicate the number of personal

Exemption Certificate exemptions an employee wishes to claim.

Wage Withholding The automatic deduction of income to pay debts. Wage withholdings may be voluntary or involuntary.

Work Week A fixed and regularly recurring period of hours.

Worked In The city in which an employee works.

YTD The acronym for Year-to-Date.