

The Glynn Group, Ltd.

August 31, 2007

Issue # 263

### *Reporting Taxable Adjustments for Separated Employees*

#### **Payroll Savings Tip**

When employees terminate, report taxable adjustments with their last check; otherwise, you may be liable for the employee portion of taxes.

Taxable adjustments (for example, personal use of a company car, imputed value of group-term life insurance) should be reported with reported with regular payroll whenever possible. This allows required employee taxes to be withheld from the wages. If taxable adjustments are reported without wages, you, as the employer, may be liable for the employee portion of taxes. Keep this in mind when employees terminate either voluntarily or involuntarily during the year.

If you pay any part of an employee's income tax or FICA withholding, the amount paid must be reported as additional taxable wages for the employee (referred to as "grossing up"). Additional employment taxes, both employee and employer portions, are required to be withheld on this added income.

#### **Example**

You need to report \$100.00 as the imputed value of group-term life insurance in excess of \$50,000.

- If you report the \$100.00 with the employee's last paycheck, \$7.65 in employee FICA taxes is withheld from the employee's wages. You are only liable for the employer's share of FICA. **Your total cost is \$7.65**
- If you report the \$100.00 after the employee's last paycheck is issued, employee FICA cannot be withheld because no wages are being paid. You will be liable for the employee FICA, **plus** the employer portion of FICA. You must report \$8.28 as wages to cover employee FICA. You will also have to pay \$8.28. **Your total cost is \$16.56.**

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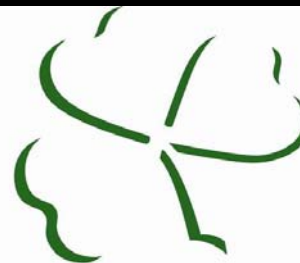
[GLYNN ACCOUNTING & TAX SERVICES](#) | [COLDWELL BANKER GLYNN REALTY](#) | [GLYNN FINANCIAL SERVICES](#)

(262) 644-8479

(262) 644-6915

(262) 644-2053

1155 E. Commerce Blvd  
PO Box 183  
Slinger, WI 53086



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The IRS formula for calculating the additional wages is:

$$\text{Total amount (gross)} = \frac{\text{taxable adjustment}}{1 - (\text{sum of all employee tax percentages})}$$

Only FICA tax is required in the example, so:

**Step 1** total amount (gross) =  $\frac{\$100}{1 - .0765} = \frac{\$100}{.9235} = \$108.28$

**Step 2** total amount—taxable adjustment = additional wages  
\$108.28 - \$100.00 = \$8.28

If you cannot report taxable adjustments for an employee's last check, please discuss it with your client service advisor. We can help you calculate the additional amount needed to cover the employee FICA.

If you have questions on the following article please contact [The Glynn Group, Ltd.](#)