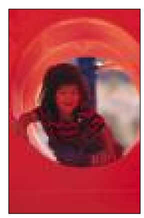
W-2 AND 1099-R PROCESSING

Calendar Year ending December 31, 2011

User's Guide

NOTE: Screen shots for this document have been taken from the version 7.0 MSI Payroll system. The only difference between versions 7.0, 6.5/6.0 and versions 3.0/4.0/5.0 W-2 and 1099-R processing is the color of the screens. Do not be alarmed if your screens are green whereas the screens in this document are gray. All field headings are the same for both versions.

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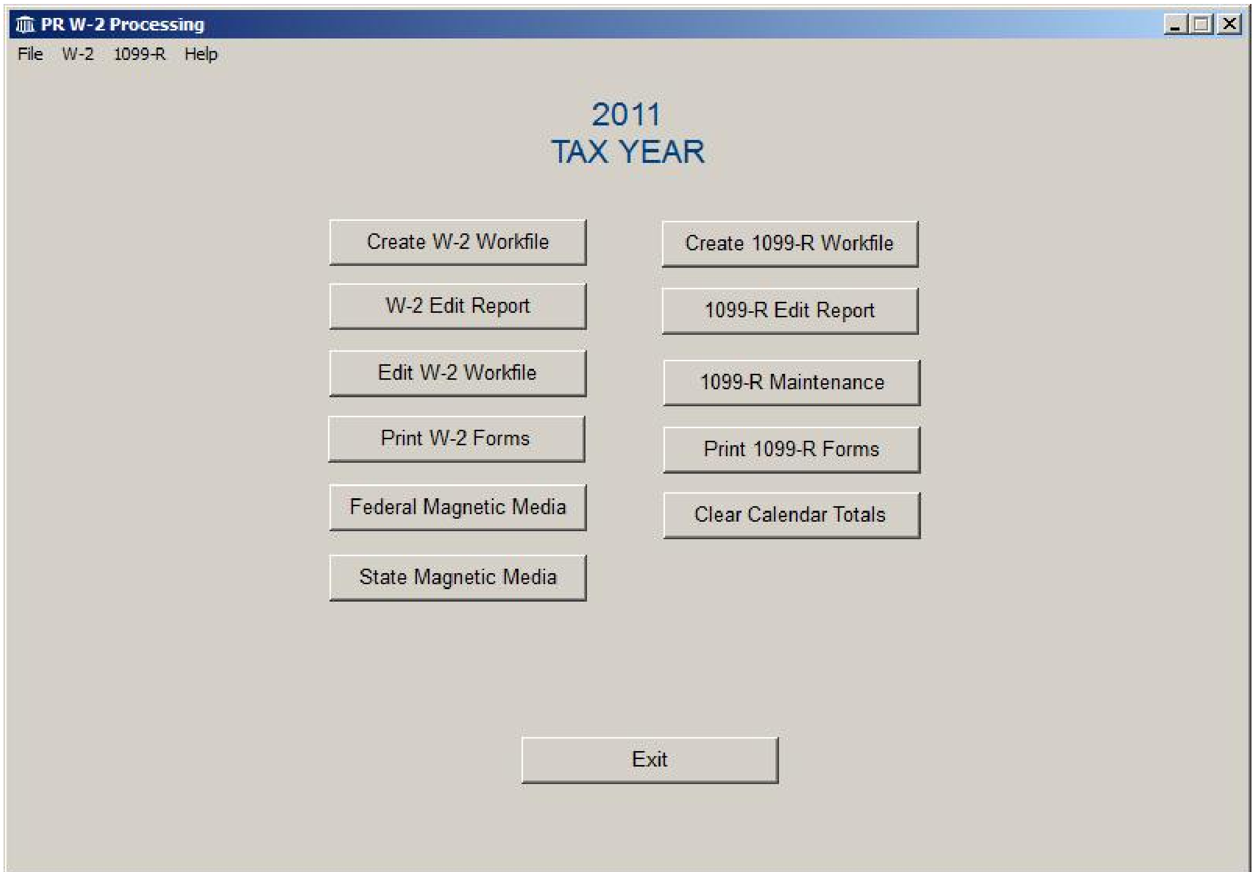
Table of Contents

General Information

Process W-2s and 1099Rs by using the menu items provided in the MSI Payroll System. From the Payroll System Main Menu, select Support then "W-2 and 1099-R Processing". Utilize these menu items to complete the processes:



IMPORTANT: It is suggested that you ask your Network Administrator to make two (2) backups of your MSI system database immediately **after** updating the final payroll in December 2011 and **before** processing W-2s and 1099-Rs. These back-ups should be kept aside for at least three (3) months, or until the IRS has accepted the W-2 filing and/or magnetic media filing. This will allow you to restore the data, if the W-2 workfile has to be recreated for any reason.

Please note that Harris Support will be happy to create and store a backup on your behalf. If you are interested in this service, kindly call Sales for a quote at 847-362-2803.

Please Note: Windows 95 or Windows 98 and ME are not supported and should not be used when printing W-2 forms.

OUTLINE FOR PROCESSING W-2's and 1099-R's

1. Complete (post and update) the last payroll for December.
2. Print all monthly, quarterly and calendar year-end reports (see the 2011 Year End Processing guide for a complete list of these reports).
3. Download and install the annual W-2/1099 software update from http://www.municipalsoftware.net and confirm it was installed correctly by verifying that the proper Tax Year is displayed on the W-2 processing menu.
4. Create the W-2 and/or 1099-R Workfile(s)
    a. Select the option to create the workfiles **AFTER** properly installing the annual W-2/1099 software update and **AFTER** the last payroll has been updated in the **CURRENT CALENDAR YEAR**, but **BEFORE** the calendar year-end totals are cleared via the "Clear Calendar Totals" process.
    b. You can print the forms and create magnetic media anytime after the workfile is created and finalized.
5. Print the W-2 and/or 1099-R Edit Report and verify (by spot checking a few employees) that the figures look correct. If there appears to be a problem with the figures then halt processing and contact Harris Software Support immediately for assistance.
6. Clear Calendar Totals.
    a. From the W-2 Processing Menu, select "Clear Calendar Totals".
    b. Choose the option to "Clear month, Quarter and Calendar pay amounts".
    c. If your fiscal year ends on December 31st, then also select "Clear Fiscal pay amounts".
    d. **NOTE**, once the process to Clear Calendar Totals is complete you **MUST NOT** create or re-create the W-2 and/or 1099-R workfile(s) or **ALL** of the amounts will be incorrect.
    e. For those who have benefit accruals setup in the system, re-run the Benefit Hours Report and compare it to the report run in Step 1 above to be sure everyone's benefits are still on track.
7. Edit W-2 and/or 1099-R Workfile(s) (optional)
8. Print the forms (or generate the PDF's for ESP)
9. Create W-2 Federal Magnetic Media
10. Create W-2 State Magnetic Media
11. Upload PDF's to ESP (for those user sites who have the Employee Services Portal)

TIMETABLE FOR PROCESSING W-2'S AND 1099-R's

The timetable for completion of the workfile is critical. This approach allows W-2 and 1099-R information to be reviewed for accuracy and edited, if needed, before printing the actual forms and creating magnetic media for filing.

Process to Run	**Run AFTER**	**Run BEFORE**
Create W-2 and/or 1099-R Workfile(s)	1) Installing the annual W-2/1099 software update that's downloaded from the municipalsoftware.net website 2) Verifying the W-2 Processing menu displays the proper Tax Year (2011) 3) The last payroll of 2011	Clearing calendar totals **IMPORTANT NOTE**: Once Calendar Totals have been cleared, the W-2 and/or 1099-R Workfile(s) must not be re-created. Re-creating the Workfile(s) *after* clearing calendar totals will result in ALL

		employee amounts coming out incorrectly. If you've cleared calendar totals and then find that you need to edit and employee's W-2/1099-R detail then use the Edit and/or Maintenance options rather than creating a new workfile.
W-2 and/or 1099-R Edit Report	Creating the W-2 and/or 1099-R Workfile(s) **Note**: If the workfile is edited, then it is a good idea to print a fresh Edit Report so that it reflects the altered figures that will be printing on the forms.	1) Editing, Printing forms, creating Magnetic Media 2) Process first January Payroll
Clear Calendar Totals	1) The last payroll of 2011 2) All 2011, December, and Qtr 4 reports are run 3) Creating the W-2 and/or 1099-R workfile(s)	Printing paychecks for the first payroll in January
Edit W-2 Workfile/1099-R Maintenance	Run the Edit Report(s) and if you find an employee's amounts are incorrect or incomplete then use this process to correct the detail.	Printing forms and creating magnetic media
Print W-2 / 1099-R Forms	Once the Edit Report(s) have been run and are confirmed accurate then it's OK to print the forms.	
Federal Magnetic Media	Once the W-2 Edit Report has been run and is confirmed accurate then it's OK to create Magnetic Media.	
State Magnetic Media	Once the W-2 Edit Report has been run and is confirmed accurate then it's OK to create Magnetic Media.	
Process first 2012 payroll	1) All 2011, December, and Qtr 4 reports are run 2) Creating the W-2 and/or 1099-R workfile(s) 3) Clear Calendar Totals 4) Updating Federal and/or State Tax Rates 5) Updating Pension amounts	

IMPORTANT: The W-2 and/or 1099-R workfile(s) must be created before doing any of the subsequent steps (i.e. editing the workfile or printing the forms). The workfile(s) should be created after the last payroll in December has been updated and before clearing calendar totals.

<u>VERY IMPORTANT NOTE</u>: **Once the "Clear Calendar Totals" process has been completed for the CURRENT CALENDAR YEAR, the W-2 and 1099-R workfile(s) MUST NOT be created or re-created!**

If the option to create the workfile(s) is run after "Clear Calendar Totals", then the data will need to be restored from a backup so that a good workfile can be generated with accurate amounts.

NOTE: The 1st payroll for January can be processed *after* creating and verifying the W-2 and/or 1099-R workfile(s) and *after* running "Clear Calendar Totals". You do not need to finalize the W-2 process prior to running the first January payroll.

PROCESSING STEPS FOR COMPLETING W-2's

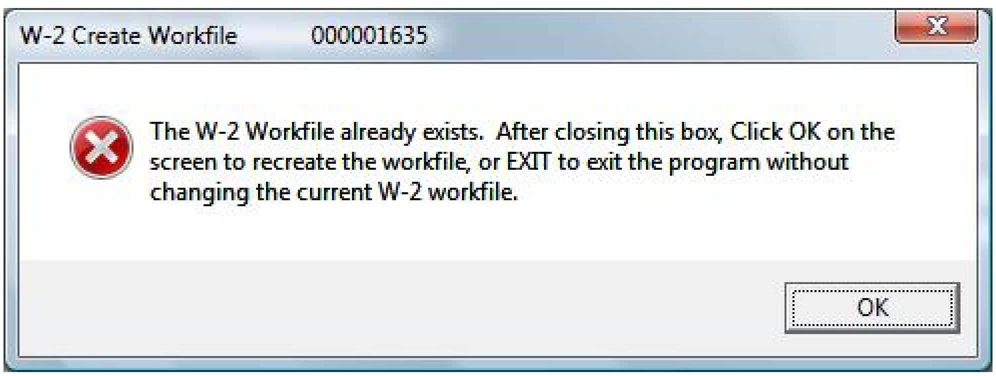
Step #1 – Create the W-2 Workfile

WHAT IS CREATE W-2 WORKFILE?

This step creates a workfile of W-2 information that is used by the subsequent steps for W-2 processing. The workfile is named PRW2CCYY.DAT, where CCYY represents the calendar year.

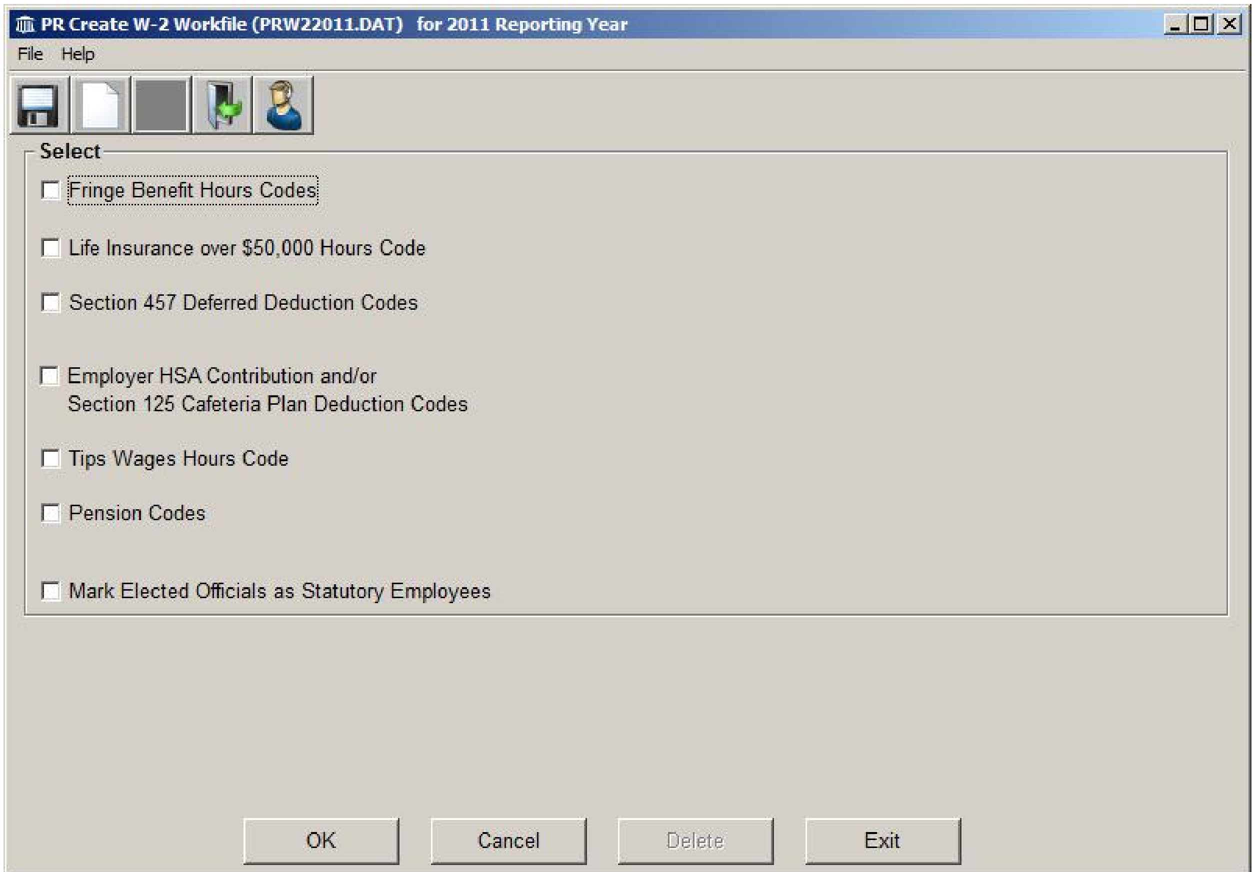
You can recreate the workfile as many times as needed **BEFORE** processing "Clear Calendar Totals" **AND** prior to creating the 1st payroll in January.

If you attempt to recreate the workfile the below warning will appear advising that the workfile already exists. This will help to prevent the workfile from being re-created once the process has already begun. As long as the "Clear Calendar Totals" option **hasn't** been processed and the 1st January payroll **hasn't** been finalized, then click "OK" on the W-2 Create Workfile message and then click "OK" on the Create W-2 Workfile (PRW22011.DAT) for 2011 Reporting Year screen – **IF** you are certain that you want to re-create the workfile.



HOW DO I CREATE THE W-2 WORKFILE?

To create the workfile, click on the "Support" menu in the MSI Payroll System and select "W-2 and 1099-R Processing". Then select "Create W-2 Workfile" from the PR W-2 Processing screen.



IMPORTANT: Select the Create W-2 Workfile option *prior* to clearing the YTD Calendar amounts via the "Clear Calendar Amounts" option.

Upon accessing the Create W-2 Workfile screen the system displays the name of the file to be created (PRW22011.DAT) and the tax year that it is reporting (2011) in the Title Bar of the window. Verify that this information is correct before continuing. If the file name is wrong, contact Harris Software Support for assistance.

The following fields are used to create the W-2 workfile. After each field is input press *tab* to accept the information and proceed to the next field for entry.

Fringe Benefit Hour Codes

Enter (up to 10) fringe benefit hours codes that an employee received as pay. This is an optional entry and will appear as a separate sum total amount in **Box 14** on the W-2 form. Please use the Edit W-2 Workfile (Third option down on the W-2 processing menu) to make any adjustments to your W-2 forms.

Note: Though Box 14 is **not** a required field to report on the W-2, it can be used to display fringe benefit amounts as a courtesy to the employee. No description will accompany the fringe benefit amounts in this box. Also, Box 14 should not include pretax amounts like deferred comp, those belong in Box 12. If you are unsure of what to choose, consult your auditor for detail on which boxes should be reported.

Life Insurance over $50,000 Hours Code

Enter the Hours Code used to represent life insurance premiums paid by the employer in excess of $50,000 in coverage. This will be reported in **Box 12** marked with a “C” on the W-2 form.

Section 457 Deferred Deduction Codes

Enter (up to 20) Voluntary Deduction codes used to represent Section 457 type plans. These will be reported in **Box 12** marked with a “G” on the W-2 form.

Employer HSA Contribution and/or Section 125 Cafeteria Plan Deduction Codes

Enter (up to 20) Voluntary Deduction codes used to represent the employer’s contribution into the employee’s Health Savings Account (HSA) including deduction codes used to withhold money the employee elected to contribute using a section 125 (cafeteria plan) to their health savings account. These will be reported in **Box 12** marked with a “W” on the W-2 form.

Tips Wages Hours Code

Enter the Hours Code used to represent tips paid to employees. This will be reported in **Box 7** on the W-2 form.

Pension Code

Enter all Pension Codes used to represent qualified pension withholdings to be reported in **Box 14** on the W-2 form. Up to 20 codes can be entered.

Note: Though Box 14 is **not** a required field to report on the W-2, it is used to display your pension plan contributions for the employee’s use in verifying the accuracy of the W-2 taxable wages, etc. If this field is left blank, only Box 13 Retirement Plan will include the appropriate pension reporting.

IMPORTANT NOTE CONCERNING PENSION CONTRIBUTIONS ON THE W-2’S.

The Create W-2 Workfile program checks against the pension codes entered on the screen, and then compares those codes to the employee's calendar deductions; so if an employee changed plans mid-year the total amount contributed under each Pension Code will be reflected in Box 14.

Mark Elected Officials as Statutory Employees

Select this box to designate Elected Officials as a Statutory Employee on the W-2 forms.

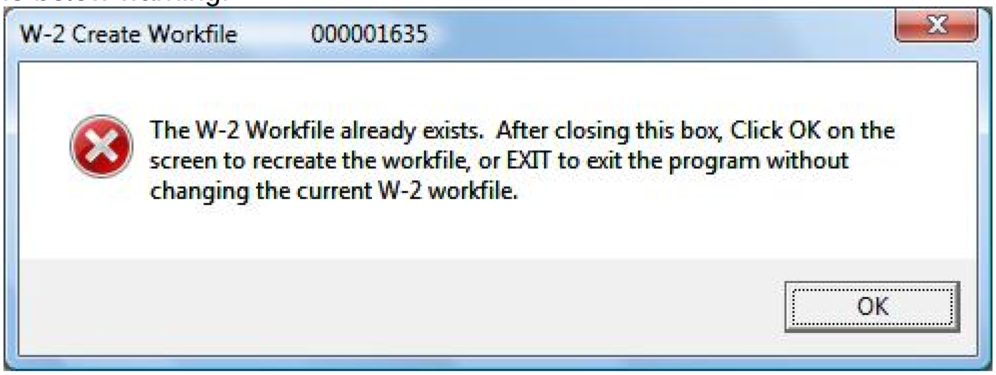
Note: If you are unsure of what to input for any of the available options, please consult with your tax professional. Harris Software Support cannot advise what you *should* do for W-2 reporting. Support Analysts can assist with any software issues you encounter (i.e. error messages or faulty reporting) or questions you have on how the software works. But, advise on what should be input or reported needs to be directed to an auditor or similar tax professional.

Once you’ve made all your selections, click “OK” to create the W-2 workfile.

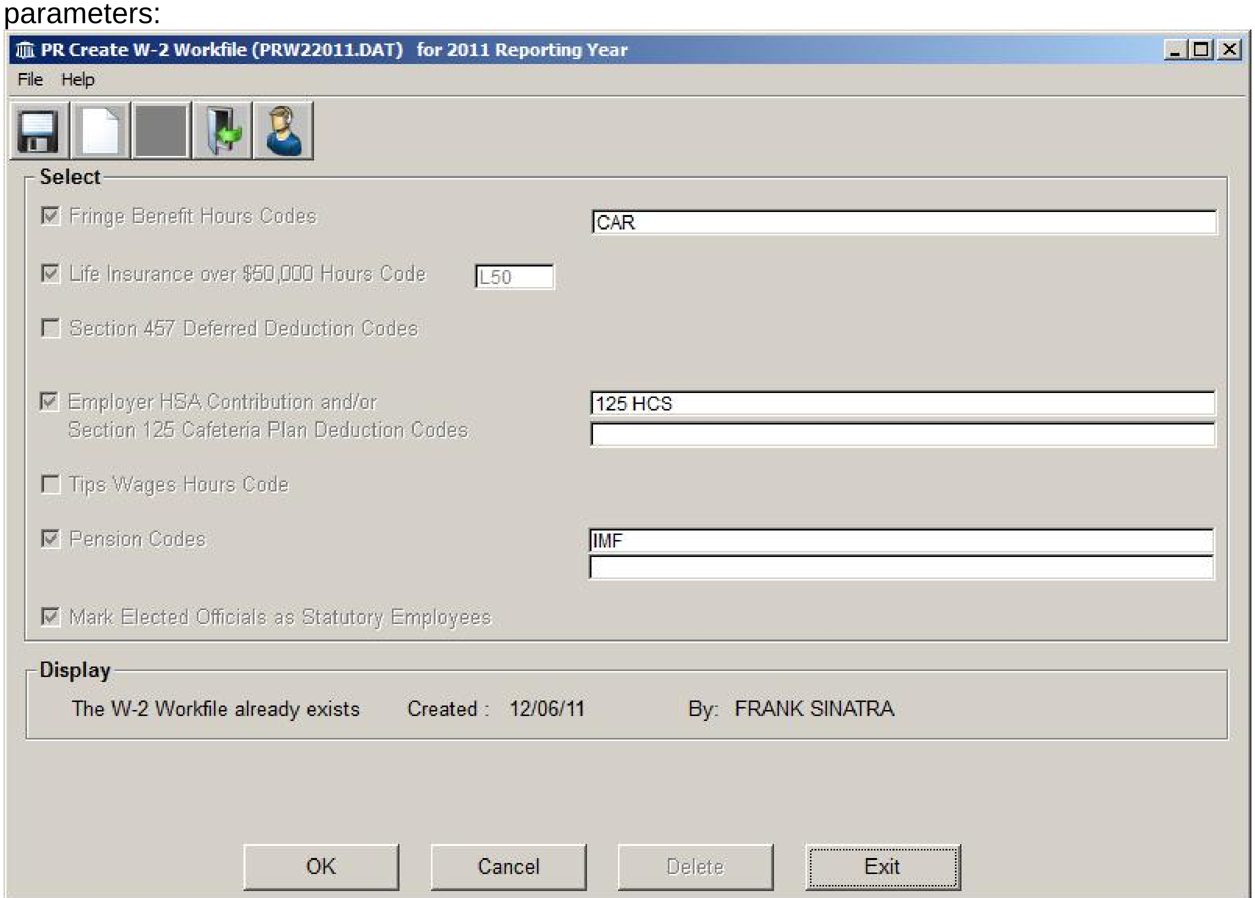
REVIEWING THE W-2 WORKFILE PARAMETERS

The system records your specifications in a file called W2PARAM.DAT. Should you decide to refer back to the entries made on this screen, you can return to the Create W-2 Workfile screen and view your selections.

If you select “Create W-2 Workfile” after a workfile has already been created, then the system will give the below warning:



Click “OK” on the W-2 Create Workfile 000001635 warning to see the originally specified parameters:

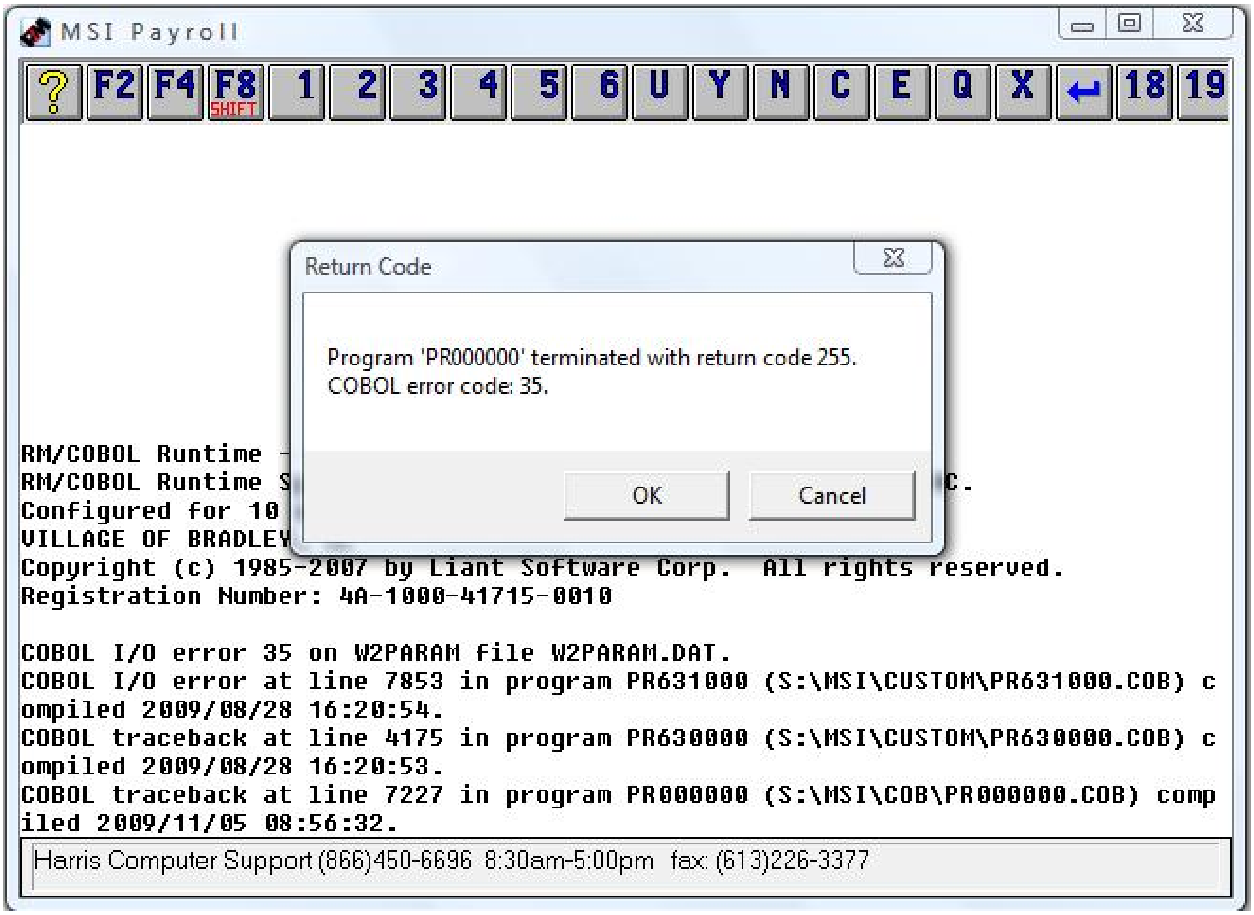


Then select to “Exit” so that the original workfile is not wiped out.

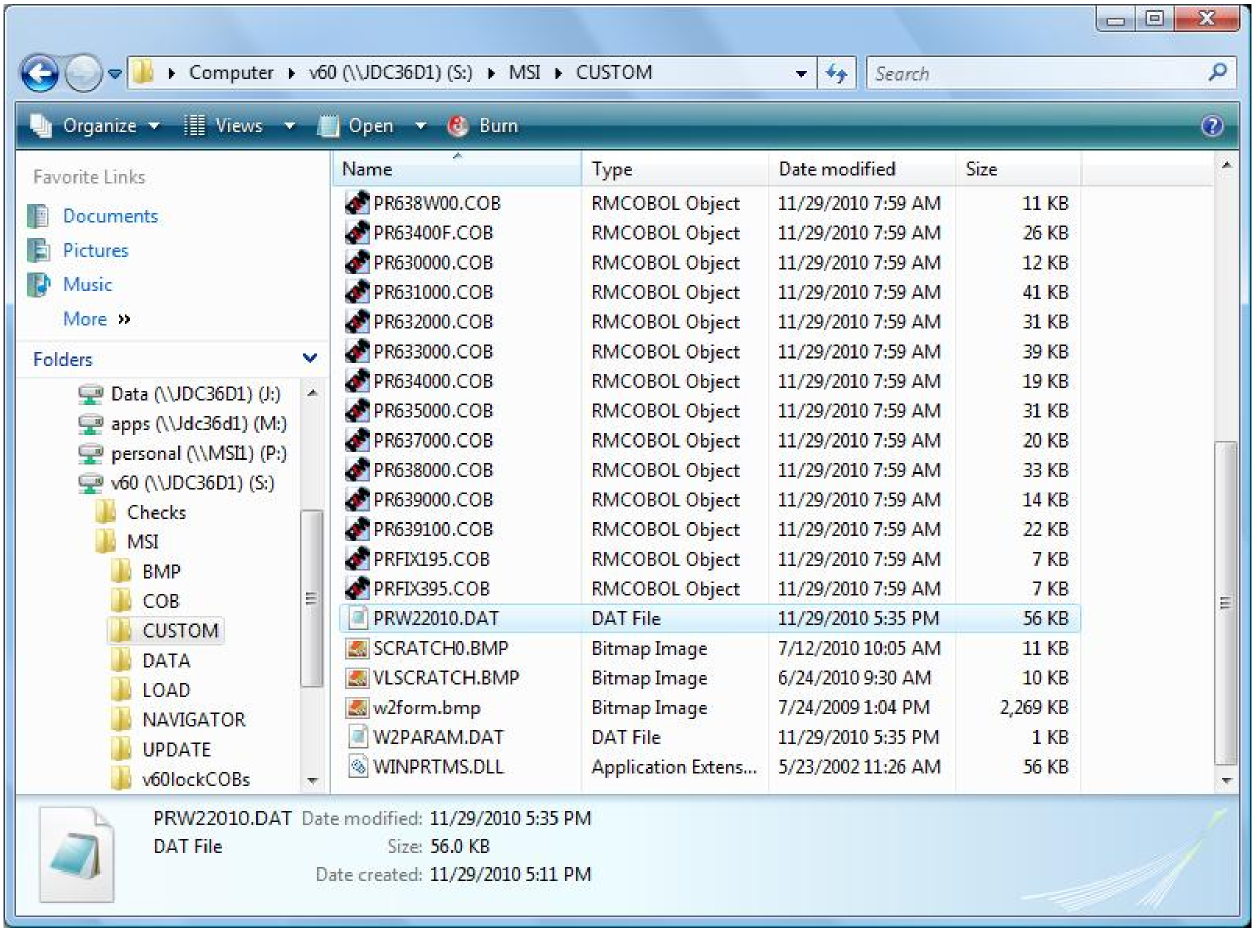
IMPORTANT: Once the workfile is created, any changes to the workfile should be performed in the “Edit W-2 Workfile” menu option. The only exception to this is if you have not yet cleared your YTD calendar amounts via the “Clear Calendar Totals” screen. In that case you may re-create the W-2 workfile to specify new parameters by clicking “OK” on the Create W-2 Workfile screen. **This will wipe out the existing workfile and allow you to make new selections.**

ERROR 35 WHEN CREATING THE W-2 WORKFILE

If you select the Create W-2 Workfile option and receive the below error:



That simply means that someone has been in this screen without creating the workfile. So the PRW22011.dat file exists in your MSI\CUSTOM directory but has no associated details. Locate the file and delete it, then go back to the option to Create W-2 Workfile and the program will run normally without any error messages.



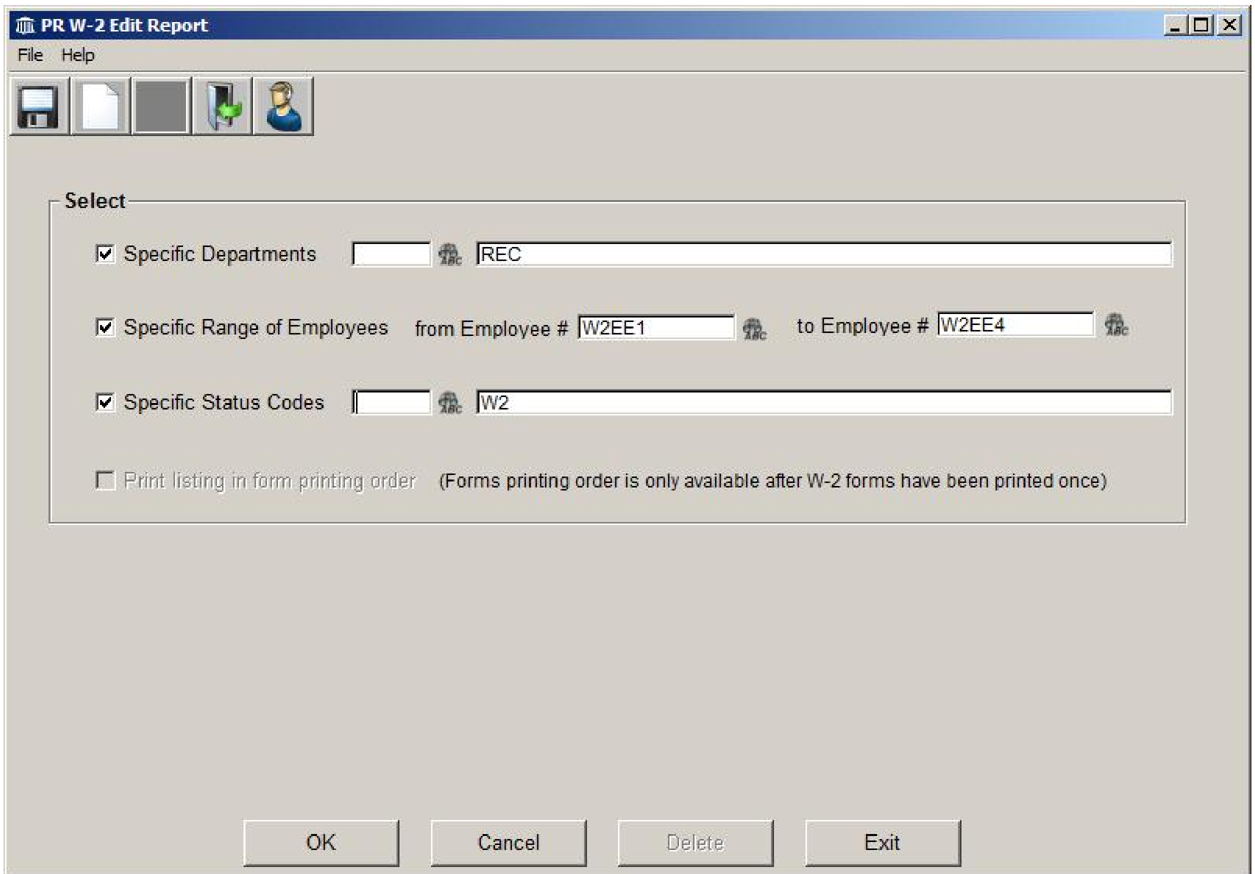
Step #2 – W-2 Edit Report

WHAT IS W-2 EDIT REPORT?

This menu option prints a columnar report of the PRW2CCYY.DAT workfile that was created in Step #1. The report allows you to balance your payroll control totals and subsequently balance to the actual W-2 print totals. This report can be run as many times as needed after the workfile is created and (possibly) edited.

HOW DO I PRINT A W-2 EDIT REPORT?

From the Payroll System Main Menu, click on the "Support" menu and select "W-2 and 1099-R Processing". Then select "W-2 Edit Report" from the PR W-2 Processing screen.



The following fields can be used to print the W-2 Edit Report. After each field is input press *tab* to accept the information and proceed to the next field for entry. If no selections are made, then all employees in the workfile will print.

Specified Departments
Enter (up to 10) department codes to include only employees in those specified departments.

Specific Range of Employees
Enter the beginning and ending Employee Number for the desired range.

Specific Status Codes
Enter (up to 10) status codes used to represent type of employment.

Print listing in form printing order

This option will become available after the W-2 forms have been printed for the first time. Then, if selected, the report will then print the employee information, per the W-2 forms number order. So basically it will print the employees in the sequence they will came out on the W-2 forms.

**** WARNING: (AS SEEN ON THE EDIT REPORT ITSELF)**

The W-2 Edit Report will contain various warnings to help draw your attention to common issues that may need to be addressed. For instance:

```
** WARNING: Soc.Sec.W/Held may be too small
```

You will receive a message similar to the one above if the Wages times the employee deduction % is either greater than or less than the actual deductions. You may see this message in relation to Soc. Sec. W/Held or Medic. W/Held and the message may read "too small" or "too large" depending on the situation.

```
** WARNING: Medicare Wages should equal Soc.Sec.Wages UNLESS the employee has some wages that were subject to Medicare only
```

You will receive this warning whenever an employee's FICA and Medicare wages don't match.

TOTALS BY EMPLOYMENT TYPE (FOUND AT END OF EDIT REPORT)

The W-2's are separated into two types: FICA and Medicare Qualified.

FICA will total all W-2's where the FICA and Medicare wages *are not* zero. So people who have both FICA and Medicare wages will have their wages included under "FICA".

Medicare Qualified totals all employees whose FICA wages *are* zero, and their Medicare wages *are not* zero.

It's just the system's way of separating out the W-2's.

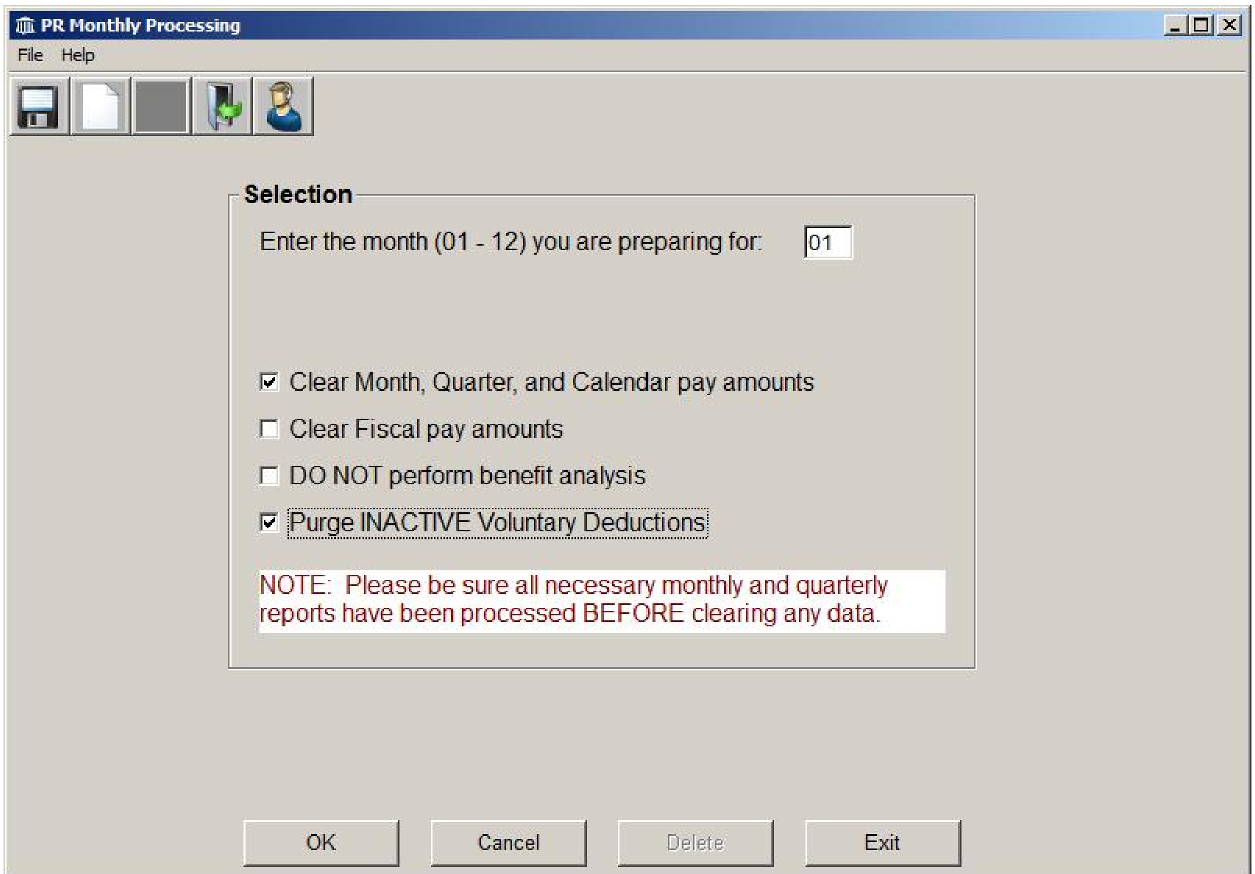
```
          EMPL.                    FED WAGES     FICA WAGES     MED WAGES     STATE WAGES
          TYPE   SOC.SEC.#         FED W/HELD    FICA W/HELD    MED. W/HELD   STATE W/HELD
-----------------------------------------------------------------------------------------


TOTAL BY EMPLOYMENT TYPE
      FICA:                    5,638,408.22   5,195,849.72   5,357,627.78   4,854,296.50
                                 821,809.39     322,142.71      77,685.90     140,171.23
                  FICA FORM COUNT:        129

      MEDICARE QUALIFIED:        132,730.45            .00     155,500.45     132,730.45
                                  30,052.44       6,621.60       2,254.73       3,981.90
                  MEDICARE FORM COUNT:      1

      TOTAL BOX 13 STATUTORY:               0
      TOTAL BOX 13 THIRD PARTY:             0
      TOTAL BOX 13 RETIREMENT:             83
```

Step #3 – Clear Calendar Totals

This step should be run **AFTER** creating your W-2 workfile and verifying the workfile by printing the Edit Report. <u>Once this process is run, you cannot re-create your W-2 workfile.</u>

This process will clear the month, quarter, calendar and/or fiscal Year-to-Date fields and prepare the system for the new calendar and/or fiscal year. Your W-2 workfile is generated off of the numbers in the calendar year-to-date fields. If you clear these fields before starting your W-2's then they will all come out as $0.00!

IMPORTANT NOTE!
This step should ONLY be run **AFTER** you have run and verified W-2 detail!!!!
A new W-2 workfile CANNOT be generated after this step is run.



1. Select "Clear Calendar Totals" off the W-2 Processing menu in Payroll.
2. Select the option to clear the Month, Quarter and Calendar pay amounts.
3. ***<u>If</u>*** you are also beginning your new Fiscal Year, then select the option to Clear Fiscal pay amounts.
4. If you HAVE NOT activated Benefit Hours Accrual Tables, and you do not want the process to effect benefit hours at all, check the box next to "DO NOT perform benefit analysis". Otherwise, the process will automatically clear "USED" and "ACCRUED" benefit hours, but will leave the "AVAILABLE" benefit hours as is. For more details on benefit hours, see the Benefit Hours Detail section below.
5. If you have selected to clear Fiscal pay amounts, you will be given an option to "Purge INACTIVE Voluntary Deductions". If you select this checkbox, then employee's

voluntary deductions which have been flagged with an (I)nactive in employee maintenance will be removed from that employee. It will ALSO remove it from the employee's YTD details. So the information will no longer appear on the YTD Earnings Report, even if deductions were taken during the current month, quarter, calendar, or fiscal year. The Voluntary Deduction code will remain in the Payroll system.

When completed, please inquire into several employees (via Inquiry > Employee Pay/Deduction Inquiry) to **MAKE SURE <u>ALL</u>** MTD, QTD and YTD fields were accurately cleared. ***<u>IF IT IS LATER FOUND THAT THE MTD, QTD, AND YTD FIELDS ARE INCORRECT, YOU WILL HAVE TO CORRECT THEM MANUALLY IN SUPPORT > EMPLOYEE YTD MAINTENANCE, ONE EMPLOYEE AT A TIME.</u>***

BENEFIT HOURS DETAIL

The "Clear Calendar Totals" process also controls what will happen to benefit hours at the end of the calendar year. Please use the appropriate instructions (A) or (B) below depending on the status of the benefit hours programs at your site.

Section A. Benefit Hours Accrual Tables HAVE NOT been activated
If the accrual tables HAVE NOT been activated you may use one of the following options:

1. The "Clear Calendar Totals" process will affect the benefit hours as indicated below automatically:
   - "USED" benefit hours WILL be cleared
   - "AVAILABLE" benefit hours WILL NOT be cleared
   - "ACCRUED" benefit hours WILL be cleared
2. If you would like the "Clear Calendar Totals" process NOT to effect benefit hours at all, then check the box next to "DO NOT perform benefit analysis". This will indicate to the system that no changes should be made to the benefit hours at this time. This will allow you to make all changes manually using the Employee YTD Maintenance program.

Section B. Benefit Hours Accrual Tables HAVE been activated
If the accrual tables HAVE BEEN activated on your system, the tables will determine how benefit hours are effected when running the "Clear Calendar Totals" process.

If the benefit table is defined as calendar (or fiscal based, if January is your fiscal start), each employee using that benefit table will "roll over" to a new benefit year. If the benefit table is defined as anniversary based, only those employees with a January hire date will also "roll over". In each case, the following will occur:

1. The employee's new benefit year is computed from the hire date. This year is used to determine which table entry will be used in the following steps.
2. Any "USED" hours are cleared.
3. If applicable, a new accrual rate is computed from the benefit table. The rate is computed by taking the number of hours to accrue from the benefit table and dividing by the number of pay periods the employee will have. The employee's accrual limit is updated from the table entry.
4. If the table is defined to "rollover available hours", the hours "ACCRUED" are ADDED to the "AVAILABLE" hours.
5. If the table is not defined to "rollover available hours", the "AVAILABLE" hours are replaced by those in the "ACCRUED" hours field. The "ACCRUED" hours are cleared.

NOTE: Please refer to the Appendix on Benefit Hour Processing in the Payroll System User Guide for further instructions.

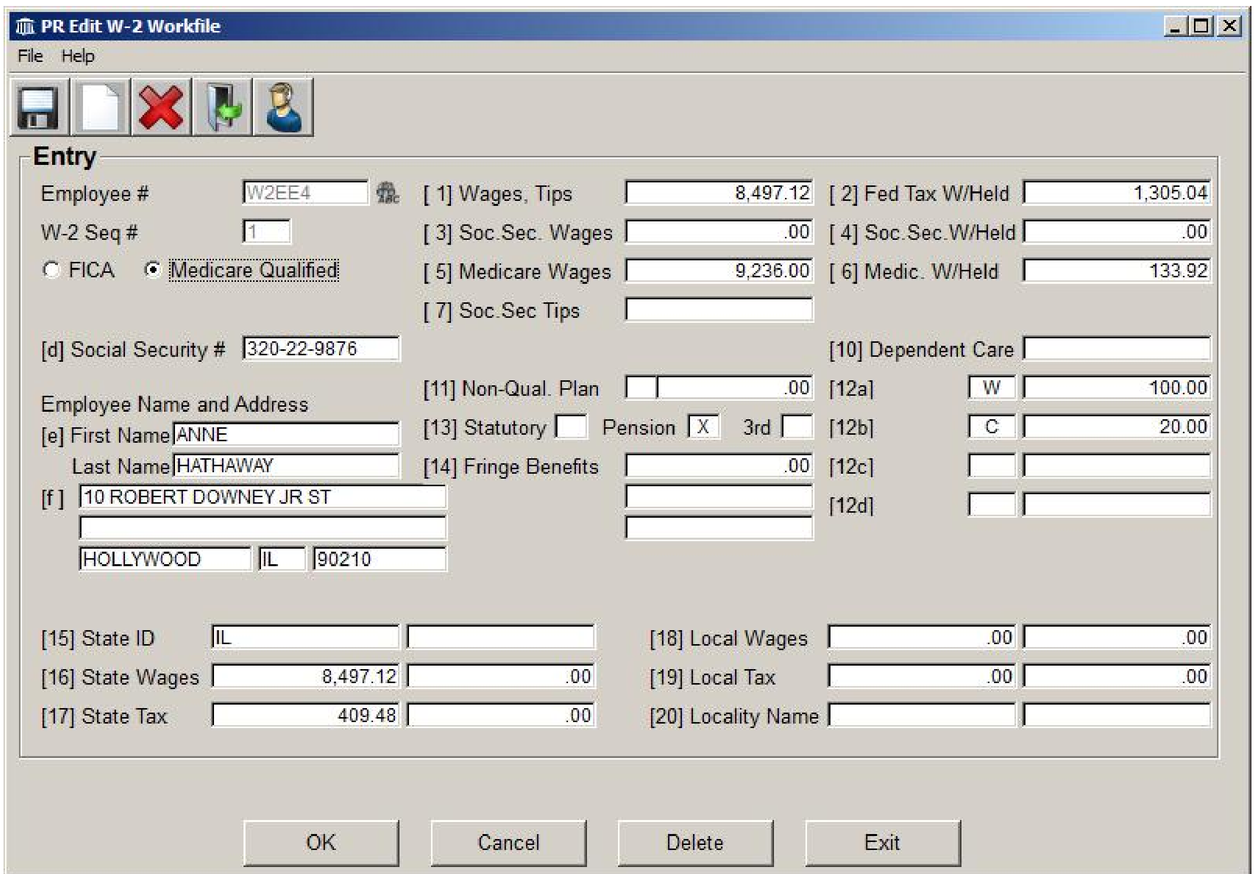
Step #4 – Edit W-2 Workfile

WHAT IS EDIT W-2 WORKFILE?

This option is available if it becomes necessary to modify the information that will print on the employee's W-2 form. It is only under extenuating circumstances that this option should be exercised. For instance, if you have an employee who requires Box 10 or 11 populated on their W-2; since the system doesn't retain that detail, it can be input via this Edit feature. But for the most part, if appropriate payroll practices have been followed throughout the year, there should be no need to use this menu selection. While certain edits for practical information are performed, Harris Computer bears no responsibility to changes made via this means. The system maintains the original data generated by the create W-2 workfile but overrides those values by those entered in this menu selection.

HOW DO I EDIT THE W-2 WORKFILE?

From the W-2 processing menu select "Edit W-2 Workfile." Enter the employee # then tab to the W-2 Form # field and enter **1**; tabbing off this field will now display the employee data.



The following table explains how various fields in the workfile are populated. After each field is input press *tab* to accept the information and proceed to the next field for entry.

Field	Description
Employee #	Input ID number of employee to be edited
W-2 Seq #	This field will default to **"1"** indicating the employee's first W-2 form.

	Change to “2” in the event that an employee requires a second W-2.
FICA	All employees who are not Medicare Qualified.
Medicare Qualified	FICA wages = \$0.00 and Medicare wages > \$0.00
d Social Security #	Employee’s Social Security # as input in Employee Maintenance.
e First Name/Last Name	Employee’s First Name and Last Name as input in Employee Maintenance
f	Employee’s Street Address, City, State, and Zip as input in Employee Maintenance.
1 Wages, Tips	Federal Taxable Wages from Employee YTD Maintenance
2 Fed Tax W/Held	Calendar Year Federal Taxes Deduction Amount from Employee YTD Maintenance
3 Soc. Sec. Wages	FICA Taxable Wages from Employee YTD Maintenance (less amount paid via specified “Tips Wages Hours Code” when creating the W-2 workfile)
4 Soc. Sec. W/Held	Calendar Year FICA Deduction Amount from Employee YTD Maintenance
5 Medicare Wages	Medicare Taxable Wages from Employee YTD Maintenance
6 Medic. W/Held	Calendar Year Medicare Deduction Amount from Employee YTD Maintenance
7 Soc. Sec. Tips	Calendar Year amount paid via the specified “Tips Wages Hours Code” when creating the W-2 workfile.
9 Adv. EIC Payment	System is hard-coded to include Calendar YTD pay total of amount paid via the “EIC” Hours Type Code
10 Dependent Care	Not populated by the system. Requires manual entry via Edit W-2 Workfile
11 Non-Qual. Plan	Not populated by the system. Requires manual entry via Edit W-2 Workfile
12a/b/c/d Code	Code **A**: Uncollected social security or RRTA tax on tips. Code **B**: Uncollected Medicare tax on tips. Code **C**: Taxable cost of group-term life insurance over \$50,000 (included in boxes 1, 3 (up to social security wage base), and 5) Code **D**: Elective deferrals to a section 401(k) cash or deferred arrangement. Also includes deferrals under a SIMPLE retirement account that is part of a section 401(k) arrangement. Code **E**: Elective deferrals under a section 403(b) salary reduction Agreement. Code **F**: Elective deferrals under a section 408(k)(6) salary reduction SEP. Code **G**: Elective deferrals and employer contributions (including non-elective deferrals) to a section 457(b) deferred compensation plan. Code **H**: Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan. Code **J**: Nontaxable sick pay (information only, not included in boxes 1, 3, or 5). Code **K**: 20% excise tax on excess golden parachute payments. Code **L**: Substantiated employee business expense reimbursements (non-taxable). Code **M**: Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only). Code **N**: Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (former employees only). Code **P**: Excludable moving expense reimbursements paid directly to

	employee (not included in boxes 1, 3, or 5). Code **Q**: Nontaxable combat pay. Code **R**: Employer contributions to your Archer MSA. Report on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts. Code **S**: Employee salary reduction contributions under a section 408(p) SIMPLE (not included in box 1). Code **T**: Adoption benefits (not included in box 1). Complete Form 8839, Qualified Adoption Expenses, to compute any taxable and non-taxable amounts. Code **V**: Income from exercise of non-statutory stock option(s) (included in boxes 1, 3 (up to social security wage base), and 5). Code **W**: Employer contributions (including amounts the employee elected to contribute using a section 125 (cafeteria) plan) to your health savings account. Report on Form 8889, Health Savings Accounts (HSAs). Code **Y**: Deferrals under a section 409A nonqualified deferred compensation plan Code **Z**: Income under section 409A on a nonqualified deferred compensation plan. This amount is also included in box 1. It is subject to an additional 20% tax plus interest. See “Total Tax” in the Form 1040 instructions. Code **AA**: Designated Roth contributions under a section 401(k) plan Code **BB**: Designated Roth contributions under a section 403(b) plan Code **CC**: HIRE Act wages and Tips reporting Code **DD**: Cost of Employer sponsored health care coverage Code **EE**: Designated Roth contributions under a section 457(b) plan
12a/b/c/d Amount	Only Codes **C, G,** and **W** are calculated by the system; otherwise any other code the user has to type in themselves in the Edit Workfile screen. For **Code C** (Life Insurance Amount Paid) the system will use the amount paid to an employee via an hours code = Life Ins. Code from *Create W-2 Workfile* if their Calendar YTD amount paid > $0.00. For **Code G** (457 Amount Withheld) the system will look to see which employees are setup with the specified deductions codes in Employee Maintenance and if the Calendar YTD amount withheld for that code is > $0.00, then that amount will be listed on the W-2. For **Code G** (HSA Contributions) the system will look to see which employees are setup with the specified deductions codes in Employee Maintenance and if the Calendar YTD amount withheld for that code is > $0.00, then that amount will be listed on the W-2.
13 Statutory	Employees marked as elected official AND the “Mark Elected Officials as Statutory Officials” checkbox was checked on the Create Workfile screen will be indicated with an “X”
13 Pension	Employee’s Pension Code Maintenance has employee **OR** employer % > 0.00 will be indicated with an “X”
13 3RD	3rd Party Sick Pay = Manual entry via Edit W-2 Workfile
14 Fringe Benefits: Line 1	Fringe Benefit table for employee = Fringe Benefit code from *Create W-2 Workfile* and Fringe Benefit $ withheld > $0.00
14 Fringe Benefits: Line 2	Same as above
14 Fringe Benefits: Line 3	Employee’s Pension Code = Pension code from *Create W-2 Workfile* and pension $ withheld > $0.00

15 State ID	
16 State Wages	Employee's "State" as input in Employee Maintenance.
17 State Tax	State Taxable Wages from Employee YTD Maintenance
18 Local Wages	Not populated by the system. Requires manual entry via Edit W-2 Workfile
19 Local Tax	Not populated by the system. Requires manual entry via Edit W-2 Workfile
20 Locality Name	Not populated by the system. Requires manual entry via Edit W-2 Workfile

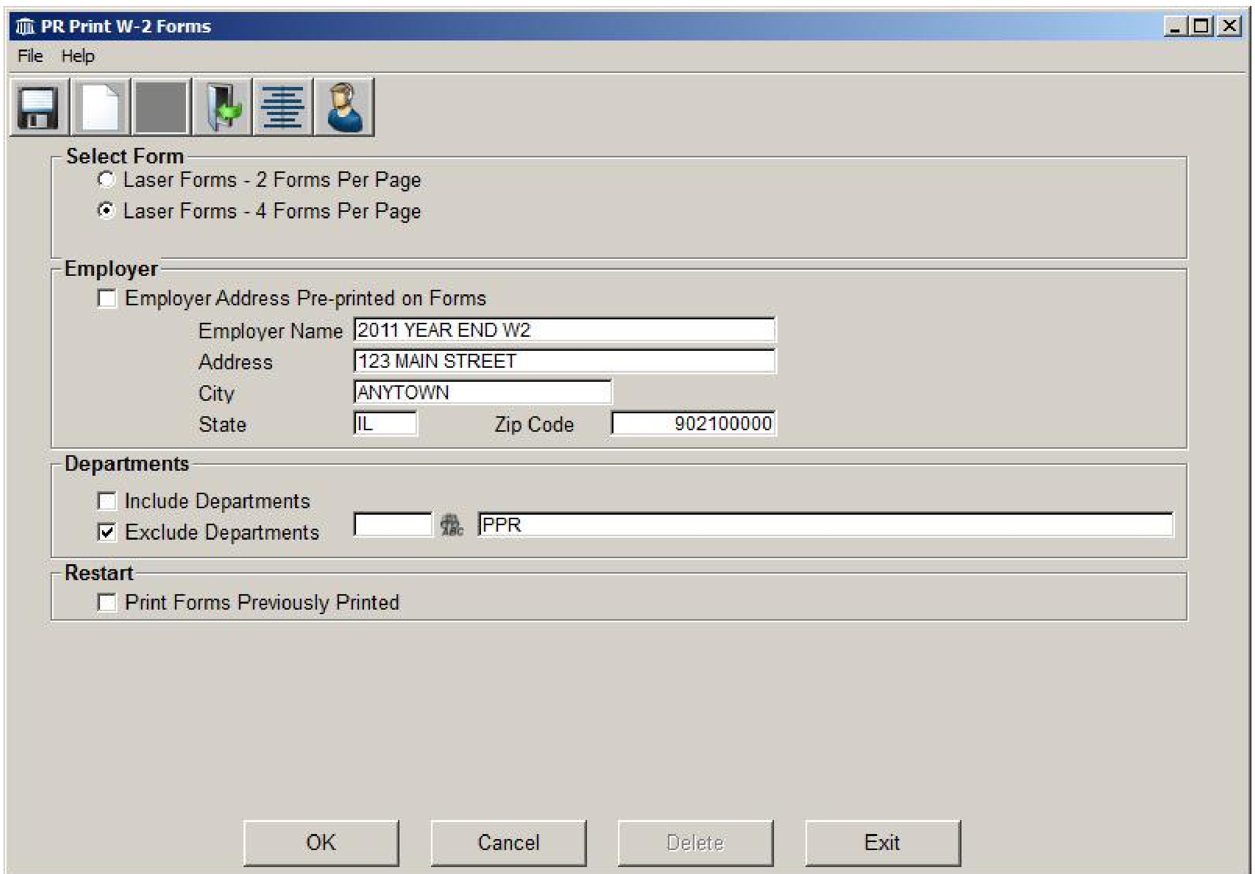
Step #5 – Print W-2 Forms

WHAT IS PRINT W-2 FORMS?

This program is used to print the W-2s to be sent out to the municipality's employees.

HOW DO I PRINT W-2 FORMS?

From the Payroll System Main Menu, click on the "Support" menu and select "W-2 and 1099-R Processing". Then select "Print W-2 Forms" from the PR W-2 Processing screen.



The following fields are used to print the W-2 forms. After each field is input press *tab* to accept the information and proceed to the next field for entry.

Please enter the appropriate data in the following fields to complete this program.

Laser Forms - 2 Forms Per Page

1. Select Form: - The 2 Forms Per Page is the default option in this section.
2. Collated Sets: - The option to run collated set is available only if you are using the Laser Forms – 2 Forms Per Page option. Enter the appropriate number of forms for collated sets. If your laser forms are not collated, but rather individual, multi-pass forms, then enter “1”.
3. Employer Address Pre-printed on Forms: Leave this box unchecked if you would like the system to print the employer name and address on the forms. The municipality’s name and address will default in these fields. They may be modified if necessary.
4. Departments: - Check the box for Include/Exclude Departments to include only employees from specified departments, or to exclude employees in specified departments, if needed, such as pension payroll departments.
5. Restart: Check this box if you are printing a range of previously printed forms. Once the box has been checked, you may enter a range of form numbers to re-print.

Note: This option can only be taken after all the W-2 forms have been printed once and the W-2 Edit Report has been run a second time – as that’s when the form numbers are assigned. Please refer to your W-2 Edit Report for the correct form numbers.

Laser Forms - 4 Forms Per Page (2 across 2 high)

1. Select Form: - Select the option for Laser Forms – 4 Forms Per Page.
2. Employer Address Pre-printed on Forms: Leave this box unchecked if you would like the system to print the employer name and address on the forms. The municipality’s name and address will default in these fields. They may be modified if necessary.
3. Departments: - Check the box for Include/Exclude Departments to include only employees from specified departments, or to exclude departments, if needed, such as pension payroll departments.
4. Restart: Check this box if you are printing a range of previously printed forms. Once the box has been checked, you may enter a range of forms to re-print.

Note: This option can only be taken after all the W-2 forms have been printed once and the W-2 Edit Report has been run a second time – as that’s when the form numbers are assigned. Please refer to your W-2 Edit Report for the correct form numbers.

Generate PDFs for upload to ESP (Employee Service Portal) mypaydocs.com site

1. Select Form: - Select the option for Generate PDFs
2. Employer Address Pre-printed on Forms: Select this box so the system can print the employer name and address on the forms. The municipality’s name and address will default in these fields. They may be modified if necessary.
3. Departments: - Check the box for Include/Exclude Departments to include only employees from specified departments, or to exclude departments, if needed, such as pension payroll departments.

IN WHAT ORDER WILL THE FORMS PRINT?

The W-2 forms will print “FICA” W-2’s first, then “MEDICARE” W-2’s next sorted alphabetically by the employee’s last name. The following table illustrates how the system determines whether or not an employee’s W-2 is classified as FICA or Medicare Qualified:

Type of Employment	FICA Wages	Medicare Wages
FICA	> $0.00	$0.00
FICA	> $0.00	> $0.00
Medicare Qualified	$0.00	> $0.00

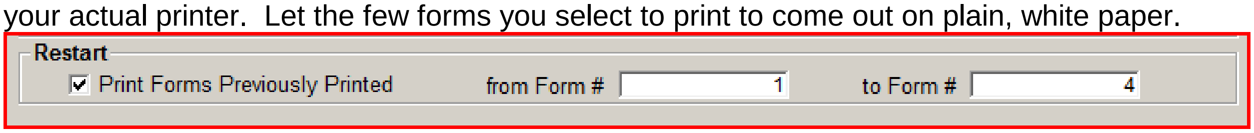
After all employees for each type are printed, the system will print out a summary W-3 form. These figures can be transferred to the W-3 form that is submitted to the SSA. Typically you will receive one W-3 form for each pack of W-2 forms ordered.

HOW DO I ALIGN MY FORMS TO MY PRINTER?

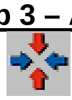
Printing and aligning your W-2 forms can be accomplished in 4 easy steps:
Step 1 – Assign Form Numbers.
Step 2 – Print a range of forms to blank paper
Step 3 – Alter form alignment, if necessary
Step 4 – Print W-2 forms to form stock

<u>Step 1 – Assign Form Numbers</u>
Select the option to Print W-2 Forms off the W-2 Processing menu. Fill out the options and click OK. When asked what printer you want to print the W-2's to, select "Fineprint" or "pdfFactory". By printing all the W-2's through the virtual printer, you allow the system to assign each employee a form number. Form numbers can be viewed by running the W-2 Edit Report after they've been assigned by the Print W-2 Forms process. The Form number is labeled "Seq. #:" on that report.

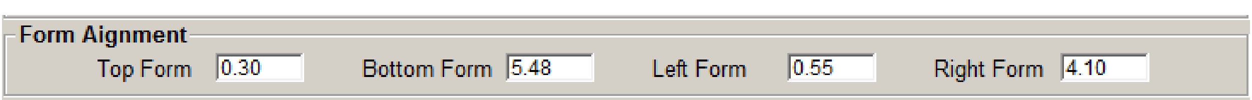
<u>Step 2 – Print a range of forms to blank paper</u>
After finishing Step 1, simply go back into the Print W-2 Forms screen and fill out the options, but before clicking "OK", also choose "Print Forms Previously Printed". You will then be able to input a range of Form Numbers. When asked what printer you want to print the W-2's to, select your actual printer. Let the few forms you select to print to come out on plain, white paper.



Hold the plain paper up to the form stock to determine if any of the fields need to be aligned.

<u>Step 3 – Alter form alignment, if necessary</u>
The  or  icon (depending on your version) found on the top toolbar gives you the ability to align your W-2 forms. If your forms need to move a little up or down or left or right, you can now select the icon from the toolbar to modify how the forms print.

Selecting the icon will open a section below the "Restart" area of the screen that looks like:



For 2 forms per page:
Adjusting the "Top Form" will move only the top form up or down depending on how you change the number.

Adjusting the "Bottom Form" will move only the bottom form up or down depending on how you change the number.

Adjusting the "Left Form" will move both the top and bottom forms to the left or right depending on how you change the number.

Adjusting the "Right Form" does not do anything.

For 4 forms per page:
Adjusting the "Top Form" will move all four forms up or down depending on how you change the number.

Adjusting the "Bottom Form" will move only the bottom 2 forms up or down depending on how you change the number.

Adjusting the "Left Form" will move all four forms to the left or right depending on how you change the number.

Adjusting the "Right Form" will move only the right 2 forms to the left or right depending on how you change the number.

"Top Form" and "Bottom Form"
ADD 0.15 to the existing number to move the forms DOWN one line

SUBTRACT 0.15 to move the forms UP one line.

"Left Form" and "Right Form"
ADD 0.1 to the existing number to move the forms RIGHT one space

SUBTRACT 0.1 to move the forms LEFT one space.

Important note: the numbers will reset back to the defaults each time you print. So when you find what works best for you, make note of the number as you will have to modify the defaults each time you go in to print.

Step 4 – Print W-2 forms to form stock
Once proper form alignment has been determined, simply go back into the Print W-2 Forms screen and fill out all the options (including the X/Y alignment detail) and click “OK”. Choose your printer and let all the forms print onto the purchased W-2 stock.

Step #6 – Create W-2 Federal Magnetic Media

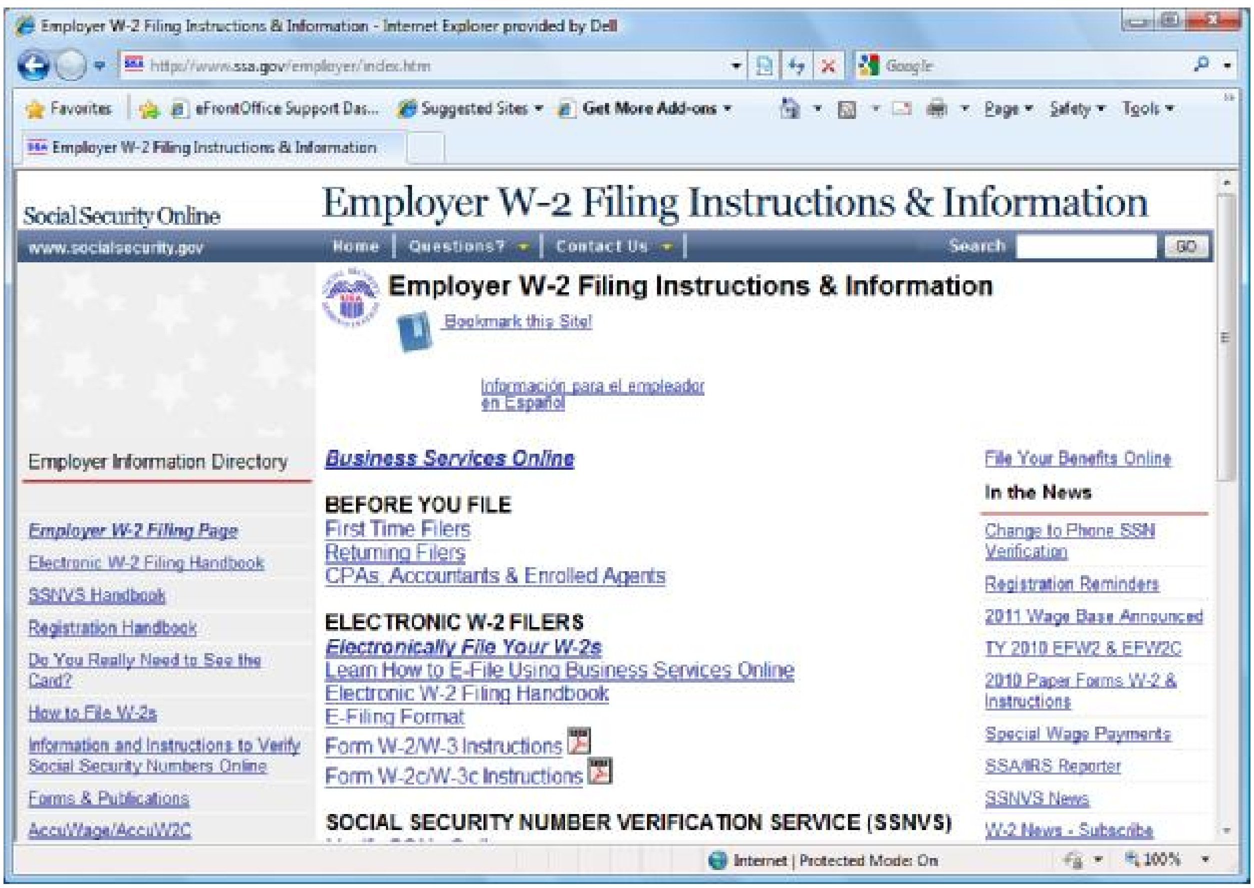
<u>WHAT IS CREATE FEDERAL MAGNETIC MEDIA?</u>

This will generate the W2REPORT.FED file for Federal W-2 Magnetic Media filing. It is the user's responsibility to transfer the file to diskette or electronically (over the internet) for submission to the Social Security Administration. During this processing, the system will display the year and certain control totals for validation.

The Federal Magnetic Media creation can be run as many times as necessary. The system will overwrite the previous W2REPORT.FED file each time the user runs the option. This file can be found on your network in either the ***\MSI\CUSTOM*** folder or the ***\MSI\DATA*** folder.

> **Note:** You will need to request a PIN from the Social Security Administration in order to utilize this option. You will instantly get your Personal Identification Number as soon as you sign up at their website. Once you have your PIN, you are ready to create the Federal Magnetic Media.

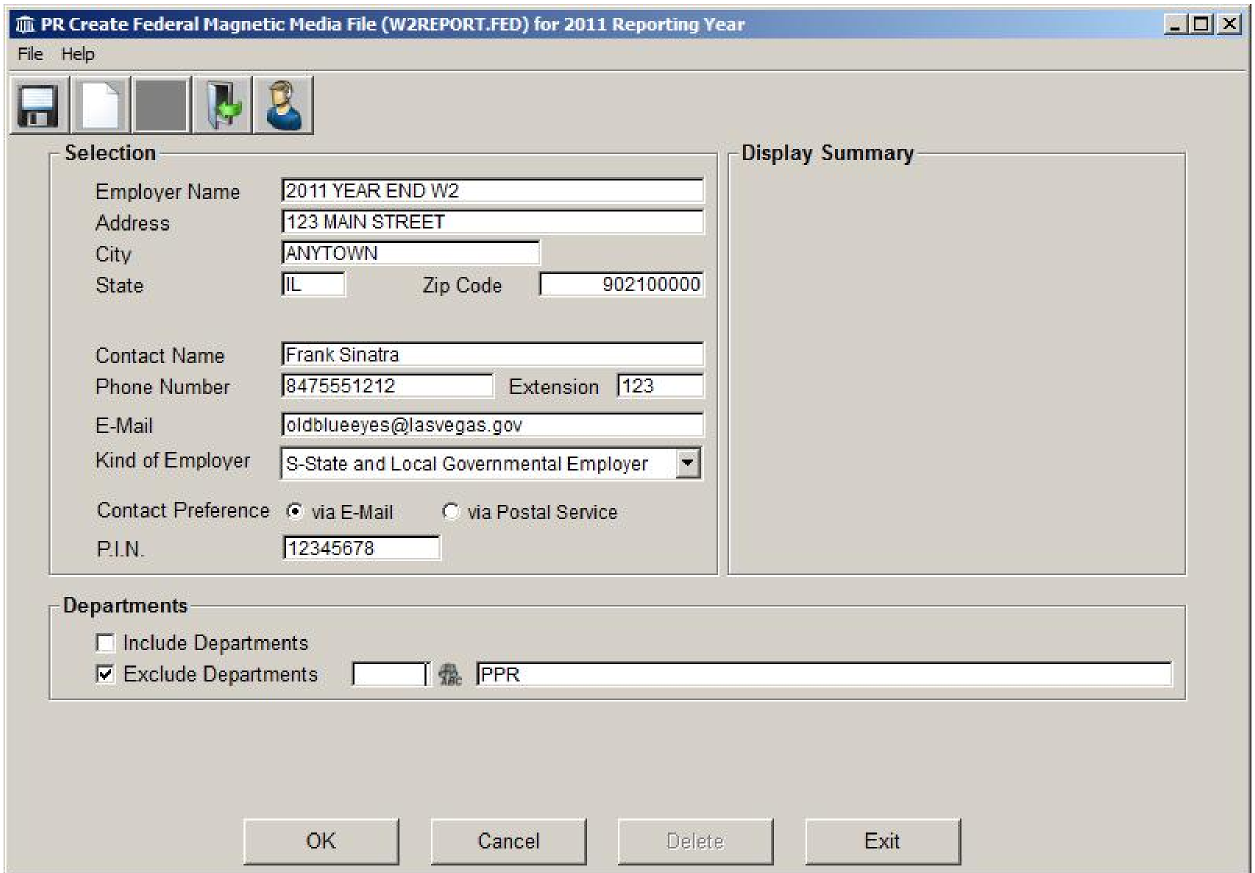
Example of the Social Security Administration website, "Employers" page



It is recommended that you download and run AccuWage from the SSA website each year to test the W2REPORT.FED file prior to submitting. AccuWage checks the file for correctness.

HOW DO I CREATE FEDERAL MAGNETIC MEDIA?

From the Payroll System Main Menu, click on the "Support" menu and select "W-2 Processing". Then select "Federal Magnetic Media" from the PR W-2 Processing screen.



The following fields are used to create the W2REPORT.FED Federal Magnetic Media file. After each field is input press *tab* to accept the information and proceed to the next field.

Employer Name and Address

The city name and address will default in these fields. They may be modified if necessary.

Contact information

Enter Name, Telephone, Extension, and E-mail information. **ALL** of these fields, including "Extension" are required.

Contact Preference

Enter your preference of being contacted by the IRS; either E-Mail or Postal Service.

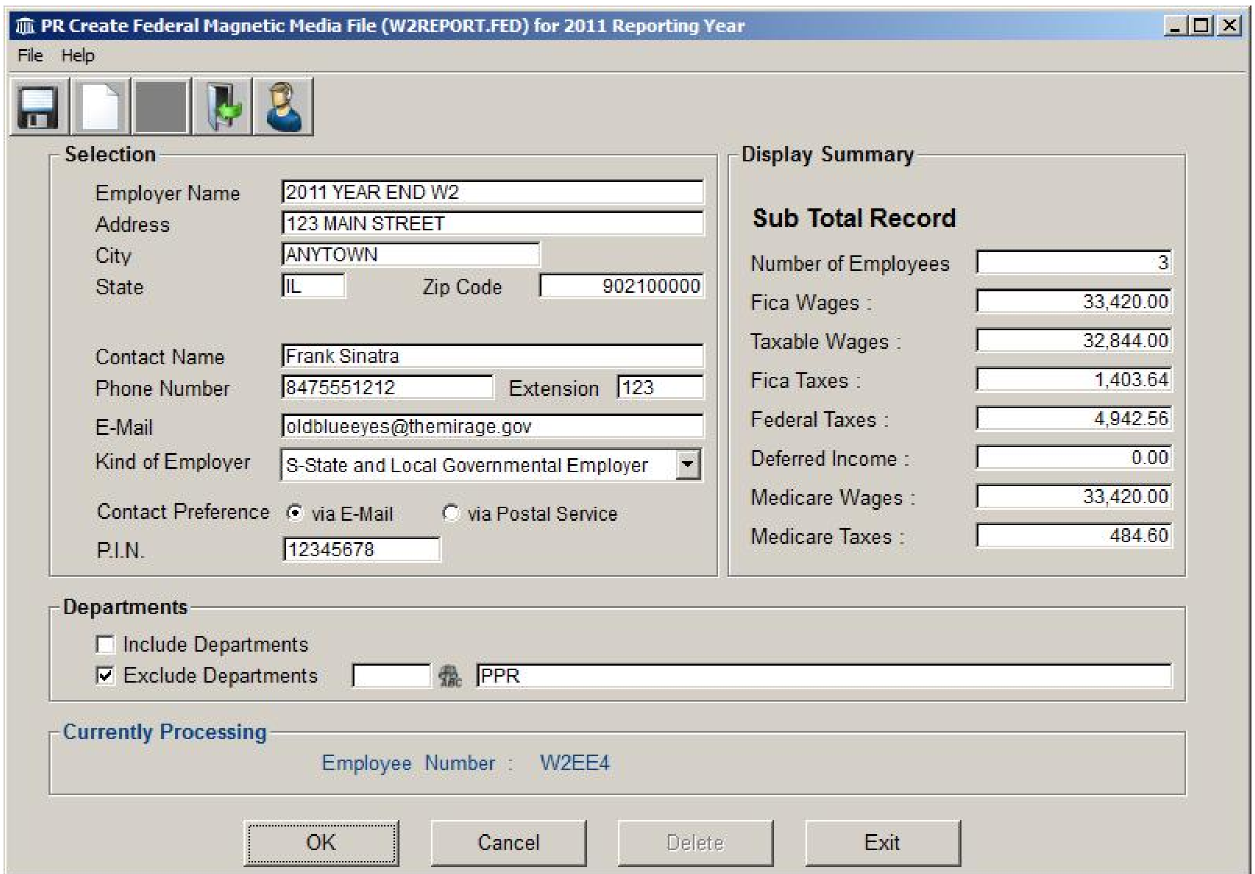
P.I.N.

Enter the PIN (aka User ID) provided to you by the Social Security Administration's website. If you do not have a PIN then you may reference the instructions in Section 5 of the SSA's document on Filing Forms W-2 Electronically (beginning on page 57) which walk you through how to obtain the PIN/User ID. You can download their document via the link provided below:
http://www.ssa.gov/employer/efw/10efw2.pdf

<u>Departments</u>
Check the box for Include/Exclude Departments to include only employees from specified departments, or to exclude departments, if needed, such as pension payroll departments.

Note: A Sub Total Record will display separately for FICA records and for Medicare records. The system will give you a message to STOP and RECORD the information. Once you click "OK" on the message the next set of record totals will display. These Sub Total Record displays will appear on the right-side of the screen prior to showing the Final Total Records. Please record the information displayed from each of these subtotal screens in order to tie them out to the Final Total Records display. **You can then reconcile the Final Total Records display with the W-2 Edit Report amounts found on that reports totals page**.

Example of the Sub Total Record display and the STOP and RECORD message



File layout of the W2REPORT.FED

Go to http://www.ssa.gov/employer/efw/10efw2.pdf and review APPENDIX B – CORRECTABLE EFW2 FIELDS THROUGH AN EFW2C FILE on pages 66 – 70

Step #7 – Create W-2 State Magnetic Media

WHAT IS CREATE STATE MAGNETIC MEDIA?

This program is used to create the magnetic media file to be submitted to your state taxing authority. The name of the magnetic media file is determined by the state for which it is produced. This name will appear in the Title Bar and in the message at the end of the program indicating that processing is complete.

The file names are as follows:

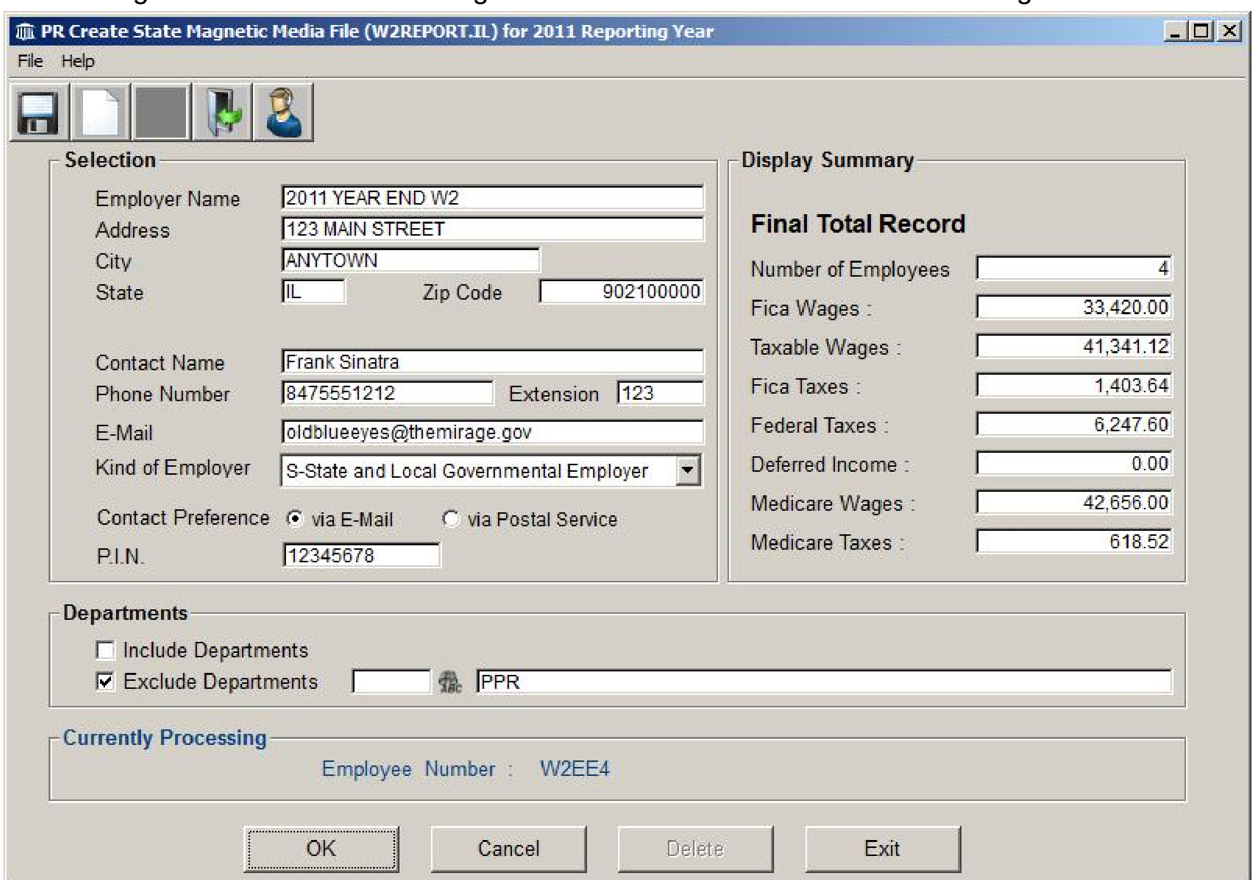
State	MSI File Name	Submission Name	Required
Illinois	W2REPORT.IL	W2REPORT	Y
Minnesota	W2REPORT.MN	W2REPORT	Y
Wisconsin	W2REPORT.WI	STATREPT	Y

The State Magnetic Media file can be run as many times as necessary. The system will override the previous file each time you run this program. The system will overwrite the previous W2REPORT.xx file each time the user runs the option. This file can be found on your network in either the ***\MSI\CUSTOM*** folder or the ***\MSI\DATA*** folder.

Note: Both the W2REPORT.IL **AND** W2REPORT.WI files will be generated for all Illinois customers to assist with any employees who reside within Wisconsin. Each file will contain ALL employees receiving a W-2. Meaning that the IL report will contain IL and WI residents, and the WI report will contain IL and WI residents.

HOW DO I CREATE STATE MAGNETIC MEDIA?

From the Payroll System Main Menu, click on the "Support" menu and select "W-2 and 1099-R Processing". Then select "State Magnetic Media" from the PR W-2 Processing screen.



The following fields are used to create the State Magnetic Media file. After each field is input press *tab* to accept the information and proceed to the next field for entry.

> **Note:** Additional fields may appear on your screens that are specific to the requirements of your state. Provide the appropriate responses as prompted.

Employer Name and Address
The city name and address will default in these fields. They may be modified if necessary.

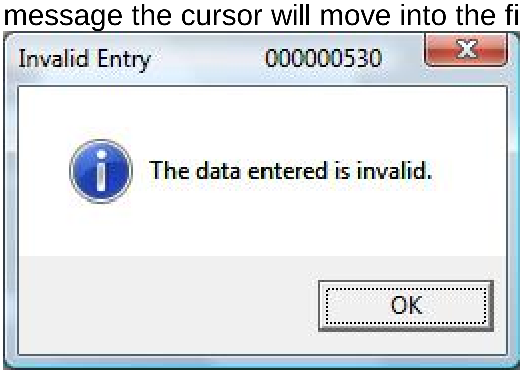
Contact information
Enter the Contact person's Name, Phone, Extension, E-mail address, and Contact Preference.

P.I.N.
Illinois users will enter the PIN provided to you by the Social Security Administration's website for submission of your Federal Magnetic Media. Wisconsin and Minnesota submitters, this does not apply to you, so simply enter the number one (**1**).

Departments
Check the box for Include/Exclude Departments to include only employees from specified departments, or to exclude departments, if needed, such as pension payroll departments.

> **Note:** A Sub Total Record will display separately for FICA records and for Medicare records. The system will give you a message to STOP and RECORD the information. Once you click "OK" on the message the next set of record totals will display. These Sub Total Record displays will appear on the right-side of the screen prior to showing the Final Total Records. Please record the information displayed from each of these subtotal screens in order to tie them out to the Final Total Records display. You can then reconcile the Final Total Records display with the W-2 Edit Report amounts found on that reports totals page.

If detail is not entered to a required field or if invalid information is input then you will get a warning when you click "OK" that advises data entered is invalid. When you click "OK" on the message the cursor will move into the field that is either missing detail or contains invalid detail.



Step #8 – Upload PDF's

This option will only be available to user sites who have purchased the ESP online product. Once the PDF's have been generated via the "Print W-2 Forms" process, then they can be uploaded to the ESP site via this step. Selecting the option will launch the process and upload the W-2 forms to the website so that they may be imported and viewable the next day to your employees when they log into the mypaydocs.com site.

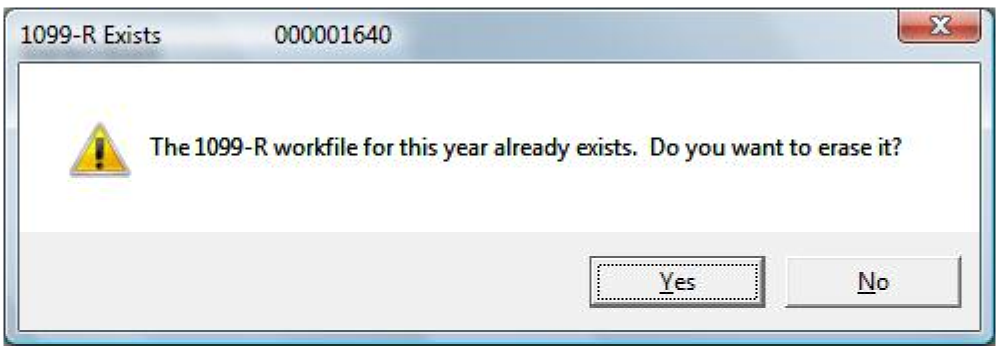
PROCESSING STEPS FOR COMPLETING 1099-R's

Step #1 – Create the 1099-R Workfile

WHAT IS CREATE 1099-R WORKFILE?

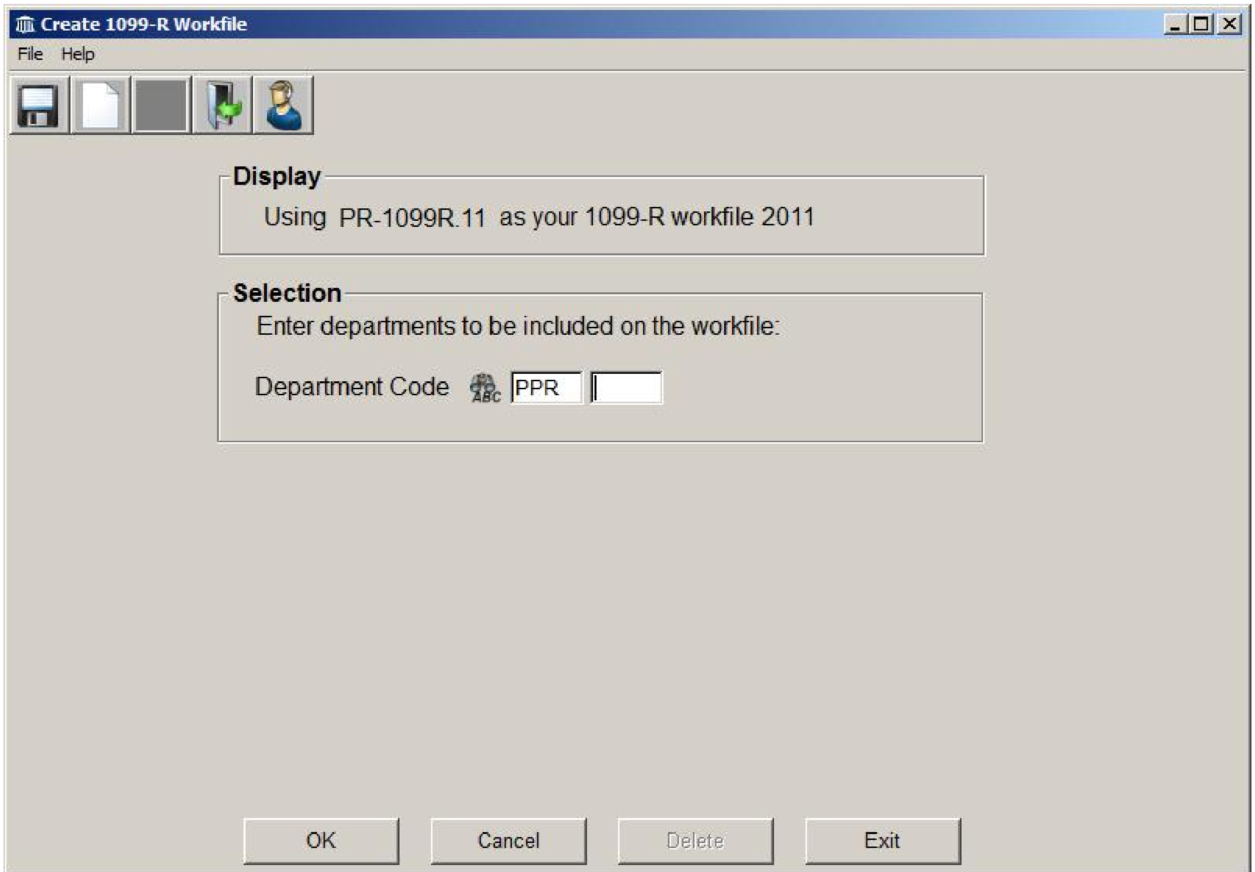
This step creates a 1099-R workfile for all individuals who are required to be processed for this type of reporting. The workfile is named PR-1099R.YY, where YY represents the last two digits of the calendar year reported. You can recreate the workfile as many times as needed **BEFORE** processing "Clear Calendar Totals" AND **PRIOR** to creating the 1st payroll in January.

Once the workfile has been created, if you go back into the Create 1099-R Workfile screen, you will be met with a warning stating that the workfile already exists and asks if you want to erase it. Select "No", if you do not want to wipe out the existing file.



HOW DO I CREATE 1099-R WORKFILE?

From the Payroll System Main Menu, click on the “Support” menu and select “W-2 and 1099-R Processing”. Then select “Create 1099-R Workfile” from the PR W-2 Processing screen.



Department Code(s)

Enter the departments that include employees who should receive a 1099-R. You can specify up to 5 departments.

The Create 1099-R Workfile will then read through the employee database. When it finds an employee that is in one of the departments entered, it checks to see if the employee's Calendar YTD gross pay is greater than zero. For those employees who are in one of the specified departments and have Calendar YTD Gross Pay greater than $0, the program then pulls in their details to the 1099-R workfile.

The MSI-Payroll system will populate the employee’s Gross Wages to **Box 1**, the Federal Wages to **Box 2a**, the Federal Tax Withheld to **Box 4**, the State Tax Withheld to **Box 10**, and the employee’s “State” from the “Tax Info” tab of Employee Maintenance to **Box 11**. Other boxes may be manually populated via the 1099-R Maintenance screen.

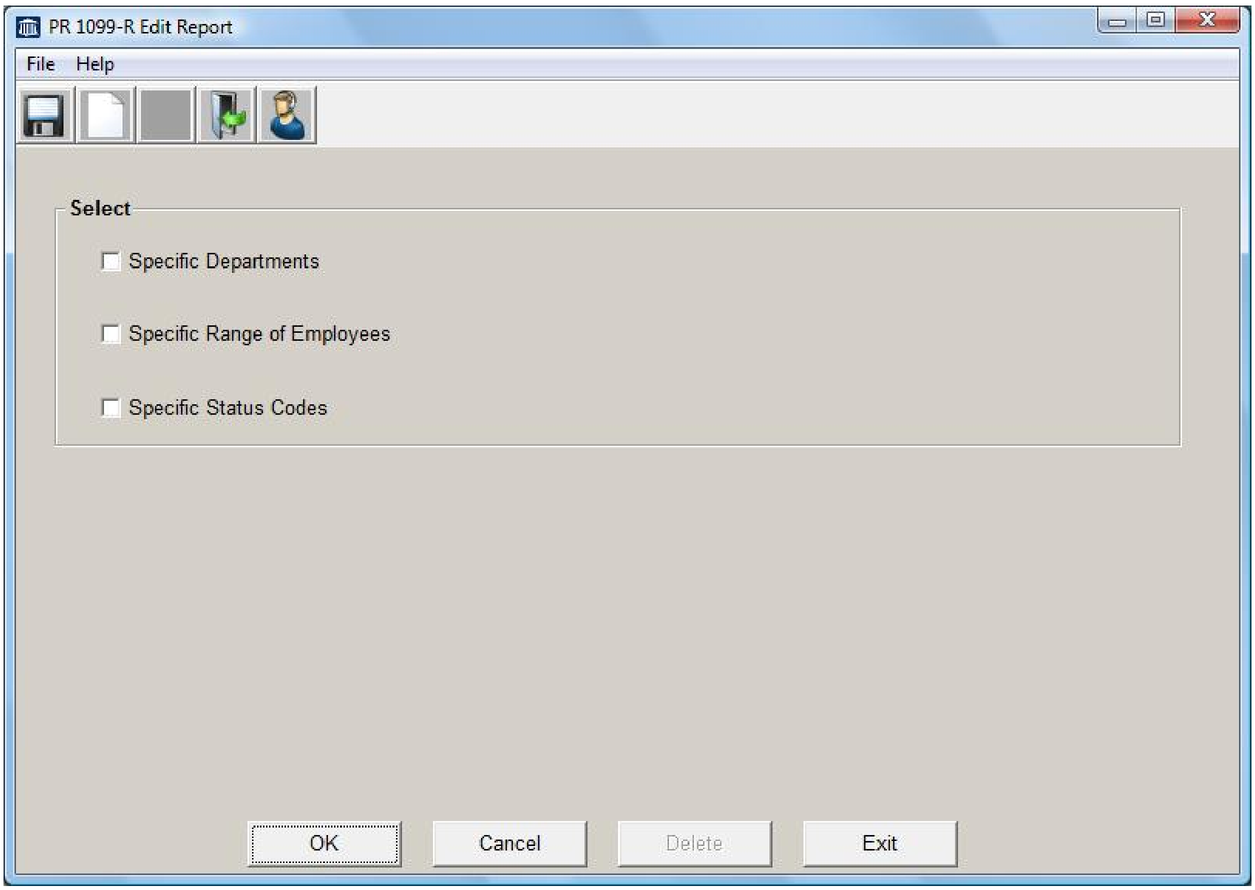
Step #2 – 1099-R Edit Report

<u>WHAT IS 1099-R EDIT REPORT?</u>

This menu option prints a columnar report of the Pr-1099r.YY workfile that was created in Step #1. It is highly recommended that you use this option to review the details prior to printing the forms. It allows you to balance your payroll control totals and subsequently balance to the actual 1099-R print totals. This report can be run as many times as needed after the 1099-R workfile is created and/or edited.

<u>HOW DO I PRINT A W-2 EDIT REPORT?</u>

From the Payroll System Main Menu, click on the "Support" menu and select "W-2 and 1099-R Processing". Then select "1099-R Edit Report" from the PR W-2 Processing screen.



The following fields can be used to print the 1099-R Edit Report. If no selections are made, then all employees will print.

<u>Specified Departments</u>
Enter (up to 10) department codes to include only employees in those specified departments.

<u>Specific Range of Employees</u>
Enter the beginning and ending Employee Number for the desired range.

<u>Employees with specified status code</u>
Enter (up to 10) status codes used to represent type of employment.

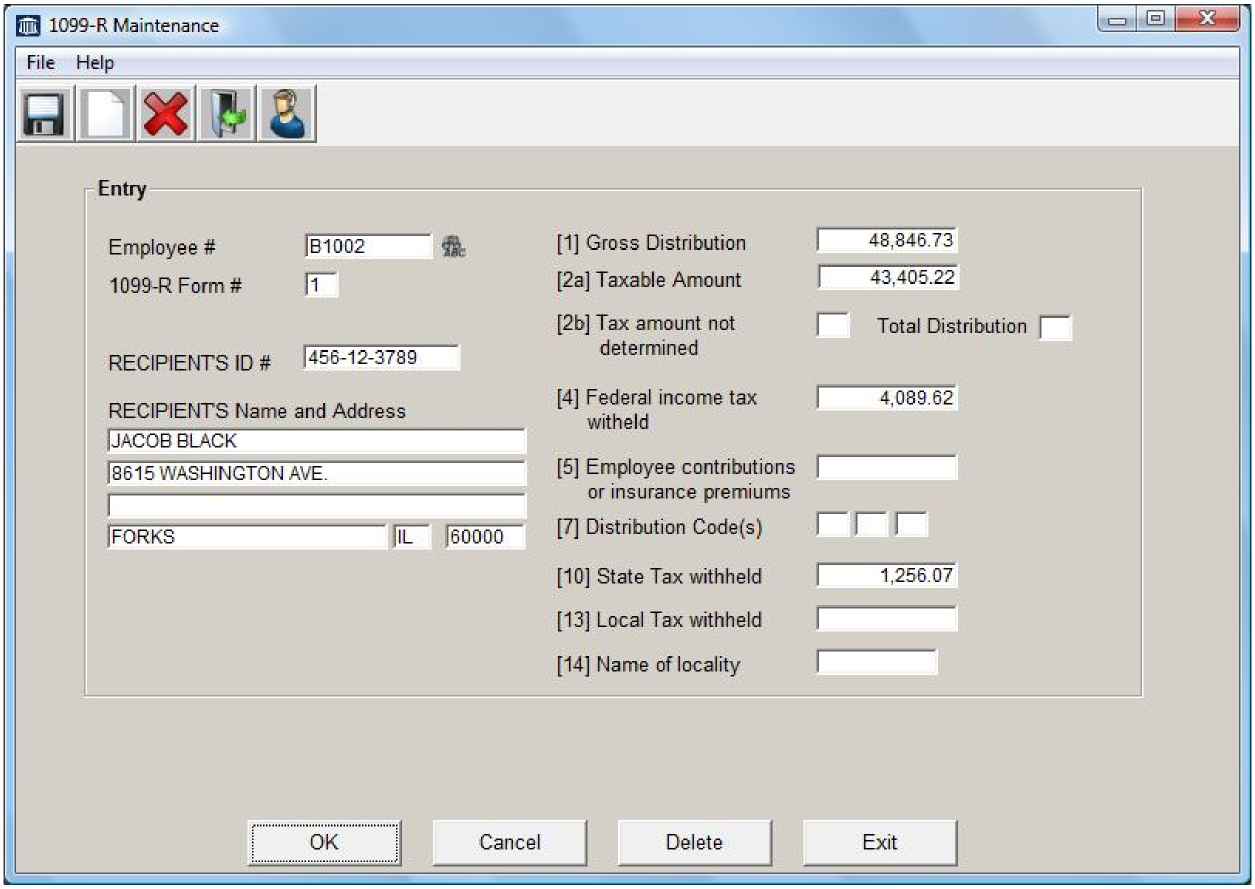
Step #3 – 1099-R Maintenance

WHAT IS 1099-R MAINTENANCE?

This menu option provides for the maintenance/input for 1099-R processing.

HOW DO I PERFORM 1099-R MAINTENANCE?

From the Payroll System Main Menu, click on the “Support” menu and select “W-2 Processing”. Then select “1099-R Maintenance” from the PR W-2 Processing screen.



If you need to edit an employee’s 1099-R maintenance screen you may do so on this screen.

Step #4 – Print 1099-R Forms

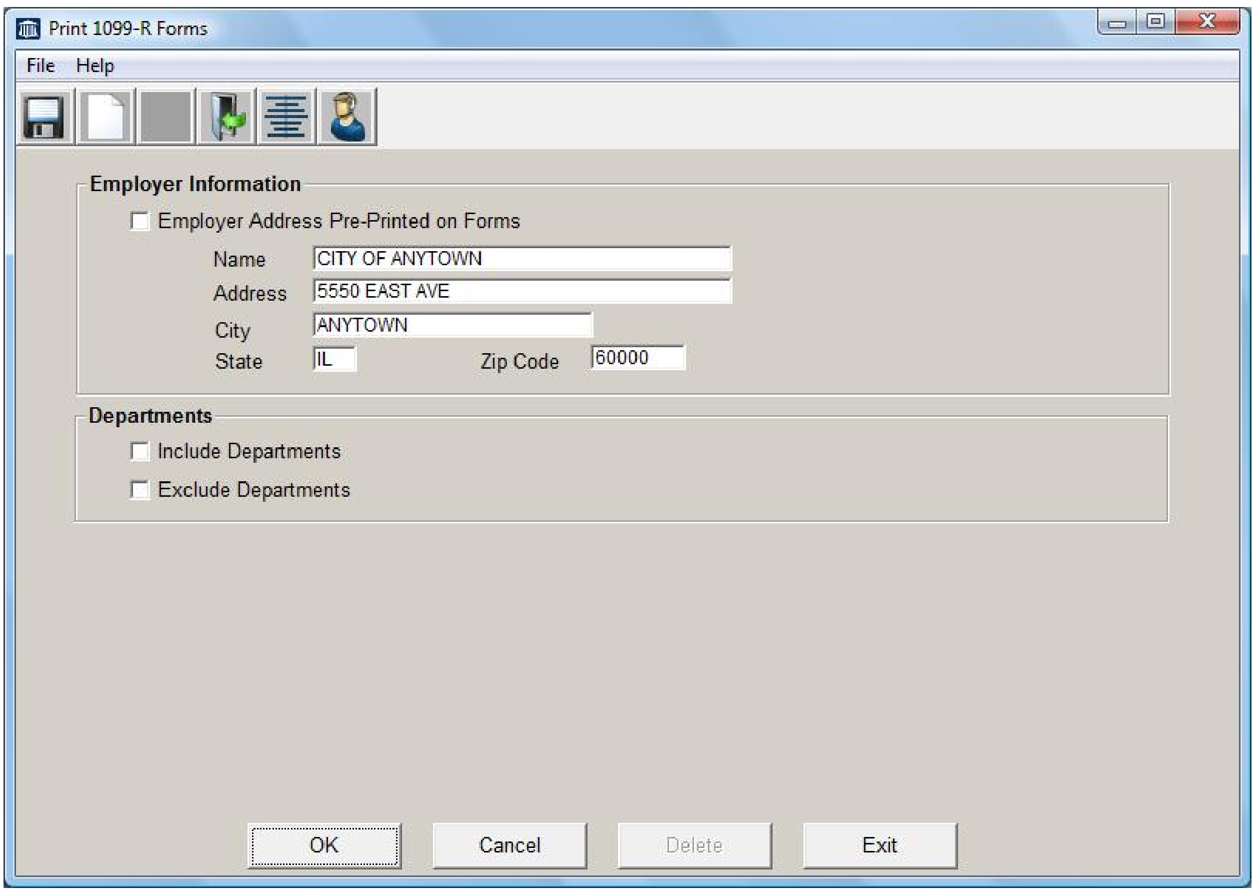
WHAT IS PRINT 1099-R FORMS?

This menu option prints the 1099-R forms using the information provided in Step #1.

> **Note: Only 2 forms per page type 1099-R's are printed by the system**. If you need to print 4 forms per page, then a custom program will be required. Please call 866-450-6696 for a quote.

HOW DO I PRINT 1099-R FORMS?

From the Payroll System Main Menu, click on the "Support" menu and select "W-2 and 1099-R Processing". Then select "Print 1099-R Forms" from the PR W-2 Processing screen.



HOW TO CORRECT PROBLEMS WITH W-2 or 1099-R INFORMATION

There are two methods that can be used to resolve problems found with the W-2 and/or 1099-R information. The method used depends on the status of the payroll for the new calendar year, as explained below.

1. If “Clear Calendar Totals” has NOT been performed AND a new payroll has not yet begun for January, then make whatever adjustments are necessary by voiding a check(s), processing additional payroll(s), etc. After these changes have been made, run the create workfile option again to include the modified totals in a new W-2 and/or 1099-R workfile.

2. If “Clear Calendar Totals” HAS been run, you MUST NOT choose to create a new workfile. Details within the workfile will need to be modified via the Edit W-2 Workfile and/or 1099-R Maintenance menu options. This allows the user to modify the physical workfile itself. Employees not originally included in the workfile CAN be added, provided an employee master file exists. After changes have been made, the Edit Report should be ran so that a final workfile listing is available.

FREQUENTLY ASKED QUESTIONS (FAQ)

1. **Q. How do I know if I'm using the most current W-2 programs?**
A. If the W-2 processing menu does not say "2011 TAX YEAR" at the top, then please call 866-450-6696 for customer support so we can help you download and install the latest tax patch.

2. **Q. My first "Medicare Only" employee is not appearing on the W-2 Form**
A. If you are using Laser Print W-2 Forms, 2 Per Page, re-run the Print W-2 Forms by a range. Refer to the W-2 Edit Report – print listing in form print order. If you are experiencing problems or require assistance with this step please call 866-450-6696 for customer support.

3. **Q. What is recommended for backups? All files or specific files?**
A. We recommend making a full system backup. If this is not possible, then at the minimum make a full backup of your Payroll data. This will include all files found under the \MSI\DATA folder that start with "PR" and end in ".DAT". It is also recommended to backup all ".DAT" files found in \MSI\CUSTOM.

4. **Q. Can I recreate the W-2 workfile?**
A. The workfile can be recreated as many times as needed BEFORE running "Clear Calendar Totals" for your year-end processing. Reminder: the year-end processing step is taken prior to creating your first payroll for the new calendar year.

5. **Q. Can the W-2 workfile be modified?**
A. The workfile can be edited, deleted, combined, changed, etc. via the Edit W-2 Workfile option.

6. **Q. In what order will the W-2 Edit Report print?**
A. The system prints the W-2 Edit Report by Employee I.D. order; though several options are available from which to choose.

7. **Q. In what order will the W-2's print?**
A. The system prints W-2's in employee last name order.

8. **Q. I'm looking for the Form numbers on the W-2 Edit Report, but they're all zeros. Why?**
A. The Form Numbers appear as zero's the first time you print the Edit Report, and will not be assigned to an employee, until after the W-2 Forms have been printed and the Edit Report re-run.

9. **Q. Does Harris supply forms?**
A. You may order your forms by going to http://www.harristaxforms.com

10. **Q. What if an employee needs a corrected W-2?**
    A. If the W-3 has not been submitted to the IRS, the W-2 can be reprinted and another W-3 can be generated manually. However, if the reprinted W-2 will affect W-3 totals, then a corrected W-2 (form W-2c) must be completed manually.

11. **Q. Where is the W-3 created?**
    A. The W-3 information can be found on the last form of your W-2 run. In addition, the same Information can be found on the total page of the W-2 Edit Report.

12. **Q. Is the W-3 accurate if you reprint a single corrected W-2?**
    A. No. If you have re-printed one or more corrected W-2's and need updated W-3 information, re-run the W-2 edit report. All of the information for the W-3 will be found in the total lines.

13. **Q. If an employee has an inactive status code, will they receive a W-2?**
    A. If the employee's YTD Gross Pay > $0.00, they will receive a W-2 regardless of employment status.

14. **Q. How is dependent care handled?**
    A. This is handled manually. The user can type in the appropriate information in Box 10 of the W-2. The information will be reported correctly on the magnetic media files.

15. **Q. Why is Box 13, Statutory Employee's marked 'X'?**
    A. This is marked if the Employee's Master File, Screen 1 has Elected Officials Y/N = Y and you have indicated on the Create W-2 Workfile screen to designate Elected Officials as Statutory Employees.

16. **Q When printing laser W-2 forms, 4 per page, how do I enter a second State tax line item?**
    A. The laser four forms on a page (2 up 2 across) forms do not provide for a second state tax line addition. It is suggested that you prepare a second W-2 form for any employees utilizing two state tax lines of data.

17. **Q When will the 2011 Federal Tax Table be available online?**
    A. This information is contained in the Federal Circular E publication which includes the Social Security wage maximum information and is usually received by ALL employers on or around 12/24 each year. Harris does not receive this information any earlier than other employers do. Within 2 business days of receiving our Circular E, Harris will post this information on the MSI web site. To find it you can go to:

    1. http://www.municipalsoftware.net
    2. and select the "Click here for Year End News & Notes" link on the left-side of the screen