



Archdiocese of Boston - Guidance on Issuing Special Easter and Christmas Checks

Many parishes, schools, and other entities in the RCAB 401(k) Plan have a long-standing practice of providing Easter and Christmas “gift” payments to employees and priests to thank them for their service at these special times of the year. Most, although not all, locations have made these payments in the form of a “special” check, either printed as a live check and enclosed in an Easter or Christmas card, or presented as a direct deposit check stub showing the amount and also enclosed in a card. Many locations that issue these special checks have not included 401(k) deductions due to a desire to arrive at a recognizable net amount (ex: \$200). While the practice of not applying 401(k) deductions to these checks was compliant with IRS regulations and Plan rules through 2015, once all wages became “eligible compensation” **effective January 1, 2016, the practice violated IRS regulations and 401(k) Plan rules.** An audit by the IRS could result in monetary penalties for parishes or disqualification of the Plan, which has negative tax consequences for all employees and priests with money in the 401(k) Plan.

The RCAB Benefits Department has consulted with a group of parish and school business managers over the past month and has also sought guidance internally from the Parish Services and the Finance Departments on ways to address this issue. The processes outlined below are intended to allow Pastors, School Principals and agency Directors to provide these honoraria to employees/priests while also ensuring compliance with IRS regulations.

Best practice: Include Easter and Christmas bonus payments in regular payroll runs, using the newly-created **Easter** and **Christmas** earnings codes. These codes have regular federal income tax withholding attached to them, so there will be no difference between using these codes and a Regular earnings code for tax withholding purposes. Adding Easter and Christmas payments to regular checks will ensure that 401(k) deductions are taken as required by IRS rules and per the employees’ (and priests’) written instructions. To enable employees and priests to see that they have been given these amounts, locations can print check stubs and highlight the earnings code or point it out in an accompanying memo.

Alternative acceptable practice:

For locations that need separate identifiable checks with identifiable net check amounts (ex: \$200 net payment): With a written Suspension Request in hand from the employee/priest (sample provided), locations should process special checks that do not include 401(k) deductions. These checks will need to be dated with a **different date (but same week) and using a separate payroll process** from the regular pay date to satisfy IRS regulations and 401(k) Plan rules (ex: Easter check would be dated April 6, whereas regular paycheck will be dated April 7). More detailed instructions and IOI screen shots are below. For calendar year 2017, the 401k Plan will reimburse locations for the extra \$12 processing fee caused by these additional check runs. If no Suspension Request has been received from an employee, locations **must add** the 401(k) deduction to each special check (see instructions below). Note that employees with flat dollar 401(k) deductions may see a zero or negative net check. Employees should not be pressured or required to suspend their 401(k) deductions on these special checks or any checks. All Suspension Requests should be retained in employee files and are subject to audit by the 401(k) Plan outside audit firm.

Caveat: For locations that wish to gross up special checks to account for employee/priest 401(k) deductions, please contact IOI for assistance. This process is simple for flat dollar deductions (ex: \$25 per pay) but is very complicated for percentage deductions (ex: 5% of wages per pay).

DETAILED INSTRUCTIONS ON PROCESSING SPECIAL HOLIDAY CHECKS

Under “Begin Payroll,” before setting up the Payroll Calendar to reflect the upcoming regular pay date, “roll back” the check date on the Payroll Calendar to show the prior check date and then enter “2” instead of “1.” The April 7 check is the 7th check of 2017; for Easter special checks, “roll back” the Payroll Number to “6” and “2.” Then hit Save.

The screenshot shows the IOI Pay interface for "Begin A New Payroll Period". The company is set to "ABTRA BOSTON TRAINING DIVISION". The form includes a "Begin Payroll" section with a dropdown menu set to "Start a new payroll period". The "Payroll Number" field is highlighted with a red circle and contains the values "2017", "6", and "2". Below the form is a "Save" button.

Action	Company Name	Payroll Number
Start a new payroll period	ABTRA - BOSTON TRAINING DIVI	2017 6 2

Then in the Company Payroll Header, under Payroll Type, “Special check run” should be showing as the default option. If not, select it from the dropdown.

The screenshot shows the IOI Pay interface for "Company Payroll Header". The company is set to "ABTRA BOSTON TRAINING DIVISION". The "Payroll Type" dropdown menu is highlighted with a red circle and shows "Special check run". Other fields include "Payroll Number", "Run Number", "Year" (2017), "Quarter", "Month", "CheckDate", "Period End", and frequency options: "Weekly", "Bi-Weekly", "Semi-Monthly", "Monthly", and "Quarterly".

Under Check Date, enter the date of the Special Check (should be the *same week* as the regular paycheck, but *not the same date* as the regular check date, i.e. a Wednesday or Thursday special check date vs. Friday regular check date). Under Period End date, enter the special check date.

If you want to have the checks delivered as live checks (vs. direct deposit), choose “Do not process” under **Special Processing Overrides** for the **Direct Deposit activity for this payroll**. The other Special Processing Overrides can remain as they are, as can all the Fiscal Processing flags.

Global Utilities	Weekly	Bi-Weekly	Semi-Monthly	Monthly	Quarterly
	CheckDate	04/05/2017			
Begin Payroll	Period End	04/05/2017			
	Time Card Information				
Employee Maint.	Date	Quantity	Code		
	Processing Flags				
Hours & Dollars	No	Month End?	Fiscal Processing Run		
	No	Quarter End?	Year	Quarter	Month
Finish & Process	No	Half-Year End?	Special Processing Overrides		
	No	Year End?	Do not process		
Human Resources			Direct Deposit activity for this payroll		
			Take all		
Benefits			Voluntary deduction withholdings		
			Compute		
		Rate times hours calculations			
		Fiscal Processing Flags			
		No	Fiscal Month End?		
		No	Fiscal Quarter End?		
		No	Fiscal Half-Year End?		
		No	Fiscal Year End?		

If you would like to suppress all tax withholding except for FICA/MHI, select “Withhold FICA/MHI only on special checks” under the first option, FICA/MHI. No additional coding is needed here if the Easter or Christmas earnings codes are used. You can also add a message on the Check Stub at the bottom of the screen. Click “Save” when all options have been selected.

Benefits	Tax Processing Overrides		
	Tax	Override Option	Percentage
Reports	FICA/MHI	Withhold FICA/MHI only on special checks	
	Federal	Compute tax as normal on all checks	
Employee Self Services	State	Compute tax as normal on all checks	
	County	Compute tax as normal on all checks	
Premium Features	City	Compute tax as normal on all checks	
	School	Compute tax as normal on all checks	
Check Stub Message 1			

To enter the Easter or Christmas payment, go to Hours & Dollars → Paycheck Options. The Check Type will say “Spl check.” You can change this to “Gross up Chk” if you want to gross it up to account for FICA/MHI. Then change the earnings code on line 1 to **Easter (EAST)** or **Christmas (CMAS)**. Then enter the amount under “Othearn.”

The screenshot shows the 'Check Information' section with 'Check Type' set to 'Spl Check'. Below it is the 'Tax Override Setup' section. The main table has three rows:

	EarnCd	Reg	Ovt	Dbl	RateCtl	SPRate	Othearn	Labor Dist
1	EAST - R - EASTER HONO						200.00	
2	- R - REGULAR							
3	- R - REGULAR							

For employees/priests who have 401(k) deductions active in IOI and who did not sign a Suspension Request, you must key in the 401(k) deduction to maintain compliance with IRS regulations. In the example below, the \$250 deduction will wipe out the entire \$200 check. A % deduction will calculate the % of the check as it does with regular checks. Note that the deduction will also calculate a match for eligible employees as occurs with regular checks.

The screenshot shows the 'Deduction and direct deposit overrides' section. The '401K PRETAX' deduction is configured as follows:

Deduction	Description	Take	Override Amt / Pct	Original Amt / Pct	Arrears
401P	401K PRETAX	Force regardless of	0.00	250.00	0.00

Not recommended: To gross up a check that includes a 401(k) deduction that is a fixed amount (ex: \$25), add the flat dollar amount to the net check amount. To gross up a check that includes a % 401(k) deduction, contact IOI for assistance.