Your Advantage

NEWS AND INFORMATION TO HELP YOU AND YOUR BUSINESS SUCCEED

NOVEMBER 2011 ISSUE

EMPLOYER ADVANTAGE
A Professional Employer Organization

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NAPEO Member National Association of Professional Employer Organizations

Employer Advantage announces

EA announces the following holiday observance schedule:

Thanksgiving holiday hours
Thursday, November 24
CLOSED

Friday, November 25
CLOSED

Christmas holiday hours
Monday, December 26
CLOSED

New Years holiday hours
Monday, January 2
CLOSED

W2s are not that far away. Employees may sign up to receive their W2 electronically by registering at www.paperlessemployee.com/employeradvantage. Employees who have already registered for electronic W2s do not need to register again

Cyber Monday

There was a time when employees would fight for the Friday off after Thanksgiving. Not just to have an extended holiday and see family, but to get up at a frighteningly early hour, stand in the cold dark night and hunt down bargains. Now, many savvy shoppers sleep in on Black Friday while they wait for Cyber Monday deals (and now Cyber Week Deals) and to use the high speed internet at work.

This sounds like a threat to your productivity at work, right?

In the world of productivity threats, shopping during Cyber Week may not be the biggest time waster. Consider this: in 2009, the Monday after the Super Bowl Game, 1.5 million workers didn't show up for work and an estimated 4.4 million employees showed up late. Then there were the employees who did show up on time but were sleep deprived, grouchy and certainly not in their highest productive states.

Then, there is March Madness. According to a study by Challenger, Gray & Christmas, 8.4 million hours of March Madness viewing was done at work in 2011. These hours did not include the office pools, water cooler talk or other distractions (trash talking office mates) from the job.

Since I'm not a huge sports fan, you might think I'm a little biased about shopping from work. However, I'd like to say that by allowing employees to do a little bit of their holiday shopping during the "High Deals" Cyber Week, you may cultivate employee happiness and loyalty that could go a long way. Here's the connection:

Over the last two years, Mercer's Compensation Planning Survey found that companies had projected raises of 2.7% in 2010 and 2.9% in 2011. The US Inflation Calculator (www.usinflationcalculator.com) website shows inflation for the same time period is calculated at 5.8%. This means that employees' increases are not really keeping up with inflation and many workers are trying harder to stretch their pay.

So, if you allow shopping during Cyber Week you are helping employees get great bargains on their holiday shopping list. This will result in happier and less stressed employees who have saved money and gotten things checked off their holiday "to do" list. We know that happier employees result in better productivity and customer service, so why not try it out this Cyber Week?

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▸ Cyber Monday continued

Of course, you will want to put some rules into place. Rules like:

- Allow employees to take a little longer lunch to cyber shop, or to take breaks and order one or two items on their lists, provided their departments are covered.
- Employees should not use company credit cards or company email addresses to shop
- Packages need to be sent to the employees' home addresses
- Have your IT department define secure websites so employees can take precautions
- Post a list of secure websites from which employees may shop
- Let employees know that when Cyber Week is over, so is shopping from work

Hopefully, by allowing a little leeway during Cyber Week, you'll have a holiday season full of happy employees.

IRS Raises Retirement Plan Contribution Limits for 2012

This fall, the IRS announced cost-of-living adjustments affecting dollar limits for defined contribution and defined benefit retirement plans for 2012.

Defined Contribution Plans

- The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan increases from $16,500 to $17,000.
- The catch-up contribution limit for those age 50 and older remains unchanged at $5,500. The catch-up contribution may be made as of Jan. 1, 2012, by participants who will reach age 50 at any time during the year.
- The overall limit for defined contribution plan deferrals from all sources (employer and employee combined) increases from $49,000 to $50,000 per participant.
- The amount of employee compensation limit that can be considered in calculating contributions to defined contribution plans increases from $245,000 to $250,000.
- The limit used in the definition of highly compensated employee for 401(k) nondiscrimination testing purposes (the definition of key employee in a top-heavy plan) increases from $160,000 to $165,000.

Defined Benefit Plans

- The maximum annual benefit that can be funded through a defined benefit plan increases from $195,000 to $200,000.
- vFor a participant who separated from service before Jan. 1, 2010, the limit under a defined benefit plan for 2012 is computed by multiplying the participant's 2011 compensation limit by 1.0327 in order to reflect changes in the cost-of-living index from the quarter ended Sept. 30, 2008, to the quarter ended Sept. 30, 2011.
- For a participant who separated from service during 2010 or 2011, the limit under a defined benefit plan for 2012 is computed by multiplying the participant's 2011 compensation limit by 1.0376 in order to reflect changes in the cost-of-living index from the quarter ended Sept. 30, 2010, to the quarter ended Sept. 30, 2011.

IRAs

- The deduction for taxpayers making contributions to a traditional individual retirement account (IRA) is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) from $58,000 to $68,000, up from $56,000 and $66,000 in 2011.
- For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the AGI phase-out range is $92,000 to $112,000, up from $90,000 to $110,000.
- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out for couples with AGI from $173,000 to $183,000, up from $169,000 and $179,000.
- For a Roth IRA, the AGI phase-out range for taxpayers making contributions is $173,000 to $183,000 for married couples filing jointly, up from $169,000 to $179,000 in 2011. For singles and heads of household, the income phase-out range is $110,000 to $125,000, up from $107,000 to $122,000. For a married individual filing a separate return who is covered by a retirement plan at work, the phase-out range remains $0 to $10,000.
- The AGI limit for the saver's credit (also known as the retirement savings contributions credit) for low-and moderate-income workers is $57,500 for married couples filing jointly, up from $56,500 in 2011; $43,125 for heads of household, up from $42,375; and $28,750 for married individuals filing separately and for singles, up from $28,250.

For more information on how these changes might affect your retirement plan, or if you would like to put a 401(k) in place, contact our Benefits Team at benefits@employeradvantage.com or by calling 800-467-3909 ext. 760.

Leave Sharing Program

A Leave Sharing Program allows employees to donate earned time off to other employees who have exhausted their paid time off due to their own illness or illness of a family member. Usually a program like this comes out of employees wanting to help a fellow worker through a rough time. Companies need to be aware of IRS guidelines when instituting such a program.

Basically, tax law says that if a person earns income, he should be taxed on it. For example: Bob earns $250 for a week of work and wants to give it to his coworker, Hutch. The IRS says that Bob will be taxed on the income, even though he never receives it. The IRS applies the same rule to Paid Time Off (Vacation, Paid Days Off, Earned Time Off, etc.) in that the donating employee may be taxed on the usage of the donated time instead of the receiving employee.

There are two leave donation programs that the IRS will allow that does not tax the donating employee.

Medical Emergencies

A company sponsored leave-sharing program may permit employees to donate leave to other employees who have experienced a medical emergency. The IRS's definition of emergency is "a medical condition of the employee or a family member that will require the prolonged absence of the employee from duty and will result in a substantial loss of income to the employee because the employee will have exhausted all paid leave available apart from the leave-sharing plan." Under this definition, any donated time off will be considered "wages" of the recipient under FICA, FUTA and any state or federal withholding. The donator may not claim any sort of expense, charitable contribution or loss under this plan.

In order for a Medical Emergency Leaving Sharing Plan to be valid, it should include:

- A written plan administered by the employer,
- Leave only being used for medical emergencies of the employee and/or family,
- A process for applying for leave from the bank,
- Specific limits and amount of time donated by donor per year,
- Be a "leave bank" where employees can deposit donated leave and the company can distribute to employees who need and request it,
- The leave transferred under the donation plan is actually used as medical leave by the recipient. If the program simply liquidates the donated leave and pays cash to the recipient, it will not be viewed as a qualified medical emergency leave program.

Major Disaster

An employee may also draw from an employee-sponsored leave bank in the event that the employee experiences a "major disaster." A "major disaster" is defined by the IRS as an emergency or disaster declared by the President of the United States. Like medical emergency plans, the leave donor under the major disaster plan may not claim an expense, charitable contribution, or loss deduction for any leave donated. Also, the payments to the recipient under the plan are treated as the recipient's "wages" for purposes of FICA, FUTA, and tax withholding, unless otherwise excluded under the Internal Revenue Code.

In order for a Major Disaster Leaving Sharing Plan to be valid, it should include:

- A written plan administered by the employer;
- Leave must be used for purposes related to the natural disaster;
- The amount of time donated by a donor may not exceed the maximum amount of leave that is normally accrued in a year.
- The donor may not specify a leave recipient.
- A reasonable time limit for leave donations and use of donated time.
- A way for the employer to make a determination of the amount of leave an employee may receive.
- Leave deposited for one disaster may only be used for that disaster. Any leave left in the bank at the end of the time period must be returned to the donors.

Conclusion

While it is admirable for employees to want to help fellow employees with leave sharing, companies need to ensure that a written plan is in place and can be administered easily. Otherwise, it may cause the leave time to be taxed to the donating employee.

Jobs Legislation

More than likely some form of "Jobs Legislation" will be passed before the end of the year. While we don't know what will be included, it will probably include lower payroll tax rates and/or tax credits. Whatever is included will involve payroll.

We and our software providers will follow the legislation closely and be ready to implement at the effective date.