## 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.



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.

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.



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.

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."



For employees/priests who have 401(k) deductions active in IOI and who did <u>not</u> 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.



<u>**Not recommended**</u>: 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.

**REQUEST FOR SUSPENSION OF 401(k) DEDUCTIONS ON NON-REGULAR PAYDATES**

By my signature below, I hereby confirm that I request to suspend participation in the Roman Catholic Archdiocese of Boston 401(k) Retirement Savings Plan for any pay dates that fall outside my regularly scheduled pay dates, effective on the date noted below.  I understand that suspension on these dates means I will not be permitted to defer compensation from any such paychecks and that I will not receive an employer matching contribution for any such paychecks.  This request for suspension overrides any written Salary Deferral Forms for those non-regular pay dates only.  This request is presumed granted by the payroll contact at my location and remains in effect until it is revoked.

Employee/Priest Name:        _____

Employee/Priest Signature:   _____

Effective Date:                       _____


*COMPLETE THE SECTION BELOW IF THE ABOVE SUSPENSION REQUEST IS COMPLETED AND THEN REVOCATION OF THE SUSPENSION IS REQUESTED AT A LATER DATE.*

Revocation of Request:   By my signature below, I hereby revoke this Request for Suspension and ask that all checks that fall outside my regularly scheduled pay dates include 401(k) deductions consistent with the Salary Deferral Form in effect as of the date of those checks.  This revocation is effective on the date noted below.

Employee/Priest Signature:   _____

Effective Date:                       _____