

Pre-notes for a Deferred Payroll Deduction – Special Consideration

When using Payroll Direct Deposit in the GMS Accounting System, it has always been our recommendation to pre-note any change or addition in a bank account or routing number within an employee file. This is, of course, to avoid any problems resulting from a mistake being made in a field that could cause an employee to not be paid or the entire file to fail at the bank.

In addition to net pay, a direct deposit can also be set up for a specific deduction and this deduction may be deferred from certain taxes. Furthermore, the coding for a deferred deduction might designate a cash account rather than a liability account. An example of this would be a deduction for an HSA (Health Savings Account). In these cases, rather than withholding the deduction to a liability account for which the organization then prepares a check for payment, the deduction is automatically deposited into a bank account. It is important that you understand the procedure in which our software calculates net pay to understand what may happen when a pre-noted deduction that is deferred from taxes goes directly to a cash account.

For this example, let's assume there is a deduction for \$100 entered in an employee file for an HSA account that would go directly to a savings account. This deduction is deferred from federal and state taxes. During the first payroll in which this deduction is set up, the deduction is a prenote. When the software calculates the federal and state tax to be withheld, the \$100 is taken into account, therefore reducing the taxable income. Then when the NACHA file is created, our software sees that the deduction is a pre-note so the \$100 is added back into the net pay. So in reality it was not withheld. However, the federal and state taxes had already been calculated using the \$100 deferral. In effect, federal and state taxes were under withheld.

In order to avoid this problem, should you ever find yourself in a situation where you are prenoting a deduction that is deferred from any type of tax, simply make the amount of that deduction 0.00 so it will have no effect on the tax calculation. ***Of course you must remember to then enter the deduction amount in the employee file for the next payroll when the deduction is "live".***