

Product Family

How do I configure wage basis rules?

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1 Setup Summary

Scope

Use this playbook to understand how you can set up wage basis rules for payroll.

It includes the implementation steps to create wage basis rules and verify the created wage basis rules.

Example of Wage Basis Rules

Let's look at an example of how an employee's earnings included in the wage basis rules vary depending on the work location of the employee.

Brittany is a salesperson who receives a salary of 2,000 each month. Brittany also has a company car she drives. Brittany works in her company's East Coast district, and she spends 50 percent of her time in New York and 50 percent of her time in Pennsylvania. Last month, Brittany reported personal use that equated to 100, (50 personal use in New York, and 50 personal use in Pennsylvania).

The tax rules for each region she works is as given here:

- In New York, imputed earnings such as personal use of company car amounts are included in the taxable wages.
- In Pennsylvania, imputed earnings such as personal use of company car amounts are NOT included in taxable wages.

This table shows the tax calculations that apply for each region.

Tax Calculations Depending on Work Location

Region	Earnings in Salary	Eligible Imputed Earnings	Taxable Amounts	Deduction Amount
New York	1000	50	1050	35
Pennsylvania	1000	(50-Exempt)	1000	30

This table shows the wage basis rules for this tax calculations.

Wage Basis Rules

Region (Reference Value)	Primary Classification	Secondary Classification	Use in Wage Basis?
New York	Standard Earnings	Regular	Y
New York	Imputed Earnings	Personal Use of Company Car	Y

Region (Reference Value)	Primary Classification	Secondary Classification	Use in Wage Basis?
Pennsylvania	Standard Earnings	Regular	Y
Pennsylvania	Imputed Earnings	Personal Use of Company Car	N

Setup Approach

Let's consider the example of Brittany and see how we can set up the wage basis rules for her.

Brittany works in her company's East Coast district, and she spends 50 percent of her time in New York and 50 percent of her time in Pennsylvania.

She uses the company car, the use of which she has to report in order to be taxed properly. Consider the following to set up wage basis rules for Brittany.

- She receives a monthly salary of 2,000.
- Last month, Brittany reported a total personal use of the car amount of 100. She spent 50 percent of it in New York and 50 percent of it in Pennsylvania.
- In New York, imputed earnings such as personal use of company car amounts are included in the taxable wages.
- In Pennsylvania, Brittany isn't taxed for her personal use of the company car.

Use these tasks to create the wage basis rules for Brittany:

- a. Use the **Element Classifications** quick action under Payroll and check if the secondary classification of Personal Use of Company Car is available under the primary classification of Imputed Earnings for an US LDG.
- b. Use the **Elements** quick action and create an element for Company Car for the US LDG. When you create the element, under the Standard Rules section, select the element as Nonrecurring and the Employee Level as Assignment Level.
- c. Use the **Component Group Rules** quick action under Payroll and navigate to Regional > Related Deductions > State Tax, to create the wage basis rules. Create a wage basis rule for the secondary classification of Personal Use of Company Car and the state of NY. Ensure that for Pennsylvania's Primary Classification of Imputed Earnings the **Use in Wage Basis value** is set to **N**.

2 Create Wage Basis Rules

Understanding Wage Basis Rules

Use this playbook to understand how you can set up wage basis rules for payroll.

Wage basis rules determine the earnings that are subject to a deduction or tax. For deductions, wage basis rules determine the elements that reduce the amount subject to tax.

Each wage basis rule is associated with a primary or secondary element classification.

- Deduction element classifications identify which types of earnings are subject to the deduction and whether they reduce the subject wages. When you view wage basis rules through the Component Group Rules task, a check mark indicates the deduction doesn't reduce.
- For earnings elements, the classifications identify which types of earnings reduce the amount subject to calculation. For Earnings, a check mark indicates that the earning is subject to that tax.

Use the Component Group Rules task in the Payroll area to view the predefined rules or create rules. The rules are based on the deduction types. The wage basis rules are date effective.

Involuntary deductions have their own wage basis rules. Wage basis rules define how earnings contribute to the subject wages for the different involuntary deduction types.

- Earnings contribute to the disposable income for the different involuntary deduction types.
- Deductions reduce the disposable income for the different involuntary deduction types.

The predefined wage basis rules for a legislation help determine the taxation of earnings at the federal and provincial or state levels.

References for Wage Basis Rules

When you define a wage basis rule, you can associate it with up to six references that define the context for the rule. Each reference has a number that determines the sequence in which it's evaluated for processing relative to other references. For example, if a wage basis rule for a regional tax deduction has references for both county and city, then the county reference should have a higher number than the city so that it gets evaluated first.

Note: You can't edit predefined rules or references.

The wage basis rules and related references for statutory and involuntary deductions are predefined for each country.

View the Predefined Wage Basis Rules

Follow these steps to view the predefined federal and provincial wage basis rules.

1. Navigate to **My Client Groups < Show More < Payroll** and select the **Component Group Rules** task.
2. Select your US legislative data group (LDG), for example, a US LDG. Click **Search**.
3. Select **Federal** on the Component Group Rules page.
4. In the tree structure, expand **Federal** and **Wage Basis Rules**. Select **No References**.

5. View the wage basis rules for Imputed Earnings, Pretax Deductions, and Supplemental Earnings.
 - For Earnings, a check mark indicates the earning is subject to that tax. If no check mark is present, then the earning isn't subject to tax. The absence of an entire row is the same as no check mark.
 - For Pretax Deductions, a check mark indicates that the deduction is subject to taxation and it doesn't reduce the subject wages. If no check mark is present, then the deduction isn't subject to taxation and it reduces the subject wages. The absence of an entire row is the same as no check mark.

View the Regional Components

Follow these steps to view the regional components.

1. Select **Regional** on the Component Group Rules page.
2. In the tree structure, expand the Regional and Wage Basis Rules nodes. Select **State**.
3. View the wage basis rules for Imputed Earnings, Pretax Deductions, and Supplemental Earnings as they relate to each state-level tax.

Create Wage Basis Rules

This topic demonstrates how you can set up wage basis rules for an employee, for example Brittany, whose earnings vary depending on the work location of the employee.

Let's consider the following to understand how we can set up the wage basis rules for Brittany:

- She receives a monthly salary of 2,000.
- Last month, Brittany reported a total personal use of the car amount of 100. She spent 50 percent of it in New York and 50 percent of it in Pennsylvania.
- In New York, imputed earnings such as personal use of company car amounts are included in the taxable wages.
- In Pennsylvania, Brittany isn't taxed for her personal use of the company car.

The tasks required to create the wage basis rules for Brittany is given here. Follow the steps detailed under each task to create the wage basis rules.

1. Verify Availability of Element Classifications

Check if the secondary classification of Personal Use of Company Car is available under the primary classification of Imputed Earnings for an US LDG.

1. Select the **Element Classifications** quick action under Payroll on your Home page.
2. On the Element Classifications page, select the **US Legislative Data Group**.
3. In the Name field enter **Imputed Earnings** and search.
4. Select the **Imputed Earnings** row in the search results section.
5. On the Element Classifications: Imputed Earnings page, confirm that Personal Use of Company Car is available in the Secondary Classifications section.

If you don't see the Personal Use of Company Car secondary classification, use the Add icon to create the secondary classification.

2. Create an Element for Usage of Company Car

Follow these steps to create an element for usage of company car.

1. Use the **Elements** quick action under Payroll to confirm if an element, for example, AT Company Car, exists for computing the taxes for personal use of company car.
2. On the Elements page, select the **US Legislative Data Group**.
3. In the Name field enter **AT Company Car** and search. If the element doesn't exist create the element.
4. Confirm that the element has Imputed Earnings as the Primary Classification and the Secondary Classification is Personal Use of Company Car.
5. In the Standard Rules section, set the Recurring entry to **Nonrecurring** and the Employee Level to **Assignment**.

3. Create the Wage Basis Rules

Follow these steps to create the wage basis rules for Brittany.

1. Use the **Component Group Rules** quick action under Payroll on your Home page, and navigate to **Regional > Related Deductions > State Tax**.
2. On the Component Group Rules page, select the **US Legislative Data Group** and click **Search**.
3. Click **Regional** in the search results section.
4. Navigate to Regional > Related Deductions > State Tax, and click **Wage Basis Rule** to create the wage basis rule.
5. In the State Tax: Wage Basis Rules section, enter **Personal Use of Company Car** in the blank field above Secondary Classifications, and click **Enter**.
6. Use the Add icon to create a wage basis rule for the state of New York. In the Create Wage Basis Rule window, enter the following as shown in this table.

Create Wage Basis Rule

Field	Value
Effective Start Date	Enter an appropriate date.
State	NY
Primary Classification	Imputed Earnings
Select all secondary classifications	No
Secondary Classifications	Personal Use of Company Car
Subject to wage basis rule	Yes

7. Click **Submit**.
8. Confirm that for Pennsylvania the **Use in Wage Basis** value is set to **N** for the Primary Classification of Imputed Earnings.

You can see that New York is now added to the Wage Basis Rules listed under Sales Tax.

Run a QuickPay for Brittany and check the State of Earnings to verify that the Calculated Earnings, the Imputed Earnings, Taxable Amounts, and Deductions are as expected for both Pennsylvania and New York.

Verify Wage Basis Rules

After you set up wage basis rules for an employee, run a QuickPay for the employee and review the employee's Statement of Earnings(SOE) to verify that the payroll calculations and run results are as per the configured rules.

For example, after you create the wage basis rule for Brittany, as given in the previous example, run a QuickPay for Brittany. Open the SOE and review the Taxable Benefits amount to confirm that the calculations are for the company car. Check the SOE to verify that the Calculated Earnings, the Imputed Earnings, Taxable Amounts, and Deductions are for both Pennsylvania and New York, as given in this table.

Tax Calculations Depending on Work Location

Region	Earnings in Salary	Eligible Imputed Earnings	Taxable Amounts	Deduction Amount
New York	1000	50	1050	35
Pennsylvania	1000	(50-Exempt)	1000	30

Follow these steps to run a QuickPay for Brittany and view her SOE.

1. Navigate to **My Client Groups < Show More < Payroll** and use the **Simplified QuickPay** task to run a QuickPay for Brittany.
 - a. On the Person page, search for and select Brittany.
 - b. On the QuickPay Submission page, verify the information, and click **Submit**.
 - c. Click **Refresh** until the Calculate QuickPay task is complete.
 - d. Click the **Verify Payroll Results** task in the checklist.
 - e. On the View Person Process Results page, click Brittany in the Search Results.
 - f. In the Statement of Earnings section, view the Earnings and Taxable Benefits.
 - g. Click on the Taxable Benefits amount to confirm that the calculations are for the company car.