Which Financial Details Do I Have to Include on my Year End Census Report?

Facts

Last week, you explained some the demographic data points that get reported on the annual census. Now, I've got some questions on the financial information I've been asked to provide to my TPA. Some of it seems obvious until I start to dig into it.

Question

When it comes to the financial information (like compensation and contributions) I report on my year-end census, how detailed do I have to get? Is close enough good enough?

Answer

Your question on the financial information is understandable, especially when it takes more time to achieve precise numbers that don't seem that much different than the estimated ones. But since this is not horseshoes, close enough is not good enough.

Don't worry, we're ready to share some guidance with you to help you navigate this next section of the census request. We'll start with some general rules and then look at some of the financial elements individually. Here we go!

Do I have to report the actual figures, or can I report the rate for each person?

All of the year-end testing and so forth must be based on actual numbers. In other words, you must report the actual amount each person was paid for the year rather than their annual salary rate or an hourly rate multiplied by a standard number of "full time" hours. The same is true for employee contributions – we need the actual deferral amounts for each person.

Which pay dates do I include? How do I handle it when the first paycheck of this year covers hours worked in the previous year?

Ah, yes. The cash vs. accrual reporting question is always a challenge. The short answer is that the employee compensation and employee deferrals should be reported on cash basis. Another way to put it is that both of those figures should tie to what is reported on each employee's W-2 for the year.

Let's say your payroll runs every two weeks and that your first paycheck in 2020 was on Friday, January 3rd. That means most of that check was for services performed in 2019. Doesn't matter. Since it was actually paid in 2020, it all counts for the 2020 census. The same logic applies for any 401(k) deferrals associated with that paycheck.

When it comes to compensation, do I have to break it out into its various components such as base pay, overtime, and bonuses?

It depends on how your plan document defines compensation for plan purposes. While many plans simply say that gross compensation should be used, some specify that certain forms of pay are disregarded. Such excluded items could include fringe benefits (such as company paid life insurance premiums) or bonuses or just about any specifically definable type of pay. For employees who first become eligible for the plan in a given year, some plans disregard any pay they received before their initial eligibility date.

To the extent your plan excludes any of these items, they must be broken out and reported separately for each employee. At the end of the day, we need gross pay as well as the amounts of each of the excluded types of pay. The reason is that even though the plan might carve out some compensation for calculating benefits, some of the nondiscrimination tests and limits are applied against gross compensation. Here is a quick rundown of a few of those items if you are curious (or are just having trouble sleeping).

- Compensation ratio testing,
- HCE determination,
- ADP/ACP non-discrimination testing, and
- Top heavy contribution calculations.

Fun, right?

The compensation for the owners of the company is based, in part, on company profitability. What should I report for them?

That is a question that can get pretty in-depth pretty quickly, so we will try to keep it at a high level here. If your business is a corporation or is taxed as one (such as an LLC that is taxed as an S-Corporation), then the only pay that counts for plan purposes is W2 compensation. Any year-end profits paid out to the owners and reported on Form K-1 don't count. However, for other types of entities such as sole proprietorships or partnerships, the owners don't receive any W2 pay. In those situations, it is usually necessary to wait for the company's accountant to close out the year and determine the final profits as well as each owner's share.

We get a little more into those details here and here.

Got it! So how do I know what deferrals to report?

Keep it simple. As mentioned above, deferrals should be reported on a cash basis. We know it can seem confusing when you think about the first payroll in January 2021 reflecting hours worked and compensation earned in 2020. However, the deferrals from this pay period should be included for 2021 testing and not on the 2020 census.

One more thing to keep in mind, the timing of when you deposit deferrals into the plan does not change the general rule. Even if the deferrals for a December 2020 paycheck are not deposited until January 2021, they are still 2020 deferrals because they came from a 2020 paycheck. Don't worry, it's not unusual for reports from your recordkeeper to be "off" by a pay period due to a lag between the paycheck date and the date the deferrals are deposited. As long the deferrals on your census tie to your W2s, you're golden.

least 3 years to be eligible to make 401(k) deferrals. Granted, the earliest someone could join your plan under this new rule is not until 2024, but it'll be critical that you have employee data available for reference back to the start of this year.

Makes sense so far. What about employer contributions? Do I include those?

Depends on your plan, but a basic rule of thumb is this - if you've deposited company contributions (usually match or safe harbor contributions, but maybe profit sharing also) to the plan during the year, include those on the census. Let's take a quick look at some of the nuances of matching versus profit sharing contributions.

For matching contributions, your plan document may require them to be calculated separately for each pay period (or month, quarter, etc.) or based on the entire year's worth of compensation and deferrals. If your plan calls for an annual calculation and no match has been deposited to date, you probably don't need to report the match on the census. The reason is that your TPA will most likely calculate the annual match for you, but if DWC is not your TPA, it might be a good idea to confirm this. If, on the other hand, your plan requires pay period calculations, you'll need to include those matching contributions on the census. As part of the compliance work, we'll prepare an annual calculation and compare it to what you've reported to highlight any variances that may need to be reviewed. If talk of entire year versus pay period matching has you tongue-tied, we've got a refresher for you here.

With this information included on your census, you're almost done and ready to submit your data! We say "almost" because there is still that exciting annual questionnaire. Next week, we'll discuss some of those additional questions that your service provider might ask of you, topics like ownership, family relationships, and related employers.

We hope these details make the census preparation an easier endeavor, but don't stress if they don't quite get you there. Our team is happy to review your plan document with you and provide the guidance you need to wrap-up your census on the first try.