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## **Subject: EXTRA PAYCHECK IN 2009 OR 2010?**

An interesting phenomenon occurs every 5-7 years for employers who pay on a weekly or bi-weekly payroll schedule - -a 53<sup>rd</sup> weekly or 27<sup>th</sup> bi-weekly payroll check. For employers who pay on Fridays, they will notice an extra paycheck this year if they date January 1, 2010 paychecks as December 31, or they will have an extra payroll check in 2010 if they date the January 1, 2010 paychecks in 2010.

### **WHY DOES THIS OCCUR?**

Employers who pay weekly or bi-weekly pay for 364 days of work schedules each year (52 x 7 or 26 x 14). Since a year consists of 365 days, or 366 days in “leap year”, these extra days are caught up every 5-7 years. This calendar phenomenon actually occurs every year for one day of the week, but is particularly noticeable due to New Years Day 2010 falling on a Friday - - the most common employer pay date!

### **ARE EMPLOYEES PAID FOR NOT WORKING?**

The general answer is “no” – your pay period and pay date policies will dictate that people are paid weekly or bi-weekly from their start date. So this is not a “free” payday!

**NOTE** – Employers who pay annual salaries should review how much their salaried staff will earn in both 2009 and 2010. If an employer divided an annual salary by 52 weeks or 26 bi-weekly amounts, and paid accordingly, they could actually “overpay” with an extra paycheck in 2009. If this is the case, the employer may wish to downwardly adjust the staff’s per pay wages in 2010. AccuPay can help you “think through” this and adjust payroll accordingly for 2009 or 2010.

### **DOES THIS AFFECT SEMI-MONTHLY OR MONTHLY EMPLOYERS?**

No. There are always 12 months and 24 one-half months in a 365/366 day year.

### **EXTRA PAYCHECK IN 2009 OR 2010?**

**Employers who pay on a weekly or bi-weekly schedule will pay an extra payroll check either this year or in 2010. Some of the considerations with regard to dating the extra paycheck on December 31, 2009 or January 1, 2010 are:**

- For – profit “cash basis” taxpayers (doctors, consultants, service providers) can deduct 2009 dated payroll checks this year. Most taxpayers prefer to claim tax-deductions earlier rather than later;
- Non-profit corporations, local governments and churches should make the 2009/2010 decision consistent with their existing budget. A municipal employer client of AccuPay requested that the payday be reported as January 1, 2010 to prevent going over-budget in 2009; and
- Many employers will choose to date the Friday payroll as December 31, 2009 so that employees have access to their pay before the New Year’s weekend. Direct deposit files dated January 1, 2010 will not be available to employees until Monday, January 4, 2010, based on Federal Reserve requirements.

### **OTHER EXTRA PAYCHECK CONSIDERATIONS**

- Many employees will ask how the extra payroll check will affect them tax wise, whether it “puts them in a higher tax bracket” etc. The reality is that employees whose income in 2009 and 2010 will be similar will pay similar income taxes regardless of which year they receive the extra paycheck; and
- Every employee should review their 2009 projected payroll withholdings for 401(k), Simple – IRA and 403(b) annuity retirement plans to make sure they do not overfund the maximum allowable contribution amounts for 2009. If the extra payroll check would overfund their 2009 retirement plan limits, the plan contributions should not be withheld on the extra payroll check (this also applies to extra payroll checks for year 2010). Withholdings for group insurance, HSA’s, FSA’s, etc. should also be reviewed and adjusted as necessary before year – end.

### **WE ARE HERE TO HELP**

**Do not hesitate to call your AccuPay CPP/CPA services team at 885-7600 with your questions or simply to “brainstorm” these issues for correct decisions.** For those employers who pay annual salaries on a weekly or bi-weekly basis, review your 2009 year-to-date employee payroll records, and review the 2010 calendar, so that your staff is paid their correct annual salaries for both years 2009 and 2010. And take solace in the fact that after planning payroll for 2009/2010 “extra paychecks”, you have at least 5 years before you need to deal with this issue again!

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.