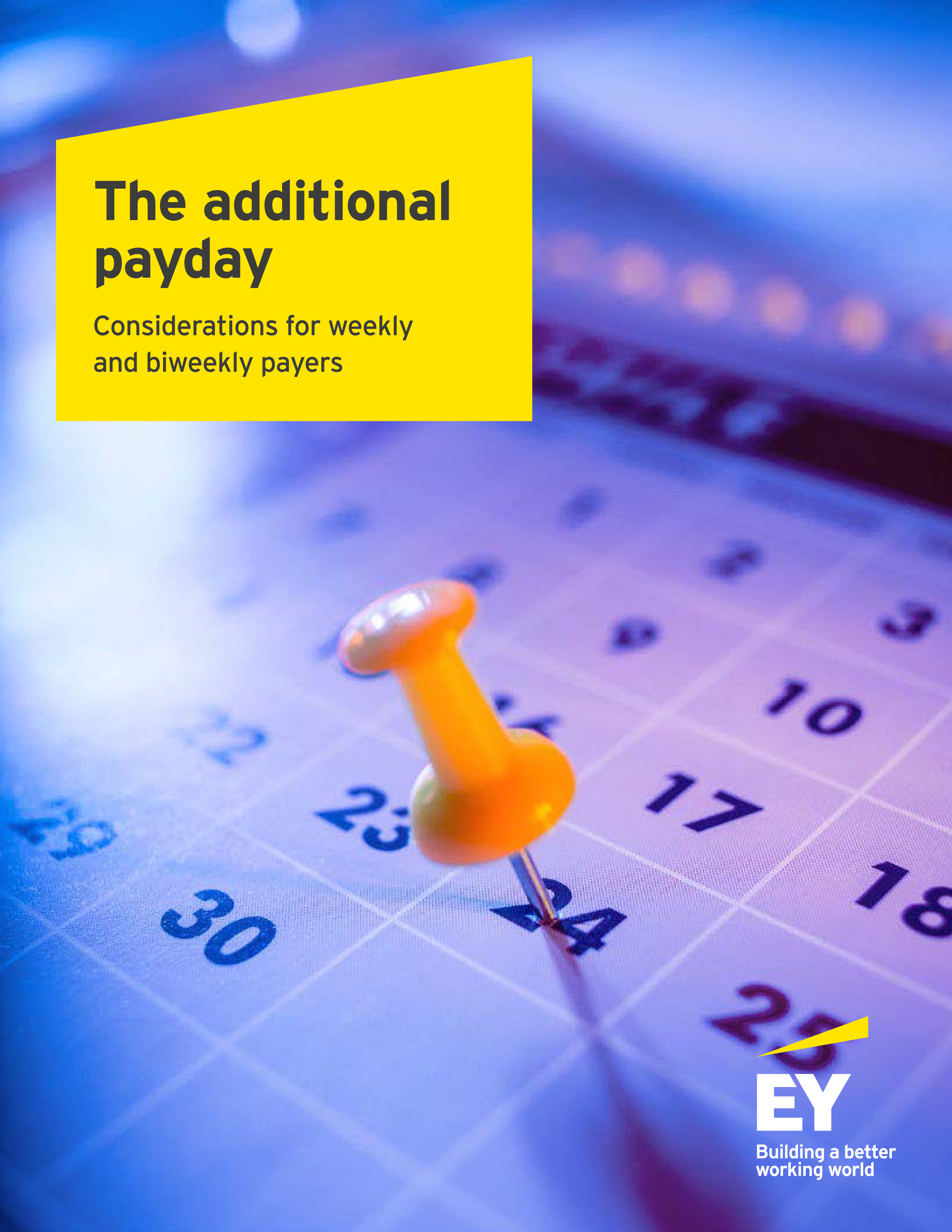

The additional payday

Considerations for weekly and biweekly payers

Building a better working world

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The additional payday

Considerations for weekly and biweekly payers

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It's that time again where a number of employers are noticing more than the usual number of paydays for the year. This predictable extra payday raises questions for employers and their employees.

Here we explain why weekly and biweekly payers occasionally have an additional payroll period, the impact it can have on budget and wages, and procedural matters to be considered.

Why the extra payday?

When wages are paid weekly or biweekly, there's a lucky year with an extra paycheck.

Having an additional weekly or biweekly payroll period doesn't happen every year; nonetheless, when it will happen is predictable.

Because the calendar year is actually divisible by 52.1786 weekly pay periods (and not 52) and 26.0893 biweekly periods (and not 26), every 5 or 6 years there are 53 weekly periods, and every 11 or 12 years there are 27 biweekly periods.

The extra payday is the accumulative result of receiving weekly-based pay in the course of an employer's full calendar-year life cycle.

Budgetary considerations

The additional payroll period will generally always result in higher-than-normal annual wages for nonexempt employees; however, whether the same is true of exempt-salaried employees depends on how their payroll period salaries are determined.

There are three approaches for computing the weekly or biweekly pay of exempt-salaried employees, with each having a different budgetary result. The method used by a business depends on contracts or policies provided to employees (e.g., whether a salary agreement specifies a biweekly or annual salary).

1. **Recompute the annual salary in the year of an additional payroll period.** The agreed-upon annual regular salary of exempt employees is divided by the actual number of payroll periods in the year. Hence, the biweekly pay of a salaried employee is 26 or 27 for the year with an additional payroll period. (See Example 1.)

Example 1. John's employer agrees to pay him $50,000 per year. John is paid biweekly. In those years in which there are 26 payroll periods, John's biweekly pay is $1,923.08 ($50,000/26). In the year in which there are 27 payroll periods, John's biweekly pay is $1,851.85 ($50,000/27).

Budgetary result. In all years, including the year of the additional payroll period, John's annual compensation is close to the agreed-upon regular salary of $50,000.

2. **Do not recompute the annual salary in the year of an additional payroll period.** The agreed-upon annual regular salary of exempt employees is divided by 26, or 52 payroll periods, and is not adjusted in those years with an additional payroll period. The result is a windfall in pay in the year of an additional payroll period. (See Example 2.)

> **Example 2.** Mark's employer agrees to pay him $50,000 per year. Mark is paid biweekly. His biweekly pay is computed as $1,923.08 ($50,000/26). In those years with 26 payroll periods, Mark is paid $50,000.08. In the year in which there are 27 payroll periods, Mark is paid $51,923.16 ($1,923.08 x 27).
>
> **Budgetary result.** In the year of the additional payroll period, Mark receives excess compensation of $1,923.16 ($51,923.16 – $50,000). In all other years, Mark's annual salary is close to the agreed-upon amount of $50,000.

3. **Use the exact calendar-year divisor of 26.0893 or 52.1786.** The agreed-upon annual regular salary is divided by 26.0893 for those paid biweekly and 52.1786 for those paid weekly. (See Example 3.)

> **Example 3.** Ruth's employer agrees to pay her $50,000 per year. Ruth is paid biweekly. Her biweekly pay is computed as $1,916.49 ($50,000/26.0893).
>
> **Budgetary result.** In those years with 26 pay periods, Ruth is paid $49,828.74, which is $171.26 less than her agreed-upon annual regular salary of $50,000. In the year in which there are 27 payroll periods, Ruth is paid $51,745.23, an excess of $1,745.23 over the agreed-upon regular salary of $50,000.

Ernst & Young LLP insights

To eliminate complications in paying the correct annual salary to exempt employees, it is not uncommon for businesses to pay their salaried exempt employees on a semimonthly basis (where allowed by state law) while paying hourly and salaried nonexempt employees on a weekly or biweekly basis. Always consult with a competent labor law advisor before making a change in the amount or frequency at which you pay salaried employees.

Income tax withholding

In the year in which there is an additional payroll period, weekly and biweekly payers should consider if an adjustment is needed to their income tax withholding formulas. Although the IRS does not specifically require that an adjustment be made when there are 27 or 53 payroll periods in the year, employers should consider the potential for withholding too little federal income tax if this change is not made. (IRS Publication 15, page 44.) Further, state and local income taxes may be more significantly impacted, and relief from underwithholding penalties may not apply.

The federal computer formula used by most automated payroll systems to compute federal income tax withholding is generally based on 26/52 payroll periods and is rarely automatically adjusted when there are 27/53 payroll periods. To avoid withholding too little federal income tax, employers using an annual withholding method should base the computation on the actual number of pay periods in the year. In other words, in the year of an additional payroll period, pay period wages are multiplied by 27/53 rather than 26/52, and the annual tax is divided by 27/53 rather than 26/52.

Employee Angela earns $1,260 each biweekly pay period in 2018. She claims as single, with no allowances. She will receive 27 paychecks in the year. Using the annual percentage table for a single person on page 47 of Publication 15, the withholding is calculated as follows.

1. Annual withholding based on a normal 26-pay-period year:

   $1,260 x 26 = $32,760

   2018 withholding on $32,760 = $3,289.50 [($32,760 – $13,225) x 12% + $952.50]

   $3,296.70/26 = 126.80

   $126.80 x 27 = $3,423.60

2. Annual withholding based on a 27-pay-period year:

   $1,260 x 27 = $34,020

   2018 withholding on $34,020 = $3,447.90 [($34,020 - $13,225) x 12% + 952.50]

   $3,447.90/27 = $127.70

In this example, basing FITW on 26 rather than 27 pay periods resulted in underwithholding $24.30 for the year ($3,447.90 – $3,423.60). The underwithholding can be significantly higher if the additional payroll period puts the employee into a higher tax bracket.

Don't forget to readjust calculations in the subsequent year. Employers must be sure to count the number of pay periods in each tax year to determine if an adjustment in the income tax withholding computation is necessary. If there was an additional pay period in one tax year, and the computer formula was modified to take into account the additional pay period, be sure to change the computation back to a pay period wage multiplication of 26/52 and a division of the annual tax by 26/52 for the subsequent tax year.

Payroll deductions and special wage payments

In a year with an additional payroll period, employers should also consider the impact on payroll deductions and special payments. For instance, contributions to flex plans and other benefit plans, such as health insurance, may be computed based on 26/52 payroll periods in the year. The deduction amount should either be adjusted to take into account the additional period or suppressed in the additional payroll period. A similar consideration applies to special wage payments that are based on 26/52 payroll periods.

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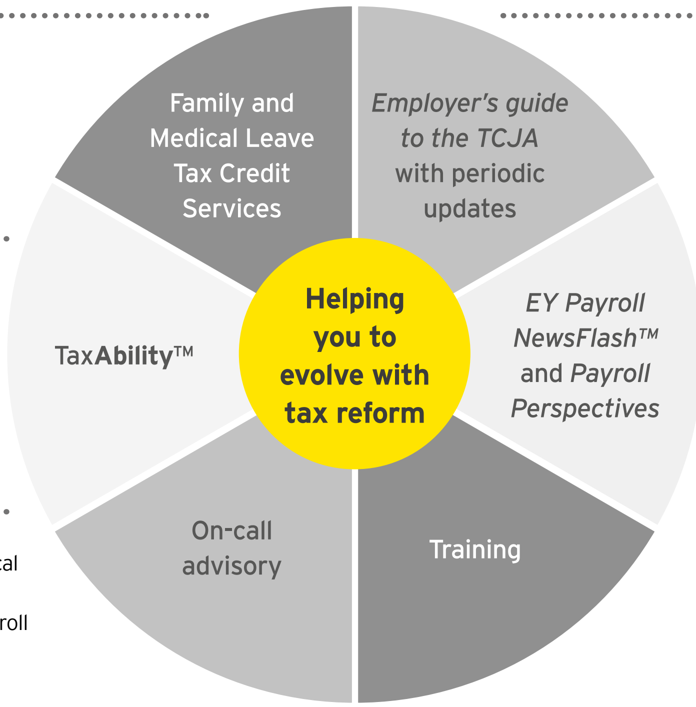

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