

HOW TO SET UP MEDICAL FLEXIBLE SPENDING ACCOUNT (FSA) DEDUCTION

Question

PLEASE REFER TO THE STEPS BELOW:

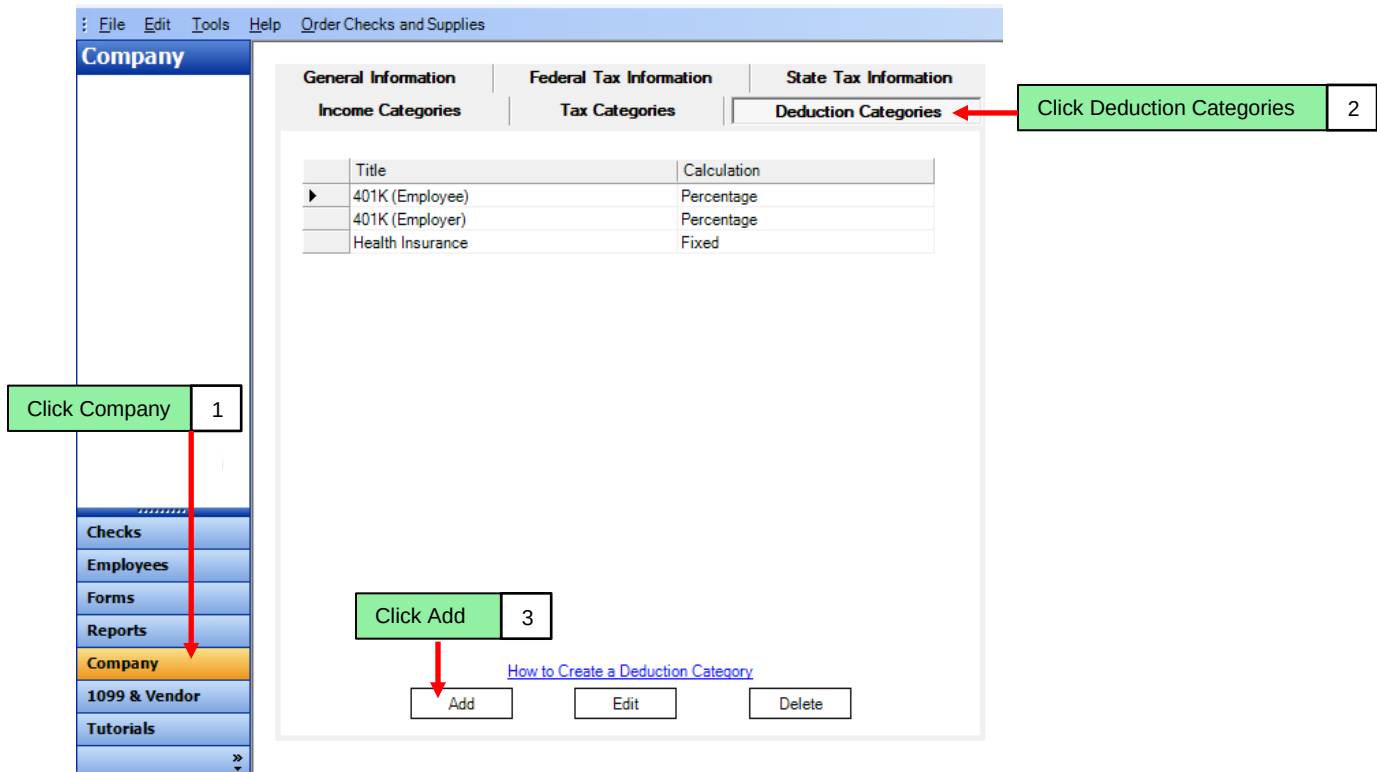
Answer

This tutorial is for information purposes only. It is your responsibility to make sure the payroll setup is correct. We do not make recommendations for setting up payroll items. Consult your accountant or tax advisor if you are unsure how a certain payroll item or your payroll in general should be set up.

A health Flexible Spending Arrangement (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with your employer. Generally, no employment or federal income taxes are deducted from your contribution. <https://www.irs.gov/pub/irs-pdf/p969.pdf>

Make sure you have the correct company open inside Payroll Mate.

1. Click **Company**
2. Click **Deduction Categories**
3. Click **Add**



The screenshot shows the Payroll Mate software interface. On the left is a navigation menu with options: Checks, Employees, Forms, Reports, Company (highlighted in orange), 1099 & Vendor, and Tutorials. A red arrow points from the 'Company' menu item to a green callout box labeled 'Click Company' with a small box containing the number '1'. The main window has tabs for General Information, Federal Tax Information, and State Tax Information. Under Federal Tax Information, there are sub-tabs for Income Categories, Tax Categories, and Deduction Categories. A red arrow points from the 'Deduction Categories' tab to a green callout box labeled 'Click Deduction Categories' with a small box containing the number '2'. Below the tabs is a table with the following data:

Title	Calculation
▶ 401K (Employee)	Percentage
401K (Employer)	Percentage
Health Insurance	Fixed

Below the table, there is a green callout box labeled 'Click Add' with a small box containing the number '3'. A red arrow points from this box to an 'Add' button. To the right of the 'Add' button is a link that says 'How to Create a Deduction Category'. Below the link are three buttons: 'Add', 'Edit', and 'Delete'.

4. Read information carefully
5. Click I understand

Attention

Read carefully4



You are about to custom add a new deduction category.

Please remember that this newly created category will directly affect your tax forms and reports.

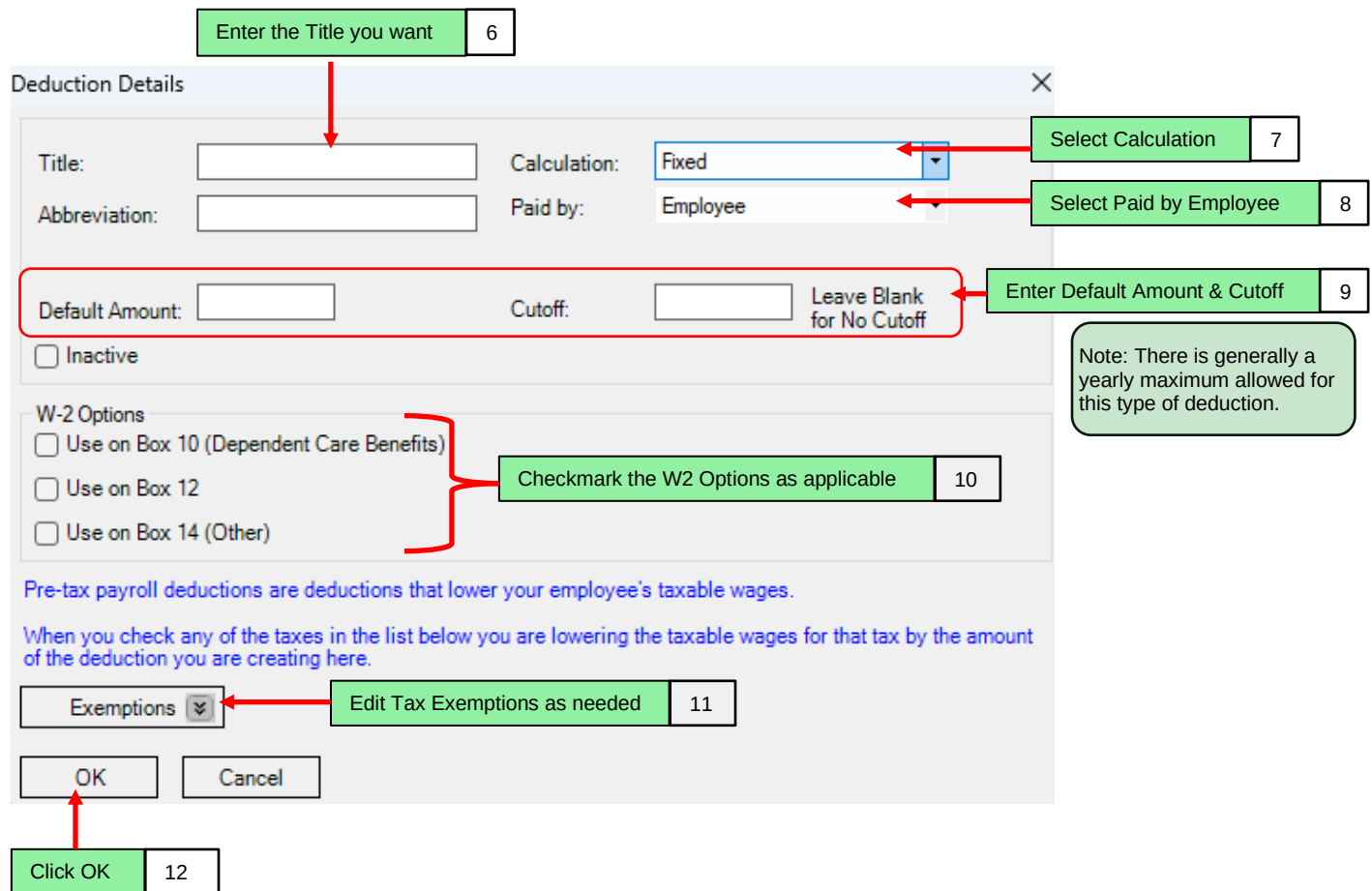
You may need to seek tax advice from your tax professional before creating this new category.

Once you have finished creating this deduction category and before you start creating real checks, we strongly recommend that you create one or more dummy checks and confirm that all related incomes, taxes and deductions are properly reflected on all tax forms and reports.

Once you start creating actual payroll checks it will be very difficult to fix any errors you may have overlooked at this point.

I understandClick I understand5

6. Deduction Details box will appear. Enter **Title** for the Medical Flexible Spending Account (FSA) **Deduction**
7. Select a **Calculation** for the deduction from the drop-down menu. You may need to seek advice on which method to use (fixed amount or percentage).
8. Select **Paid by Employee** from the drop-down menu.
9. Enter the **Default Amount** (can modify at employee level) **and Cutoff** (as applicable)
10. **Checkmark W2 Options** (as applicable)
11. **Edit Tax Exemptions** (as needed)
12. Click **OK**



The screenshot shows the 'Deduction Details' dialog box. Callout 6 points to the 'Title' field. Callout 7 points to the 'Calculation' dropdown menu, which is set to 'Fixed'. Callout 8 points to the 'Paid by' dropdown menu, which is set to 'Employee'. Callout 9 points to the 'Default Amount' and 'Cutoff' fields, which are both empty. Callout 10 points to the 'W-2 Options' section, which includes three checkboxes: 'Use on Box 10 (Dependent Care Benefits)', 'Use on Box 12', and 'Use on Box 14 (Other)'. Callout 11 points to the 'Exemptions' dropdown menu. Callout 12 points to the 'OK' button. A note on the right states: 'Note: There is generally a yearly maximum allowed for this type of deduction.'

Note: This tutorial assumes that the FSA payroll item is exempt from federal tax withholding. You cannot rely on this tutorial for tax advice and will need to consult a tax professional if you are unsure how deductions should be set up.

State tax laws vary. Please consult your tax professional to determine if any state taxes are affected by this payroll item and update your setup accordingly.

13. Click **OK**

Payroll Mate



Payroll Mate detected you have one or more custom added incomes.
Please remember to review the setup for these custom incomes and make sure this deduction applies to them and update their setup accordingly.

OK

Click OK

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Note: If you have any custom incomes, you will receive this notice.

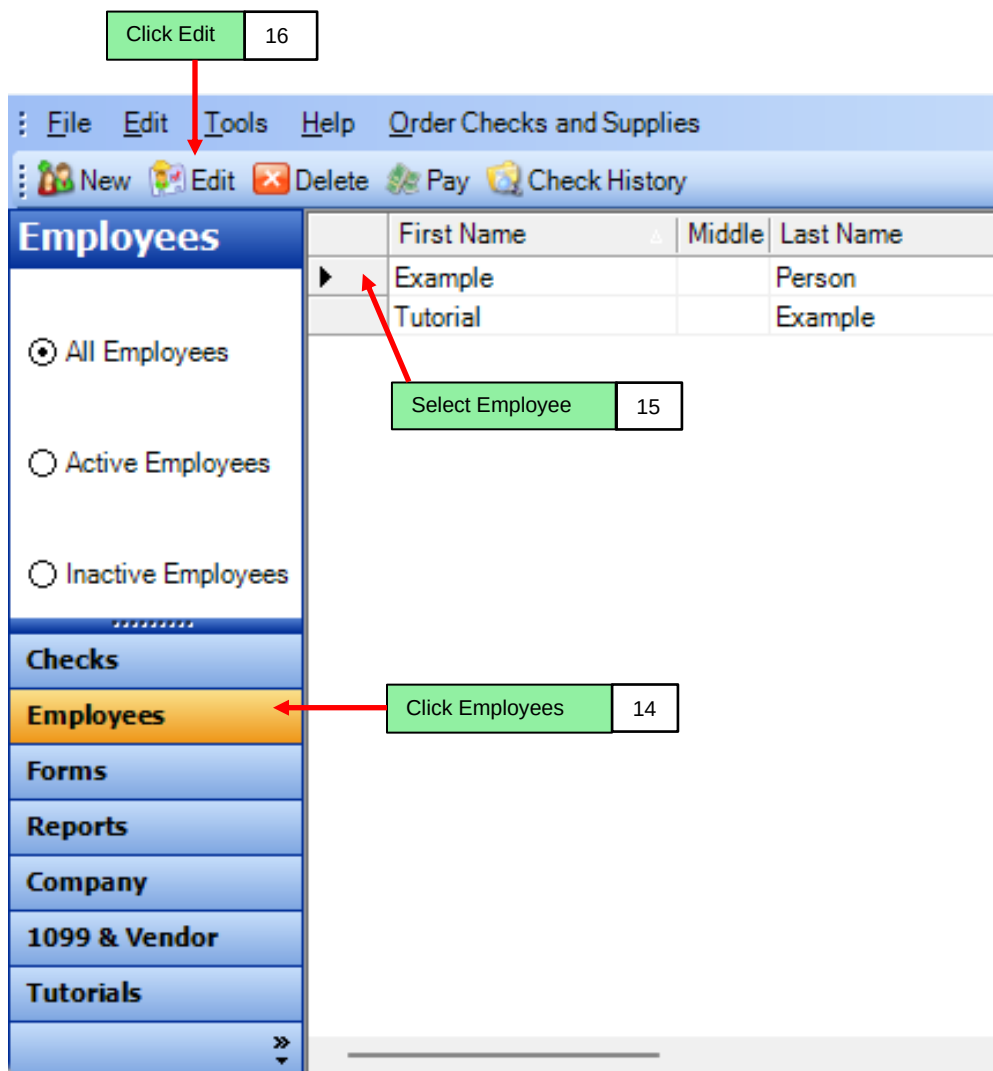
If you need to update custom income categories to apply the Medical Flexible Spending Account (FSA) deduction, refer to steps 14-21. If this does not apply to you, please proceed to step 22.

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To update custom income categories

14. Click **Employees**
15. **Select an Employee**
16. Click **Edit**



The screenshot shows the Payroll Mate software interface. The left sidebar contains a list of menu items: **Employees**, **Checks**, **Forms**, **Reports**, **Company**, **1099 & Vendor**, and **Tutorials**. The **Employees** menu item is highlighted in orange. The main window displays a table with columns: First Name, Middle, and Last Name. The table contains two rows: 'Example' and 'Tutorial'. The 'Example' row is selected. A red arrow points from the 'Click Edit' button (labeled 16) to the 'Edit' menu item. Another red arrow points from the 'Select Employee' button (labeled 15) to the 'Example' employee in the list. A third red arrow points from the 'Click Employees' button (labeled 14) to the 'Employees' button in the left sidebar.

17. Welcome to Modify Employee Wizard will appear, click **Next**

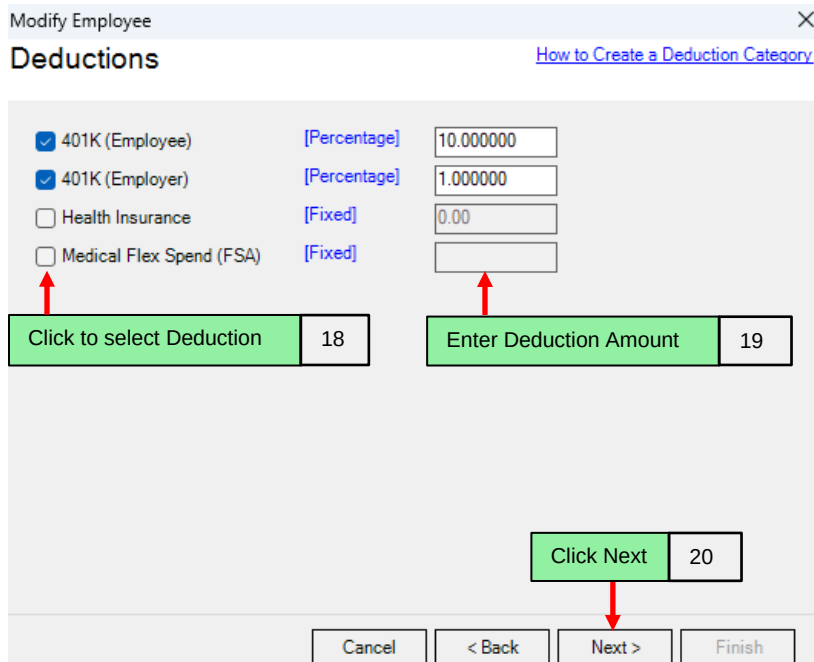


Continue to click Next, until you reach the **Deductions** page

18. **Click to select the Deduction** you created (Example: Medical Flexible Spending Acct FSA)

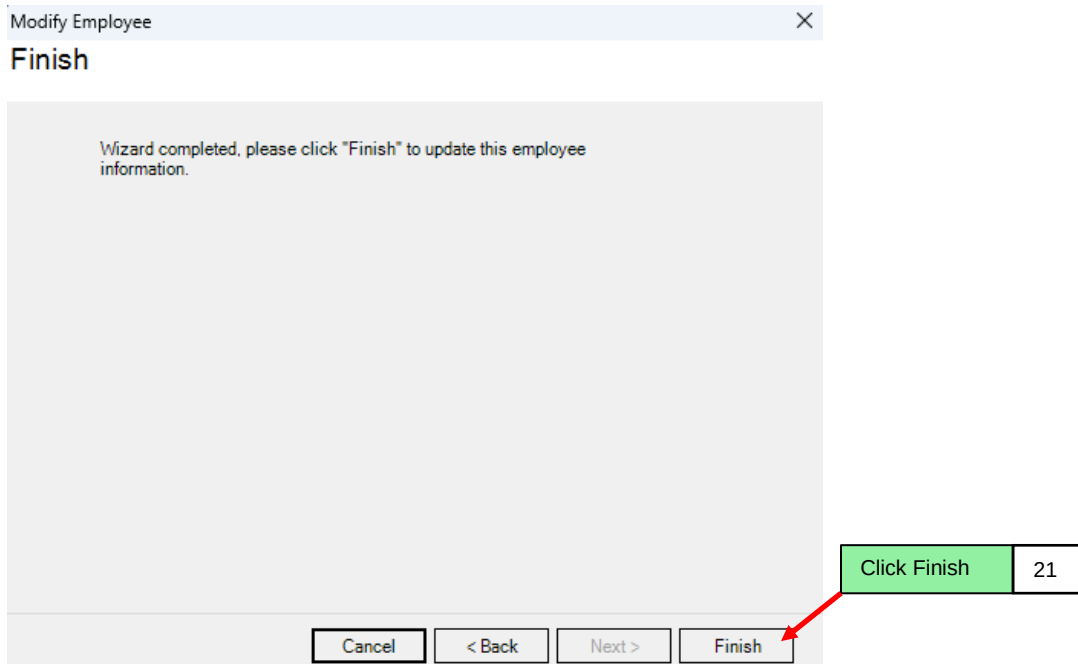
19. **Enter deduction amount**

20. Click **Next**



Continue to click Next, until you reach the **Finish** page

21. Click **Finish**



Modify Employee X

Finish

Wizard completed, please click "Finish" to update this employee information.

Cancel < Back Next > Finish

Click Finish 21

Repeat steps 14-21 for each applicable employee.

22. When creating a new payroll check for the employee the Medical Flexible Spending Account (FSA) deduction category will be visible.

Check Details

General Information

Pay Frequency: Semi-Monthly (24 Pay Periods)

Employee: Smith, Katie

Begin Date: Month DD, YYYY

Check #: 1

Pay Date: Month DD, YYYY

End Date: Month DD, YYYY

Recalculate

Income Details

Income:	Rate:	Type:	Quantity:	Amount:	YTD:
Yearly Salary	132000.0000	Per Year	N/A	5500.00	5500.00

Vacation / Sick Hours

	Amount:	YTD:
Vac. hours earned	16.00	16.00
Vac. hours used	0.00	0.00
Sick hours earned	8.00	8.00
Sick hours used	0.00	0.00

[Learn how to rollover hours from last year](#)

Deduction

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Tax Details

Tax:	Amount:	YTD:
Federal Income Tax	739.92	739.92
Social Security (Employee)	341.00	341.00
Medicare (Employee)	79.75	79.75
State Income Tax	245.03	245.03
Local Income Tax	0.00	0.00
State Disability Insurance (Employee)	0.02	0.02
Social Security (Employer)	341.00	341.00
Medicare (Employer)	79.75	79.75
Fed Unemployment (Employer)	33.00	33.00
State Unemployment (Employer)	110.00	110.00
State Disability Insurance (Employer)	0.02	0.02

DeductionDetails

Deduction:	Amount:	YTD:
401K (Employee)	550.00	550.00
Medical Flex Spend (FSA)	125.00	125.00
401K (Employer)	55.00	55.00

Other Optional Details

	Amount:	YTD:
Hours Worked	0.00	.00
Weeks Worked	0.00	.00

Check Summary

	Total Incomes:	Total Taxes:	Total Deductions:	Net Pay:
This Check:	5500.00	1405.72	675.00	3419.28
YTD:	5500.00	1405.72	675.00	3419.28

MEMO:

OK

Cancel