

Payroll Related Acronym Definitions

401(k) Plan

A 401(k) plan is an employer-sponsored retirement savings plan that is funded by employee contributions (made through payroll deductions) and often contributions, called a match, from the employer. The major attraction to these plans is that the contributions are taken from pre-tax salary and exempt from Federal income tax. The funds grow federally tax-free, and typically state income tax-free too, until withdrawn.*

**Withdrawal prior to age 59 ½ may be subject to ordinary federal income tax and a 10 percent penalty.*

403(b) Plan

Similar to 401(k) plans, a 403(b) plan is an annuity or mutual fund that provides retirement income for employees of public schools and certain tax-exempt organizations.

457 Plan

Similar to 401(k) plans, a 457 plan is a deferred compensation plan available for employees of certain state and local governments and certain non-governmental tax-exempt organizations.

529 Plan

The 529 plan is named for Section 529 of the Internal Revenue Code, which allows investment in state-sponsored, tax-advantaged accounts for use to pay future higher education-related expenses. Investments are federally tax-deferred and withdrawals are federally tax-free*, provided that they are used for qualified college education expenses. Some state plans also offer state tax incentives in addition to the federal income tax advantages.

**This federally tax-free distribution benefit is scheduled to expire in 2010 unless extended by Congress.*

Commuter Benefits (Transportation Reimbursement Incentive Programs)

Permits employee to have pre-tax deductions allocated to a special account from which qualified commuting expenses can be reimbursed – up to \$195/month* for qualified parking expenses and \$100/month* for transit passes. The contributions are exempt from federal income and Social Security taxes in addition to some state and local taxes.

**2004 contribution amounts*

Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)

Requires employers to offer terminated employees continued health insurance coverage for a limited time at group rates. The terminated employee pays this coverage.

Cost-of-living adjustment (COLA)

Method of revising taxable wage limits and other fixed amounts to show affect of inflation.

Earned income credit (EIC)

Federal income tax refund (credit) for qualifying employees earning modest wages; can be taken in part as advance payments through pay.

Employer Identification Number (EIN)

Nine-digit number issued by IRS; required for entities reporting employment taxes or giving tax statements to employees or annuitants.

Employee Retirement Income Security Act of 1974 (ERISA)

Established new requirements for employer-sponsored qualified pension and retirement plans, and for certain welfare benefit plans.

Federal Insurance Contributions Act (FICA)

Federal program providing retirement and other benefits; funded by employer/employee contributions during working years.

Federal income tax (FIT)

Personal income tax with progressive rates; liability amount calculated on Form 1040.

Fair Labor Standards Act (FLSA)

Defines Federal rules for minimum wage, overtime and other aspects of compensation for covered employees; usually overrides conflicting state rules.

Flexible Spending Arrangement (Account) (FSA)

Permits employee to have pre-tax deductions allocated to a special account from which employee out-of-pocket medical, dependent care, and adoption expenses can be reimbursed.

Federal Unemployment Tax Act (FUTA)

Employer-paid contribution (effectively .8 percent of the first \$7000 of each employee's wages) paid to IRS to supplement state unemployment compensation systems.

Health Savings Account (HSA)

A Health Savings Account allows individuals to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. A HSA can only be used with a high deductible health insurance plan. Money selected for deposit into a HSA is taken out of the employee's paycheck pre-tax and is deposited into an account that accrues interest over time - tax-free. The money in a HSA can be used tax-free if it is used to pay for qualified medical expenses, such as prescription drugs, qualified long-term care services and long-term care insurance, COBRA coverage and retiree health expenses for individuals age 65 and older. At the end of the year, any money that is not used in a participant's account can be rolled over for the next year. In addition, if an employee leaves a company he or she can take the HSA with him or her.

Health Reimbursement Arrangement (HRA)

A Health Reimbursement Arrangement (HRA) is a program that is financed or paid for solely by the employer. The plan reimburses eligible medical expenses, such as amounts

paid for diagnosis, cure, mitigation and treatment or prevention of disease. The HRA is typically offered in conjunction with a high deductible insurance plan.

Individual retirement arrangement (IRA)

A personal retirement-savings account, which satisfies I.R. Code Section 408; contributions and account earnings are not subject to income tax until distribution.

Medicare qualified government employee (MQGE)

Government employees already covered by government retirement benefits, for whom only the Medicare (health insurance) portion of FICA applies.

State disability insurance (SDI)

Five states (CA, HI, NJ, NY and RI) and Puerto Rico provide benefits for workers temporarily disabled by injuries or illness not job related.

Self-Employment Contributions Act (SECA)

Applies tax similar to FICA to self-employment income; tax rate is equal to the combined employer/employee FICA tax, and proceeds fund Social Security and Medicare benefits.

Social Security Administration (SSA)

Federal agency which administers the Social Security and Medicare programs, among other activities.

Social Security Number (SSN)

Unique 9-digit number assigned by SSA to workers and other taxpayers; used to record contributions toward employee's retirement and other benefits.

Solo (k) Plan

A Solo (k) plan, also known as "one-participant" 401(k), is a cash or deferred arrangement that allows owner-only businesses or business partners to place pre-tax dollars in a retirement plan that invests the money. These contributions are exempt from Federal income tax. The plan is only available to employers who own 100 percent of their own business or are partners in a business with no other full-time employees other than a spouse. This plan covers the small business owner, business partners and their spouses.

State unemployment insurance (SUI)

All states provide emergency income benefits for qualified workers who have lost jobs but are able and available to work.

Stored Value Card (SVC)

A SVC is a card that has an electronic monetary value loaded onto a computer chip. SVCs are often branded debit cards (such as a VISA® or MasterCard®) that provide employees quick access to their paychecks, Flexible Spending Accounts (FSA) and/or Transportation Reimbursement Incentive Program (TRIP) accounts. The payroll SVC works by having an employee's net pay –salary after taxes and deductions - loaded onto

the card. The FSA and TRIP stored-value cards allow easy access to healthcare and transportation reimbursement money that has been set aside by the employee.

Taxpayer identification number (TIN)

For individuals, this is the Social Security Number (SSN); for business entities, this is the Employer Identification Number (EIN).

U.S. Citizenship and Immigration Services (USCIS)

Federal agency regulating work privileges of foreign nationals in the U.S.; controls worker status by type of visa issued.

W-2

A statement of an individual's annual wages and taxes provided by an employer that must be included with the employee's federal, state, and city income tax returns.

W-4 - Employee's Withholding Exemption Certificate

A government form used to indicate the number of personal exemptions an employee wishes to claim.