



## Form W-2 Safe Harbor: Deduction Method

If you have decided to use the W-2 safe harbor, there are multiple ways you can set up the deduction to ensure you are deducting the correct amount each pay period. Let's look at the Deduction Method – **Deduct 9.5% of Federal Wages**. This option deducts 9.5% of the federal wages each pay period. As the employee's wages fluctuate, so will the dollar amount of their insurance deduction. However, the deduction will always be 9.5% of their federal wages for the pay period.

To start, select **Deductions** from the Maintenance menu in Payroll. Click **Add** to add a new deduction.

Choose whether or not a deduction continues to be taken even if the employee doesn't work in a pay period, e.g., health insurance.

Complete the following parameters to set up the deduction:

- Deduction Name:** You can name this deduction anything you want.
- Abbreviation:** You can use any abbreviation you would like, but keep in mind this abbreviation will show on the employee pay stubs and reports. You'll want to use an abbreviation that makes sense to you and can be distinguished from other deductions you may have.
- Status:** Select **Active**.
- Deduction Type:** Select **Healthcare – Employee Share**. This will ensure the amounts are accumulated and correctly reported on the employee's W-2.
- Deduction Method:** Select **Deduct 9.5% of federal wages**. This will calculate 9.5% of the employee's federal wages each pay period.
- Pay Run Limit** **None**. Since the deduction method is set to stop at 9.5% of the employee's federal wages each pay period, there is no need to set a specific pay run limit.
- Overall Limit** **No Limit – Deduct Forever**. For the same reason as mentioned above, there is no need to set an Overall Limit for this deduction.

You'll want to check the "Add deduction amount to arrears if the employee does not work" box. This will ensure that any insurance premiums missed due to the employee not working will be caught up.

Now, scroll down to set up a few more options, including the arrears reduction method you want to use, the store and account to post this deduction to, and the tax impact of this deduction and the W-2 impact for this deduction.

Once you have all these fields set up, you are ready to start using this new deduction.