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Practical SAP® US Payroll

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Preface

The SAP Payroll module has traditionally been a “different” module in the sense that people are often fearful of learning about its more advanced topics such as schemas, rules, and wage types. People’s fears also partially stem from the fact that mapping payroll processes as well as payroll calculations to an SAP configuration and functionality has its own challenges. This book addresses the US payroll lifecycle from master data to post-payroll processes, including advanced topics such as month-end accruals and overpayment processing.

Practical SAP US Payroll goes a step beyond the standard documentation and training courses by providing you with practical examples and scenarios. The book also covers important US Payroll topics such as schemas, rules, taxes, and garnishments.

Purpose of this Book

SAP HR professionals in the US market have traditionally stayed away from the Payroll module. People are comfortable talking about Personnel Administration (PA), Organization Management (OM), and Benefits, but they always have some amount of fear when it comes to Payroll. SAP users and administrators commonly complain that unlike PA, OM, or the other HR modules, Payroll always feels more technical because of the schemas, rules, and similar technical topics they have to contend with in this module. In addition, there are lots of moving parts in the Payroll module when compared with other HR modules. Common examples and complaints I’ve heard with regard to the Payroll module include:

- The schemas and rules are too technical, and I am not a programmer.
- I don’t understand the taxes and tax structures, so I will not be able to handle it.
- I have never worked with a payroll system before.
- SAP Payroll is integrated with all other SAP HR modules as well as SAP Financials, and I simply don’t know how to approach it.
Preface

- Payroll maintenance can have challenges such as correcting or reversing payroll results.

These and similar complaints and questions need practical answers and examples. You will find them in this book, which is targeted specifically to configurators and powerusers responsible for configuring US Payroll. Note that while concepts such as wage types, schemas, and rules could be covered in a generic sense, the discussions in this book focus on SAP's US Payroll-delivered objects.

The book also serves as a quick reference guide to those who intend to implement SAP Payroll as well as those who want to learn more about SAP Payroll than what is possible through standard documentation and training classes.

Who Should Read this Book

This book presents a practical, example-based approach to configuring and using SAP's US Payroll module. It offers a real project-based experience to handling complex areas of US Payroll, such as schemas, rules, and wage types. The book is geared toward anyone who would find the following information helpful:

- A complete overview of US Payroll.
  This promotes a better understanding of the implementation considerations.

- Assistance during the configuration.

- Detailed information about complex issues.
  This includes, for example, information about wage types, rules, and taxes in US Payroll.

- Information on new topics.
  This includes, for example, information on topics such as garnishments, year-end adjustments, overpayments and benefits integration, in case you have not yet explored them in US Payroll.

This book can also serve project teams, consultants, and users as well as anyone looking for a one-stop guide on SAP US Payroll. Note that this book is not intended to teach basic Payroll concepts and tries to always focus on US-specific Payroll functionality not addressed in standard documentation or training. The typical prerequisites you will need before reading this book are:

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Purpose of this Book

- Knowledge of the SAP PA module.
- Overall understanding and clarity about payroll operations.
- Knowledge of generic concepts covered in SAP’s standard documentation.

While we will try to focus on SAP US Payroll, we will have to discuss many generic concepts and make references to SAP’s standard documentation. For example, we will reference but not discuss in great detail the payroll control record because SAP’s documentation already provides plenty of help on this topic. Throughout the book you will also find recommendations to refer to standard SAP documentation.

There is a general feeling that US Payroll is easy for those with a programming background; however, that is not entirely true. While the nature of schemas and rules is more technical than other modules, they are based on logic, arithmetic, and mathematical operations. Although, schemas and rules have a programming “look and feel”, they are not like a program. In Chapter 4, when you will see the schemas, you will notice that they combine operations, functions and rules in a very logical fashion to drive the payroll processing logic.

What You Will Gain by Reading this Book

By now, you may be wondering what you will be able to do after reading this book. Table 0.1 lists a series of questions that will give you a good idea of what you can expect to learn from reading this book.

<table>
<thead>
<tr>
<th>Expectation</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will I be able to configure wage types?</td>
<td>✔️</td>
</tr>
<tr>
<td>Will I be able to understand tax models for US authorities?</td>
<td>✔️</td>
</tr>
<tr>
<td>Will the book provide me with enough examples on how to create custom US Payroll rules?</td>
<td>✔️</td>
</tr>
<tr>
<td>Will the book explain the US Payroll schema in detail?</td>
<td>✔️</td>
</tr>
<tr>
<td>Will the book tell me how to integrate payroll with US benefits, taxes, and accounting?</td>
<td>✔️</td>
</tr>
</tbody>
</table>

Table 0.1 What You Can Expect To Learn From This Book
Preface

This book uses many practical examples and scenarios to help you understand the covered topics. These scenarios will help you extend your knowledge so you can further your hands-on practice using your SAP Payroll system. Note that across different versions, SAP’s US Payroll has not changed in terms of architecture.

**SAP Product Version Compatibility**

The contents of this book are applicable to all SAP versions from 4.6 to ERP2005 (ECC). There can, however, be minor discrepancies between versions. Where those are known, I will advise you as to what to watch for. Since US Payroll is different from handling payroll in other countries, it is important to discuss some of the differences. You will also find notes—especially for model wage types, technical wage types, and processing classes—in the Appendices.

**Structure of this Book**

This book has been structured in such a way that it covers the payroll starting with relevant master data and transaction data and then onto the processing part which covers wage types and schemas. The book then covers key chapters on benefits integration as well as garnishments before getting into advance topics. The Appendix also has many useful resources, such as info and wage type tables. The Appendices are referenced throughout the book, especially those on schemas and wage types. This book contains the following chapters:

- **Chapter 1: Introduction**
  
  This chapter starts the book with concepts regarding the US Payroll Process. It also discusses various components used during different stages of the US Payroll process. This Chapter should help you become familiar with the terminology necessary to understand future chapters.
Chapter 2: US Payroll Info Types
Chapter 2 discusses the master data and transaction data that uses info types for the US country code. These info types are referred to in subsequent chapters when used in schemas and rules. Although info types is a topic from the PA module, this discussion provides you with the right background for later chapters. Info types also help you further appreciate the functional uniqueness of US Payroll.

Chapter 3: Wage Types
The chapter starts with a discussion of a typical US paystub, before diving into discussions on earnings, deductions, and other tax-related wage types. We will study the US model wage types, as well as characteristics, processing classes, and other wage type configuration attributes. Appendix C and Appendix D provide a quick-reference listing for all commonly used US-specific technical and model wage types, respectively.

Chapter 4: Schemas and Rules
Chapter 4 explains US Payroll schema U000, along with its functions and operations and also attempts to lift the veil of secrecy I've always felt exists around SAP Payroll schemas and rules. To that end, the chapter uses many examples to assist in your journey of learning US Payroll.

Chapter 5: Integrating US Payroll with US Benefits
Due to the unique nature of US benefits, this chapter is divided into sections that cover health plans, insurance plans, 401(k) plans, and other benefits such as flexible spending accounts and savings bonds. Note that while it is not my intention to talk about US Benefits in detail in this book, a discussion of US Payroll is not complete unless you talk about integration between the two sub-modules. Benefits is a very US-specific module, and it coexists with Payroll. It's also worth noting that, because of the exhaustive nature of this topic, the chapters on wage types and schemas also cover benefits to some extent.

Chapter 6: Garnishments
Garnishments is a very US-specific topic. This chapter provides detailed information on subschemas, wage types, and disposable net income calculations used to handle garnishments.

Chapter 7: Tax Processing
This chapter discusses the configuration of Tax Models and also talk about a tax processing engine that US Payroll uses. US tax processing also involves compliance reporting and annual processing of W-2's, 1099's, and 941's. This chapter presents a short discussion around the usage of Tax Reporter for compliance reporting in US Payroll.
Chapter 8: Advanced Topics

Chapter 8 covers many often-ignored, but complex US Payroll topics that lack good information and documentation. Here, you’ll learn how to handle overpayments or learn about making the jump from Gross to Net payroll, among others.

The Appendices include some useful templates and reference tables that list the essential wage types and rules associated with US Payroll. Appendix A, being one of the biggest and important among all appendices, contains the entire US Payroll schema, U0000, with its subschemas and explanations. The appendices are referred to in chapter discussions as needed. It is recommended that you read the chapters in sequence since some of the later chapters are dependent on the discussions in earlier chapters.

Acknowledgments

This book is dedicated to my late mother, Usha Badgi. The book would not have been completed without constant support from my wife Nanda and my daughter Shivani. They both left me alone for a long period of time so I could complete this big task. Thanks to my father for his aspirations and vision for me and I appreciate the support and encouragement from my father-in-law during the writing of this book.

I started my SAP HR and US Payroll journey many years back and my customers and colleagues helped me to learn and mature over the years. Many thanks and appreciation to all my customers. Also, thanks to Ingrid Schneider for providing me the motivation and support at the work so I could complete this book.

My sincere thanks to my Editor, Chuck Toporek, for his patience and support during the entire publishing process. He made it so easy! The detailed and accurate copyedits by Jutta VanStean require a special mention. And special thanks to Jawahara Saidullah for the support to initiate the writing of this first book.
Before we get into the detailed discussion and learn about US Payroll, this first chapter presents the unique aspects of US Payroll. The chapter is divided into the functional and technical features of US Payroll. The discussion on the components of US Payroll and the associated conceptual figures will help you learn more about the terminology and overall architecture of SAP US Payroll.

1 Objectives and Purpose

Whether or not you are working with a Payroll system (SAP Payroll or otherwise), I am sure you are familiar with your paycheck and the overall nature of how important a top-notch payroll system is for a company. When employees talk, or when you interview people for new jobs, the obvious discussions are around payroll and benefits, especially in the US. Employees are interested in finding out about benefits and deductions as much as they are about their annual salary.

In our day-to-day life, we always use the terms *take home pay* or *money in the pocket*. It is natural for us to think about taxes and the net money we will take home at the end of the pay period. Similarly, in SAP implementations, when you talk about Human Resources (HR) or Human Capital Management (HCM), payroll, taxes and benefits often become an integral part of the discussion. SAP’s Payroll module is well-integrated with other HR sub-modules as well as SAP Financials. Payroll processing also depends very much on the country, thanks to differing tax structures, employment laws, and various regulations.

Before we start the discussion on US Payroll, I would like to present a simple concept diagram for the payroll process. Figure 1.1 is a simple representation of the US Payroll process and shows that:

- Employees get paid by their employer.
- Employees pay taxes and deductions.
- Through the payroll process, employees receive a paycheck.

Later in this Chapter, we will move the discussion to SAP’s US Payroll process and provide you with more detailed information.
US Payroll is very unique in that you need to understand it from both a functional and a technical perspective. This chapter identifies the unique aspects of US Payroll. It gives you a necessary basic background for pay frequency, payroll control record, and overall payroll processes in the US.

1.1 What Makes US Payroll Unique

I always wondered about the uniqueness of SAP Payroll when I started working with US Payroll and then I realized that US Payroll is different! But why is it so different? The differences can be categorized into two broad areas: functional and technical.

1.1.1 Functional Uniqueness

US Payroll has many unique requirements. SAP’s Payroll module addresses these and other functional requirements along with help from other modules, such as PA and US Benefits. These requirements are categorized here for simplicity:

- **Unions**

  Many US states and industries have unions, and US Payroll creates challenges when handling union agreements (otherwise known as collective bargaining agreements), and the calculation complexities involved. Their impact on US Payroll includes:
What Makes US Payroll Unique

- Specific infotypes to maintain union dues are provided by SAP.
- You will need to adjust payroll calculations based on union agreements and write custom rules.
- You will need to configure wage types appropriately.

**Taxes**
The US has a multi-tier tax structure: Federal, State, and Local. Also, tax regulations differ from state to state. The impact on US payroll includes:
- Specific infotypes for tax structures relevant in the US.
- Specific tax calculation schemas.
- Specific tax wage types that are generated.
- Configuration of tax models.
- The tax calculation engine that SAP US Payroll uses.
- Compliance reporting and annual reporting.
- Business processes built around a typical tax year of January through December, with a tax return filing date of April 15th.
- Corrections and year-end adjustments for employee tax results.

**Benefits**
US employers offer benefits such as health insurance (medical, dental, vision), life insurance, pension, 401(k), and flexible spending accounts. These benefits and their processing are very tightly coupled with payroll processing. In addition, some employers also allow employees to purchase US Savings Bonds as a standard payroll deduction. The impact of these factors on US Payroll include:
- Deductions for benefits are handled through payroll.
- Wage types are configured for specific benefit plans.
- Pre- and post-tax nature of benefit deductions.
- Remittance to benefit providers is done through payroll.
- Regulations around flexible spending accounts.
- Regulations around 401(k) plans such as annual limits and catch-up contributions.

**Garnishments**
Many countries don’t even have the concept of garnishments, and US laws and regulations are very stringent in the way employers handle them. SAP US Payroll provides very comprehensive relevant functionality, which includes:
Objectives and Purpose

- Calculations of an employee's disposable net income.
- Built-in models for calculations, including state-based differentiators.
- Reporting and remittance to the authorities.

Accruals
The financial accruals for payroll expenses are US-specific, and the scenarios include:
- Specific subschema for accruals.
- The US public sector has its own requirements around this functionality.
- Some customers do a once-a-year accrual rather than doing accruals on a monthly basis.
- Payroll calendars and financial period closings have an impact on accruals, and the scenarios are specific to US customers.

Finance Integration
SAP US Payroll offers an online real-time integration with the SAP Financials module. US Payroll has a built-in and configurable integration with the following areas of SAP Financials:
- General Ledger (GL) for expenses and balance sheet accounts postings.
- Accounts Payable (AP) for vendor postings as well as remittance of money for taxes and benefits deductions.
- Cost Center Accounting (CCA) for Cost Center postings in the Controlling (CO) module.
- Funds Management (FM) for Public Sector-specific funds and funds center postings.

Pay Frequency
Table 1.1 presents the pay frequencies commonly used in US Payroll. Depending on the frequency, the total number of paychecks/pay periods will differ, as shown in the table.

<table>
<thead>
<tr>
<th>Pay Frequency</th>
<th>Number of Paychecks per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biweekly</td>
<td>26</td>
</tr>
<tr>
<td>Semi-monthly</td>
<td>24</td>
</tr>
<tr>
<td>Monthly</td>
<td>12</td>
</tr>
</tbody>
</table>

Table 1.1 Typical US Pay Frequencies
What Makes US Payroll Unique

1.1.2 Technical Uniqueness

SAP has built the Payroll module on a central architecture of schemas, rules, and country-specific payroll drivers. However, there are country-specific versions of schemas, rules, drivers, and wage types. Therefore, each country needs to implement its own specific version and, as the title of the book implies, this book focuses on US-specific SAP Payroll only.

The technical uniqueness points for SAP US Payroll are well-known and include the sometimes fear causing topics such as schemas and rules. The uniqueness points include:

- **SAP’s BSI Tax Product**
  The tax calculations and the tax rate tables for various tax authorities are maintained by an embedded product called BSI. Although BSI is a popular acronym in the world of SAP US Payroll, it originated with Business Software Inc. (http://www.bsi.com). The BSI Tax Factory, as it is called, works with and is an integral part of US Payroll. It is called Tax Factory because it houses the tax tables and the tax calculation portion of SAP US Payroll. Of course, if you don’t need to calculate taxes, and if your net payroll is outsourced, then you don’t need a BSI installation. Many US customers run gross payroll in SAP and send that to another provider (e.g., ADP, Ceridian, and so on) for net payroll calculations. However, if the payroll processing is inclusive of taxes and net checks in SAP, you will need to learn SAP’s tax processing, including BSI.

- **Schemas**
  Schemas tend to scare a lot of people who are new to SAP Payroll. SAP has provided US-specific schemas for payroll calculations. For more information see Chapter 4, which is dedicated to the US-specific schemas.

<table>
<thead>
<tr>
<th>Pay Frequency</th>
<th>Number of Paychecks per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly</td>
<td>52</td>
</tr>
<tr>
<td>Non-standard</td>
<td>22, 20</td>
</tr>
</tbody>
</table>

Table 1.1 Typical US Pay Frequencies (cont.)

The pay frequency discussion directly translates to the concept of payroll areas and payroll control record in US Payroll. The control record has a payroll calendar consisting of payroll period begin and end dates as well as payment dates.
1. Objectives and Purpose

- **Personnel Calculation Rules (PCR)**
  SAP has delivered many rules in US schemas. But, in addition, due to the functional uniqueness factors, users normally need to customize rules. An example: Rule X023 calculates gross amounts while rule U011 processes infotype 0014 earnings and deductions. SAP US Payroll offers tremendous flexibility through the rules that you can custom create to address your own requirements.

- **Model Wage Type Catalog**
  Wage types—which translate to earnings, deductions, and tax deductions—are US-specific. SAP delivers a model wage type catalog, which you can use to copy and create custom wage types. BSI Tax Factory also contributes to unique technical wage types (/301, /302, /401, /402, etc.), which are generated for US Payroll results.

- **Tax Authorities**
  The US tax system uses Federal, State, Local (county and city) and school board tax authorities. SAP includes the appropriate Tax Authority tables. These tables are used for the configuration of Tax Models and Tax Combos. Chapter 7 will discuss the configuration of the Tax Models for Tax Authorities. Considering the US tax year of January through December, SAP US Payroll has unique functionality to address end-of-year tax adjustment issues. It is referred to as year-end tax adjustments and we will learn more about it in Chapter 7.

- **Retroactivity**
  Retroactivity refers to being able to make employee data changes in past payroll periods. SAP US Payroll then automatically recalculates previous periods and adjusts the results. The majority of SAP Payroll users find retroactivity to be one of the most useful functionalities. We will learn more about it in Chapter 2.

The next discussion takes us to the US Payroll process, and dives into topics that will be discussed in later chapters.

### 1.2 The US Payroll Process

The US Payroll process can be broadly divided into three distinct areas, as follows:

- **Pre-payroll Process**
  This process involves managing employee data before and during payroll periods.
- **Payroll Process**
  This process involves running actual calculations along with management of the payroll control record.

- **Post-payroll Process**
  This process can be broadly divided into sending data and sending money out of the payroll system. For taxes, benefits, and garnishments, the payroll system needs to send data and remittances (deductions) from employees.

Figure 1.2 presents an overall schematic of these three areas. Going from left to right in Figure 1.2, the pre-payroll process starts with the employee data, then moves to the calculation stage and continues on to post-payroll processing. The output of the payroll process is the payroll results tables, which are commonly referred to as *payroll clusters* and is shown in Figure 1.2. The payroll control record serves as a backbone for the entire process. The employee master data and transaction data consist of earnings and deductions, while the payroll results are used to pay employees as well carry out the reporting. The Payroll driver, schema, rules and wage types form the heart of the payroll process.

![Figure 1.2 The US Payroll Process](image)

This process works with different payroll-related entities such as employees, tax authorities, benefit providers, and the payroll department. Another way to look at the SAP US Payroll system is as an external, entity-based system. For example, employees, vendors, and different authorities receive information from the payroll system.
1.3 Components of SAP US Payroll

Figure 1.3 presents a more detailed view of the SAP US Payroll process and opens up our discussion to many new and different concepts. The contents of Figure 1.3 loosely translate to different submodules and functionality in SAP US Payroll. Before listing these major submodules, it’s important to first understand the concepts illustrated in Figure 1.2 and Figure 1.3.

The following list provides simple explanations for various components and terms of SAP US Payroll, as used in both Figure 1.2 and Figure 1.3.

- The US Payroll driver RPCALCU0 (an ABAP program) runs the payroll using a custom schema and is controlled by the payroll control record for its various stages.
- The US Payroll schema U000 uses functions and rules to control the flow as well as actual calculations during the payroll process.
- The US Wage Types Catalog comes with delivered model wage types, which are used to create your own custom wage types.
- BSI Tax Factory does tax calculations and generates tax wage types along with Tax Authorities and Tax Models maintained in the SAP Payroll module.
Infotypes in the employee master data for benefits, garnishments, bonds, taxes, and other US-specific functions provide the required input to the payroll process. For example, this could include benefits deductions, and the residence tax authority.

Tax reporter, which is used for US tax authority reporting and annual processing.

Third-party remittance, which is used to send money and data to external entities, including tax authorities, garnishment authorities, and benefits providers.

Payroll results (referred to as payroll clusters) are the output of a payroll process and are generated by the schema using wage types. They contain many tables for payroll period-related results, year-to-date cumulations as well as taxes.

Financials Accounting (FI), Accounts Payable (AP), Funds Management (FM), and Controlling (CO) are generic references to SAP’s Financial modules and are integrated with the SAP Payroll module.

You will typically find people talking about SAP US Payroll functionality in terms of the following major categories or distinct functionalities:

- Wage Types Catalog
- Payroll Rules and Schemas
- Finance Integration
- Tax Processing and Year-End Workbench
- Garnishments
- Integration with other applicable modules

The chapters in this book generally follow this approach so you can easily apply the examples to your own projects.

1.4 Summary

This chapter has given you an overview of SAP US Payroll, and touched on some of the more unique aspects of this module. You have now started to become familiar with the terminology such as schemas, drivers, and rules that SAP Payroll uses. Based on my earlier suggestion, please continue to refer to the standard SAP documentation for more information on conceptual details and basic understanding. In the interest of time, I have stayed
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away from generic topics in the hope that in this book you will receive more practical and example-based knowledge that you just won’t find in any other documentation or training.

In Chapter 2, you will start your journey with a discussion on employee data—both master data and transaction data—as applicable to US Payroll.
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