

## Payroll Deductions in Your Workplace: *A Guide for HR Professionals*

### **Q: What is payroll deduction for charitable contributions?**

A: Payroll deduction for charitable contributions is a method in which a specified donation is taken, voluntarily, from an employee's paycheck before they receive it. Other common voluntary payroll deductions include insurance premiums, and union dues.

### **Q: Why should we offer payroll deduction as part of our corporate social responsibility?**

A: There are many reasons your company should give your employees the option of donating through payroll deduction:

1. Ease: Employees will enjoy not having to remember to write a check each month.
2. Impact: A recent survey shows that employees give nearly 30% more if done through payroll deduction. Nearly all of the companies (92%) in the survey have a payroll deduction option.<sup>i</sup>
3. Morale: Employees want to know that their company cares. Having a payroll deduction option shows employees that their organization is committed to a successful giving program.
4. Simplicity: If done through an automated payroll service or direct deposit bank account, giving is simple for you and your employees.

### **Q: How do we process payroll deductions to Habitat for Humanity Fresno County?**

A: The processing of these payroll deductions will involve your company's payroll department (or outsourced payroll provider) and Habitat for Humanity Fresno County. You will first need to discuss the most appropriate method of processing payroll deductions internally. Here are a few suggestions:

- Have employees complete payroll deduction pledge cards (or complete a field created in your online payroll webpage) and forward to your payroll department or provider.

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- If your organization uses an automated payroll service, simply set up an additional deduction code or outside bank account for employees to set up direct deposits for their donations.
  - Have your payroll department withdraw any deposited bank funds each month and send a check to your local Habitat affiliate or Habitat International (as specified on each pledge form).
- If your organization does not use an automated payroll service, simply deduct the amount from each employee's gross pay the way you would other voluntary deductions (i.e. Union dues, parking fees, 401K contributions)
- It is important to remember that it is your responsibility (or provider's responsibility) to reconcile the payroll account and remit the total amount of employee deductions for each pay period.

**Q: Are these contributions tax deductible? How is the deduction processed?**

A: Yes, since Habitat for Humanity Fresno County Fresno County is a qualified 501(c)(3) non-profit organization, all donations to Habitat are tax deductible (*For full information, see IRS publication 526*). When filing for the deduction, the employee will need ONE of the following:

- A pay stub
- Form W-2
- Other employer furnished document that states the amount withheld for payment to a Habitat
- Donation receipt from Habitat for Humanity Fresno County
- A bank record that states the Habitat name, the date of the contribution, and the amount of the contribution. (Bank records may include: a canceled check, a bank or credit union statement, or a credit card statement).

**Q: Are these deductions taken out before or after taxes?**

A: Since charitable contributions are voluntary deductions, they should be deducted after federal, state, and FICA taxes are taken out. In other words, these deductions reduce net pay, but do not affect gross income.

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<sup>i</sup> (LBG Research Institute and LBG Associates, 2010)