

Article # 1276

Technical Note: Calculating the Employer Matching/Contribution by Percentage Based on *Deduction Amount Method*

Difficulty Level: Intermediate Level AccountMate User

Version(s) Affected: AccountMate 7 for SQL, Express and LAN

Module(s) Affected: PR

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DESCRIPTION

AccountMate provides three options for computing the Employer Matching/Contribution by Percentage Method. An employer matching contribution can be a percentage of a deduction, gross earnings, or net pay. There is one standard formula regardless of the matching base amount. The formula is discussed in [Article #1275, Understanding the Employer Matching/Contribution by Percentage Method Formula](#).

This Technical Note is a supplement to [Article #1275](#) and provides an illustrative example of how AccountMate calculates the Employer Matching/Contribution by **Percentage Based on Deduction Amount Method**.

SOLUTION

The discussion in the following sections will be based on the information below:

Employer Matching/Contribution (M/C) Table in the Employee Maintenance function:

Matching %	Over	% of Gross But Not Over
25%	0.00	10%
15%	0.00	20%
10%	0.00	100%

Employee's Gross Earnings = \$600

Employee's Net Pay Amount = \$369.73

Deduction Amount = \$90

Step 1: Determine which Employer Matching/Contribution (M/C) by Percentage Method should be used; then, determine the **Employer M/C Base Amount (A)**.

In this instance, the Employer M/C by Percentage Method selected is based on Deduction Amount; therefore, the **Employer M/C Base Amount (A)** is \$90, which is the deduction amount.

Step 2: Calculate the maximum employer matching/contribution amount for each percentage of gross earnings. The **1st Maximum Employer M/C Amount (B1)** is \$60, the **2nd Maximum Employer M/C Amount (B2)** is \$120, and the **3rd Maximum Employer M/C Amount (B3)** is \$600. These are computed as follows:

$$\begin{aligned} B1 &= \text{Gross Earnings} \times 1^{\text{st}} \% \text{ of Gross Earnings} \\ B1 &= \$600 \times 10\% \\ \mathbf{B1} &= \mathbf{\$60} \end{aligned}$$

$$\begin{aligned} B2 &= \text{Gross Earnings} \times 2^{\text{nd}} \% \text{ of Gross Earnings} \\ B2 &= \$600 \times 20\% \\ \mathbf{B2} &= \mathbf{\$120} \end{aligned}$$

$$\begin{aligned} B3 &= \text{Gross Earnings} \times 3^{\text{rd}} \% \text{ of Gross Earnings} \\ B3 &= \$600 \times 100\% \\ \mathbf{B3} &= \mathbf{\$600} \end{aligned}$$

Step 3: Calculate the **1st Employer M/C Amount (C1)**. The **1st Employer M/C Amount (C1)** is \$15. Comparing the results of A and B1 in steps 1 and 2 above, the *lesser* value between A (\$90) and B1 (\$60) is B1. To compute the **1st Employer M/C Amount (C1)** is to multiply B1 with the 1st Employer Matching % (see the given data on Employer M/C Table). The value is computed as follows:

$$\begin{aligned} C1 &= B1 \times 1^{\text{st}} \text{ Employer Matching \%} \\ C1 &= \$60 \times 25\% \\ \mathbf{C1} &= \mathbf{\$15} \end{aligned}$$

Step 4: Compute the **Difference between the 2nd and 1st Maximum Employer M/C Amount (D1)**. The 2nd Maximum Employer M/C Amount (B2) is \$120 as computed in step 2 and the 1st Maximum Employer M/C Amount (B1) is \$60, which is also computed in step 2. The difference between B2 and B1 is \$60. The value is computed as follows:

$$\begin{aligned} D1 &= B2 - B1 \\ D1 &= \$120 - \$60 \\ \mathbf{D1} &= \mathbf{\$60} \end{aligned}$$

Step 5: Compute the **Difference between the Employer M/C Base Amount and the 1st Maximum Employer M/C Amount (D2)**. The Employer M/C Base Amount (A) is the deduction amount of \$90 while the 1st Maximum Employer M/C Amount (B1) is \$60. The difference between A and B1 is \$30. The value is computed as follows:

$$\begin{aligned} D2 &= A - B1 \\ D2 &= \$90 - \$60 \\ \mathbf{D2} &= \mathbf{\$30} \end{aligned}$$

Step 6: Determine the **1st Available Deduction Amount (E1)**. The **1st Available Amount of Deduction (E1)** is \$30, which is the lesser value between D1 and D2 as computed in steps 4 and 5. The computed value for D1 is \$60 and the computed value for D2 is \$30; therefore E1 is \$30, which is the computed amount in D2.

Step 7: Calculate the **2nd Employer M/C Amount (C2)**. The **2nd Employer M/C Amount (C2)** is \$4.50. The formula to compute the **2nd Employer M/C Amount (D2)** is the **1st Available Deduction Amount (E1)** multiplied by the **2nd Employer Matching %**. The value is computed as follows:

$$\begin{aligned}C2 &= E1 \times 2^{\text{nd}} \text{ Employer Matching \%} \\C2 &= \$30 \times 15\% \\C2 &= \mathbf{\$4.50}\end{aligned}$$

***Note:** The resulting Employer M/C amount should not be lower than zero. If in the abovementioned example the **1st Available Deduction Amount (E1)** results in a negative value, the **2nd Employer M/C amount (C2)** is automatically zero.*

Step 8: Compute the **Sum of the 1st and 2nd Maximum Employer M/C Amount (D3)**. The **1st Maximum Employer M/C Amount (B1)** is \$60 and **2nd Maximum Employer M/C Amount (B2)** is \$120. The sum of B1 and B2 is \$180. The value is computed as follows:

$$\begin{aligned}D3 &= B1 + B2 \\D3 &= \$60 + \$120 \\D3 &= \mathbf{\$180}\end{aligned}$$

Step 9: Compute the **Difference between the 3rd Maximum Employer M/C Amount and the Sum of the 1st and 2nd Maximum Employer M/C Amount (D4)**. The **3rd Maximum Employer M/C Amount (B3)** is \$600 and the **Sum of the 1st and 2nd Maximum Employer M/C Amount (D3)** \$180. The difference between B3 and D3 is \$420. The value is computed as follows:

$$\begin{aligned}D4 &= B3 - D3 \\D4 &= \$600 - \$180 \\D4 &= \mathbf{\$420}\end{aligned}$$

Step 10: Compute the **Difference between the Employer M/C Base Amount and the 2nd Maximum Employer M/C Amount (D5)**. The **Employer M/C Base Amount (A)** is the deduction amount of \$90 while the **2nd Maximum Employer M/C Amount (B2)** is \$120. The difference between A and B2 is -\$30. The value is computed as follows:

$$\begin{aligned}D5 &= A - B2 \\D5 &= \$90 - \$120 \\D5 &= \mathbf{-\$30}\end{aligned}$$

Step 11: Determine the **2nd Available Deduction Amount (E2)**. The **2nd Available Deduction Amount (E2)** is the lesser value between D4 and D5. The value for D4 is \$420 and the computed value for D5 is -\$30. The lesser value between D4 and D5 is -\$30; however, Employer M/C Amount should not be lower than zero; therefore, the **2nd Available Deduction Amount (E2)** is \$0.

Step 12: Calculate the **3rd Employer M/C amount (C3)**. The **3rd Employer M/C Amount (C3)** is the **2nd Available Deduction Amount (E2)** multiplied by the **3rd Employer Matching %**. The **3rd Employer M/C Amount (C3)** is \$0. The value is computed as follows:

$$\begin{aligned} C3 &= E2 \times 3^{\text{rd}} \text{ Employer Matching \%} \\ C3 &= \$0 \times 10\% \\ \mathbf{C3} &= \mathbf{\$0} \end{aligned}$$

Step 13: Calculate the **Final Employer Matching/Contribution Amount (F)**. The **Final Employer Matching/Contribution Amount (F)** is the sum of the 1st, 2nd, and 3rd Employer M/C Amounts computed in the previous steps. The Final Employer M/C Amount (F) is \$19.50, which is computed as follows:

$$\begin{aligned} F &= C1 + C2 + C3 \\ F &= \$15 + \$4.50 + \$0 \\ \mathbf{F} &= \mathbf{\$19.50} \end{aligned}$$

The document is offered in an effort to provide you with a better understanding about how AccountMate computes the Employer Matching/Contribution Amount by Percentage based on the deduction amount.

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