

Extra Pay Period in 2004

A quirk in the 2004 calendar will cause some employers with biweekly payrolls to have 27 pay periods instead of the normal 26 for the year. The anomaly also will affect some employers who pay weekly, giving them 53 pay periods next year instead of the normal 52.

For example, take a worker with an annual salary of \$52,000. If the worker is paid every 14 days, in most years the employer simply divides the annual salary by 26 – the number of pay periods – coming up with a base pay of \$2,000 per pay period. But if the worker is due a first 2004 check on January 2 and a last 2004 check on December 31, that's 27 checks within the calendar year. Should the firm pay 27 times \$2,000, for a total of \$54,000 (not counting deductions)?

That's the conclusion some employers are reaching, and it's their rationale for reducing each of the 27 checks for that year so that the total of the 27 checks would be \$52,000 in this example.

The American Payroll Association agrees, but notes: "Morale is the big drawback" with that approach. Furthermore, some employers' fears that leaving paychecks intact would cause them to pay workers too much might be unfounded. Though it might be counterintuitive, most organizations won't wind up paying more, even with an additional check. The reason is that payroll systems generally record wage expenses on an accrual accounting system, which is used by most U.S. firms. According to the American Payroll Association, "When you make the salary payment is not when you incur the expense. When a year is longer, the company earns and books additional revenue. By trimming paychecks and reducing payroll expense for the year, a lower amount of money is expensed or booked for each day of wages, but there generally are the same number of wage-days in each year. So the employer would be paying less for the same amount of work if it reduced paychecks. "

Legal experts generally say that employers can reduce paychecks for salaried employees in a situation where there are extra pay periods in a year, but they don't necessarily endorse the practice.

We agree with the American Payroll Association, and recommend that for most employers paychecks **should not** be recalculated. If you have any specific questions about your company, do not hesitate to contact us.