

SSA Announces New Specs for Magnetic Media and Electronic Reporting

Social Security has developed new reporting specifications for employers who file Forms W-2/W-3 with Social Security via magnetic tape, 3-1/2 inch or 5-1/4 inch diskette, cartridge, or electronically over SSA's Online Wage Reporting Bulletin Board Service. Referred to as the Magnetic Media Reporting and Electronic Filing Specifications, the new specs provide one record format and can be used by employers who file domestic and/or U.S. territorial wage information. Therefore, the new specs replace the existing domestic and territorial Technical Information Bulletins 4, 5, 6 and 7.

Recent surveys indicate that employers of all types and sizes are moving toward electronic commerce. Including the one record format in SSA's new specs will make it easier for employers to transition from magnetic media to electronic filing.

A few of the other enhancements include the following:

- To make it easier for employers who file magnetically to produce paper W-2s for employees, the order of the wage fields in the record layouts have been

changed to match the order of the fields on the paper W-2.

- Employers will no longer be required to submit Form 6559, "Transmitter Report and Summary of Magnetic Media," as space has been included for that information in the new layout.

- The need to submit multiple records for high-wage earners will be eliminated because the wage fields have been expanded to 11 characters. The total fields have been expanded to 15 characters.

- Intermediate totals records will no longer be necessary.

- Five deferred compensations fields have been added (previously only available on paper W-2s).

Printed copies of the new specs are now available by writing to Ed Bulson, Social Security Administration, Room 3-B-15 Operations Building, 6401 Security Boulevard, Baltimore, MD 21235.

Employers will have time to convert to the new format. Social Security will not officially require employers to convert until tax year 1999 reporting, and a several-year transition period is expected. — SSA

Work Opportunity Credit

If you hire certain targeted group employees who begin work before October 1, 1997, you may be able to claim a credit against your income tax on Form 5884, "Work Opportunity Credit." The credit is based on these employees' wages during the tax year. An employee is a member of a targeted group if he or she is a qualified recipient of aid to families with dependent children (AFDC) or successor program, qualified veteran, qualified ex-felon, high-risk youth, vocational rehabilitation referral, qualified summer youth employee, or qualified food stamp recipient.

In order to claim the credit for an employee, you must get certification from the state employment security agency (SESA) that the employee is a member of a targeted group. You must either receive the certification by the day the individual begins work, or complete Form 8850, "Work Opportunity Credit Pre-Screening Notice and Certification Request," by the day you offer the individual a job.

Date of Birth Entry on Form 8850

If you use Form 8850 and the job applicant is age 25 or older, you are not required to ask for the applicant's date of birth and may leave the "Date of birth" entry space above line 1 blank.

NOTE: Because the law authorizing the work opportunity credit is scheduled to expire for employees who begin work after September 30, 1997, the IRS will not revise the current September 1996 version of Form 8850 unless the credit is extended. — IRS

For More Info, Check the Internet

SSA — <http://www.ssa.gov>

IRS — <http://www.irs.ustreas.gov>

U.S. Business Advisor — <http://www.business.gov>

Employers, Taxes and Adoption

If you have an adoption assistance program, your employees may be able to exclude from gross income payments or reimbursements you make for their expenses to adopt a child. Your employees cannot exclude payments or reimbursements for adoption expenses that were incurred before the adoption assistance program was in effect. For more information on this exclusion, your employees can order Publication 968, *Tax Benefits for Adoption*.

Adoption Assistance Program

An adoption assistance program is a separate written plan of an employer that meets certain requirements. For more information on the requirements for setting up a plan, see Notice 97-9. The notice can be found in Internal Revenue Cumulative Bulletin 1997-1 or on the Internet.

Employment Taxes

For tax years beginning after 1996, amounts you pay or incur under your adoption assistance program for an employee's qualifying adoption expenses are not subject to income tax withholding. However, these amounts are subject to Social Security, Medicare and federal unemployment taxes.

Form W-2

You must report all qualifying adoption expenses you paid or reimbursed for each employee for the year in box 13 of the employee's Form W-2. Use code "T" to identify this amount. Also include this amount in the totals for Social Security wages in box 3 and Medicare wages in box 5. However, do not include this amount with the employee's wages in box 1.

More Information

By Telephone

To order forms and publications, call 1-800-829-3676.

ETA Corner (*Electronic Tax Administration*)

Filing Form 941 by Phone—941 TeleFile Pilot

During the first quarter of 1997, over 890,000 small businesses that met certain qualifications were invited to participate in a pilot program allowing them to file their Form 941 returns by telephone, using a toll-free number. These businesses received a special 941 TeleFile Tax Record and instructions in their packages along with a Form 941 Payment Voucher and, for those who were not eligible to file by phone, a regular Form 941. Changing the way they file their quarterly employment tax returns will save time and paperwork.

The 941 TeleFile program is easy. Simply complete the Tax Record and call the toll-free number listed in the instructions. A voice processing system prompts users to make the necessary entries and repeats each entry so that callers can correct their mistakes immediately. 941 TeleFile provides a confirmation number to each filer as verification of filing.

The pilot, continuing through January 1998, is currently limited to Alabama, Delaware, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. Once completed, IRS will expand the system nationwide.

If you received the special purple and black 941 TeleFile instructions and Tax Record, we encourage you to pick up a Touch-Tone phone and use this quick, easy and convenient way

to file. With 941 TeleFile, the call is free and you can file 24 hours a day, 7 days a week.

EFTPS Moves Forward

Time Now for Last-Minute EFTPS Enrollments

By now, employers who paid more than \$50,000 in employment taxes in calendar year 1995 should have enrolled in the Electronic Federal Tax Payment System (EFTPS). These employers must make their tax payments through EFTPS starting July 1. Employers who should be enrolled but have not yet sent in application forms should do so immediately to keep penalties to a minimum. To get a form, or for help in enrolling, call 1-800-945-8400 or 1-800-555-4477.

July 1 Is Deadline for Making Electronic Payments

Employers who have already enrolled should consider using EFTPS now. That way, employers will know before the July 1 deadline that their enrollment was correct and their tax payments are being processed.

IRS Sends 1998 EFTPS Letters

Another group of businesses are required to use EFTPS starting in January 1998: businesses who paid either more than \$50,000 in employment taxes in calendar year 1996, or more than \$50,000 in non-employment taxes in calendar year 1995 or 1996. These businesses should already have a letter from the IRS telling them that their enrollment packages will arrive during July. — *IRS*

By Computer

Most IRS forms and publications, as well as answers to frequently-asked questions, are available on the Internet:

(WWW) <http://www.irs.ustreas.gov>
(FTP) [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)
(Telnet) [iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov) — *IRS*

Special Wage Payment Instructions Now Available

Special wage payments, if not reported correctly, can reduce a worker's (or former worker's) Social Security benefits. To clarify this often misunderstood reporting requirement, step-by-step instructions can now be found in IRS' revised Publication 957, *Reporting Back Pay and Special Wage Payments to the Social Security Administration*. The publication includes specifications and record layouts for reporting special wage payments using paper listings, magnetic media and Form SSA-131. The new publication will be available by July 1 by calling 1-800-TAX-FORM (1-800-829-3676).

The excerpt below explains what is considered a special wage payment (and what is not), how special wage payments affect Social Security's earning test and what are the acceptable reporting methods.

Special Wage Payments

A special wage payment is an amount paid by an employer to an employee or former employee that was earned for services performed in a prior year. Special wage payments made to a retired employee receiving Social Security benefits or to an employee who continues to work while receiving Social Security benefits, if not reported to SSA, reduce the amount of benefits the individual receives. Employers should report to SSA special wage payments made to employees and former employees who are Social Security recipients. Special wage payments may include (but are not limited to): Accumulated sick and vacation pay, back pay, bonuses, deferred compensation, stock options, payments because of retirement, sales commissions and severance pay. Note: Payments made after retirement that are part of the normal payroll cycle should not be reported as special wage payments.

SSA Earnings Test

The amount of benefits paid to a Social Security recipient under age 70 may be reduced if the recipient continues to work. SSA uses the information in boxes 3, 5, and 1 of the W-2, in that order taking into consideration the highest amount, to determine the beneficiary's current year earnings. Special wage payments, which are for services performed in a prior year, will increase the current year earnings amount on the W-2, which in turn may result in a reduction in the recipient's benefits. If a benefit is reduced because of a special wage payment, the beneficiary must obtain documentation from the employer and submit it to SSA in order to restore the deducted portion. Employer reports of special wage payments help SSA prevent incorrect benefit reductions.

Reporting Special Wage Payments

The normal rules for reporting compensation for IRS tax purposes apply to special wage payments. Thus, employers must report special wage payments for income tax purposes and, except as provided below, Social Security and Medicare taxes in the year received. Report income, Social Security and/or Medicare taxes for special wage payments on Form W-2.

In addition, report to SSA special wage payments made during the reporting year to retired employees and employees who continue to work while receiving Social Security benefits. Submit reports after the close of the tax year. To assist SSA processing, submit reports in time to reach SSA by April 1. Reports submitted later will be accepted, although some processing delays may occur. Use one of the following reporting methods.

Magnetic media. Special wage payments may be reported on magnetic computer tape or 3480 cartridges. SSA does not accept special wage payment reports on diskettes. Use the specifications, record layout, transmittal and mailing address found in Publica-

tion 957. Do not report payments from nonqualified deferred compensation (or Section 457) plans that were reported in box 11 of Form W-2. Include a transmittal for each tape or cartridge submitted.

Tapes or cartridges not meeting SSA's specifications will be rejected. All data must be in capital letters. "Year" refers to the year the payment was reported as wages on Form W-2. Do not use punctuation (periods and/or commas) in the name field.

Paper listing. A paper listing may be used to report special wage payments to several employees. Do not report distributions from nonqualified deferred compensation (or Section 457) plans on the paper listing; use Form SSA-131. Submit paper listings to the local SSA office nearest your place of business.

Form SSA-131. Use Form SSA-131 to report special wage payments made to one employee. Also use the SSA-131 to report nonqualified deferred compensation and section 457 plan deferrals and payments that could not be reported in block 11 of Form W-2. An example of Form SSA-131 and instructions can be found in Publication 957. Submit the SSA-131 to the local SSA office nearest your place of business. Or, give the SSA-131 to the employee. The employee must submit the SSA-131 to the local SSA office in order for SSA to exclude the special wage payment from consideration for the earnings test. If reporting on more than one employee complete a separate SSA-131 for each or (except for reporting nonqualified and section 457 plan deferrals and payments) use the paper listing format also found in the Publication 957.

Coming Next Issue: Stock options reported as special wage payments and payments to nonqualified deferred compensation and section 457 plans. Specific Form W-2 reporting examples will also be included.
— SSA

IRS Continues Prospective Agreements With The Restaurant Industry

Encouraged by the most recent figures from the Tip Rate Determination and Education Program (TRD/EP), the Internal Revenue Service (IRS) continues its emphasis on a multi-year strategy to increase tax compliance by tipped employees in the food service industry. There are two arrangements under this program that employers in this industry can agree to enter into: the Tip Rate Determination Agreement (TRDA) and the Tip Reporting Alternative Commitment (TRAC).

Introduced in 1993, TRDA set the stage for a new way of doing business at the IRS. This arrangement emphasizes future compliance by tipped employees in the food and beverage industry by using the tip rates individually calculated for each restaurant. The IRS agrees not to initiate any examinations on either a *participating* employer or employee during the period the TRDA is in effect if participants comply with the provisions of the agreement.

The second arrangement, TRAC, is a result of a collaborative effort between the IRS and a coalition of restaurant industry representatives. TRAC, introduced in June 1995, emphasizes educating both employers and employees to help them comply with the tax laws relating to tip income reporting. Also, employees are provided tip reports detailing the correlation which exists between an employee's charge tip rate and the cash tip rate. In general, the IRS District Director will not initiate examinations that would result in an assessment of FICA tax on either the employer or employees while the agreement is in effect if participants comply with the provisions of the agreement.

IRS/SSA Seminars on Magnetic Media Reporting

Beginning in August, IRS and SSA will conduct a series of seminars on reporting information returns. The tax year 1997 seminars will help filers meet the legal and technical requirements for filing the 1099 series, 1098, 5498, 1042-S and W-2 information returns.

The seminar morning sessions will begin with the IRS Martinsburg Computing Center's (MCC) explanation of current changes to Publication 1220, backup withholding and penalty updates. The MCC will also cover the filing of the newly developed information returns, which are a result of the recent tax law changes.

The afternoon sessions will be dedicated to discussing Forms W-2/W-3 magnetic media reporting and electronic filing specifications. In addition, the sessions will include a brief discussion of SSA's new reporting specifications that are anticipated for tax year 1999 implementation.

The locations and dates for the 24 seminar sites are listed below. An announcement will also appear in the Internal Revenue Bulletin, in Publication 1220 for tax year 1997, on the SSA Bulletin Board at (410) 965-1133, and on the Information Reporting Bulletin Board (IRP-BBS) at (304) 264-7070.

Please note that you must use a PC modem to dial the bulletin boards.

Seminar Site Date

Baltimore, MD 8/5
Chicago IL 8/19
Indianapolis, IN 8/21
Oklahoma City, OK 8/26
Portland, OR 8/26
Omaha, NE 8/26
Boise, ID 8/28
Denver, CO 8/28
Little Rock, AR 8/28
Phoenix, AZ 9/9
Atlanta, GA 9/9
Philadelphia, PA 9/9
San Antonio, TX 9/11
Nashville, TN 9/11
New York, NY 9/11
San Francisco, CA 9/16
Minneapolis, MN 9/16
New Orleans - 9/16
Jacksonville, FL 9/18
Los Angeles, CA 9/18
Boston, MA 9/23
Rochester, NY 9/23
Columbus, OH 9/25
Richmond, VA 9/25

The 1099/W-2 sessions are geared toward magnetic media/electronic filers; attendees should expect presentations to highlight that filing only. No tax law representative will be present to answer questions.

If you have questions, contact the Information Reporting Call Site at (304) 263-8700. — SSA

As of March 31, 1997, IRS has received more than 4,400 TRDA and TRAC agreements, representing more than 23,000 establishments nationwide. Meanwhile, to promote consistency across the country, IRS employees have received updated training. As part of an outreach effort, IRS employees will visit restaurants, explaining both arrangements and providing restaurant owners with materials to help them educate themselves and

their workers. But employers don't have to wait for an IRS representative to call on them. Contact the Tip Coordinator at the local IRS office or call 1-800-829-3676 for the "Tips on Tips" brochures (employer and employee versions) plus Publication 531, *Reporting Tip Income*. — IRS

