

Social Security Administration

Internal Revenue Service

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Department of the Treasury
Internal Revenue Service

www.irs.gov

Publication 1693 (Rev.03-05)
Catalog Number 15060W

Reporter

Spring 2005

A Newsletter
for Employers

IRS Increases FUTA Minimum Threshold

The Internal Revenue Service (IRS) has increased the minimum threshold for Federal Unemployment Tax Act (FUTA) deposits.

Employers are now required to make a quarterly deposit for unemployment taxes if the accumulated tax exceeds \$500. The previous threshold was \$100.

"The IRS is committed to reducing burden on taxpayers whenever we can," said IRS Commissioner Mark Everson. "The new rules will help cut paperwork for millions of small businesses. The IRS Office of Taxpayer Burden is continually reviewing what other steps we might take that will save money and time for businesses."

The maximum amount the IRS collects from employers per employee is \$56 per year, if the employer timely made state unemployment tax payments. The previous \$100 threshold required most employers with two or more employees to make at least one federal tax deposit per year. Raising the requirement to \$500 will reduce burden for employers with eight employees or less by eliminating their requirement to make up to 4 FUTA tax deposits yearly.

For more information on this topic please go to IRS.gov at <http://www.irs.gov/newsroom/article/0,,id=131682,00.html>. 

More Employers Now Able to Verify the Accuracy of SSNs Online

Social Security and the Department of Homeland Security (DHS) are working together to help employers keep accurate records and employ only people who are eligible to work in the United States.

In November 1997, Social Security and the U.S. Citizenship and Immigration Services began piloting a new electronic service for employers that would verify a new employee's Social Security number and his or her work eligibility in the U.S. At the time, this service was available only to employers in California, Florida, Illinois, Nebraska, New York and Texas.

In November 2003, Congress extended this pilot program until November 2008 and expanded it to include employers in all States.

Employers must meet the following criteria to use this service:

- Not discriminate against any person in hiring, firing or recruitment practices;
- Hire the employee and complete Form I-9 prior to initiating verification;
- Make a verification check within 3 business days of hiring;

continued on page 2

Redesigned Form 941 Debuted in First Quarter 2005

The newly redesigned Form 941, *Employer's Quarterly Federal Tax Return*, is now available.

Form 941 is used to report Social Security and Medicare tax withheld from employees and the employer's share, as well as federal income tax withholding. Form 941 is critically important in payroll administration because it establishes liabilities and reconciles those liabilities with deposits.

As reported in the Winter 2004 issue of the *SSA/IRS Reporter*, the redesigned Form 941 made its debut in January 2005, after two years of extensive review by IRS subject matter experts, external focus group

testing, and solicitation from key stakeholders in the payroll community for comment and feedback. Stakeholder suggestions were incorporated into the redesign to the extent possible by IRS.

The new form features a significantly improved layout, which makes it easier for approximately 6.6 million employers, who file 23 million Forms 941 a year, to understand and complete.

Visit the IRS.gov Web site to learn more and download Form 941. Printed copies of Form 941 and the instructions may be ordered by calling the IRS at 800-829-3676.

IRS

Social Security Preparing to Begin Administrative Wage Garnishment

This spring, Social Security will begin using administrative wage garnishment to collect delinquent debts owed by former beneficiaries of the Social Security and Supplemental Security Income (SSI) programs. Administrative Wage Garnishment was authorized by the Debt Collection Improvement Act of 1996 (DCIA).

DCIA authorized Federal agencies to use non-judicial wage garnishment to collect delinquent debts. Wage garnishment is a process in which an employer withholds up to 15 percent from an employee's disposable wages and pays that money to the employee's creditor until the debt is paid, or otherwise resolved. Administrative wage garnishment does not require a court order.

The administrative wage garnishment authority is important because Social Security estimates that, over a 5-year period, it could collect about \$105 million in delinquent overpayments owed to the nation's Social Security and SSI programs.

Social Security's final regulations for administrative wage garnishment became effective in 2004 and notices to debtors were mailed in February 2005 telling them that Social Security proposes to use wage garnishment and giving them an opportunity to dispute the debt owed or repay it before garnishment begins.

If the debtor does not respond to the notice, Social Security will screen earnings records to determine the debtor's employer. **The first garnishment orders will be mailed to employers on or about April 15, 2005.**

It is important to note that an employer who does not comply with the wage garnishment order can become liable for any amounts that should have been withheld from the worker's pay—as well as punitive damages. Also, employers cannot fire or take disciplinary action against an employee on the basis of wage garnishment.

Social Security will send a notice to employers each month explaining the status of the debt.

If employers have any questions when they receive a wage garnishment order, they should contact Social Security at the telephone number shown on the order. SSA

Modernized e-File for Tax Year 2004

Modernized e-File (MeF) began its second year of processing on January 10, 2005. Three new forms were added for tax year 2004: Form 1120 Schedule M-3, *Net Income (Loss) for Corporations with Total Assets of \$10 Million or More*; Form 8858, *Information Return of U.S. Persons With Respect to Disregarded Entities*; and Form 8858, *Schedule M, Transactions Between Foreign Disregarded Entity of a Foreign Tax Owner and the Filer or Other Related Entities*. Form 7004, *Application for Automatic Extension of Time to File for Corporate Returns* is also available for MeF.

MeF had a great first year. It received over 51,000 returns for Forms 1120/1120S. Over 2,900 Electronic Return Originators are participating in the program.

Additional information on the program can be found on the IRS.gov Web site at <http://www.irs.gov/efile/article/0,,id=10379700.html>.

If you would like more information on 1120/1120S e-file contact the project by email at 1120@irs.gov. IRS

Verify SSNs Online continued from page 1

- Electronically verify all newly-hired employees;
- Have a personal computer with access to the Internet; and
- Enter into a Memorandum of Understanding with Social Security and DHS.

Social Security and DHS provide the pilot verification services free of charge to employers. The confirmation system contains safeguards designed to protect the integrity of personal information contained in Social Security and DHS data bases.

Also, when your employee records agree with Social Security, you can accurately report your employee's earnings. You can find more information at: <http://uscis.gov/graphics/services/SAVE.htm#twoA>. If you have any questions or want to participate in the pilot program, call DHS at 888-464-4218. SSA

SSA/IRS

Reporter

SSA/IRS Reporter is published quarterly, Spring (March), Summer (June), Fall (Sept.), and Winter (Dec.) by the IRS Small Business/Self-Employed Communications Office.

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Denver, CO 80202-2490

e-mail (NOT for change of address):

SSA.IRS.REPORTER@irs.gov

Fax: 303-446-1764

CHANGE OF ADDRESS? OUT OF BUSINESS?

Notify the IRS. Send a letter to the IRS center to which you sent your business returns. Please include your employer Identification Number (EIN).

Cincinnati IRS Center,
Cincinnati, OH 45999

Ogden IRS Center,
Ogden, UT 84201

Outside U.S.:

Philadelphia IRS Center,
Philadelphia, PA 19255.

About Reprinting Articles

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SSA/IRS Reporter Mail Processing Error

Due to a mail processing error, many taxpayers received a SSA/IRS Reporter Winter 2004 Spanish Edition included in their English Tax Package Form 941.

The English and Spanish editions of the SSA/IRS Reporter are available at: <http://www.socialsecurity.gov/employer/pub.htm> and <http://www.irs.gov/businesses/small/article/0,,id=109886,00.html>.

You may request paper copies mailed to you by calling 800-829-3676 and asking for Publication 1693 Revision 12-04, Catalogue Number 15060W.

Employment Tax Information for Exempt Organizations

Although charities and other tax-exempt organizations may not be required to pay federal income taxes, these organizations must generally withhold, deposit and pay federal income tax from their employees' wages, and they may also have tax reporting obligations with respect to these withholdings. To help exempt organizations understand their employment tax responsibilities, the IRS has added comprehensive employment tax information, specifically tailored to exempt organizations, to the IRS Web site.

The new Web site is designed to help exempt organizations that compensate workers and must file associated employment tax and information returns. It provides reference and guidance on various employment tax issues and includes articles on:

■ **What Are Employment Taxes?:** A description of the taxes and withholding requirements that may apply when a tax-exempt organization compensates workers.

■ **Employment Tax Requirements:** The basic requirements for tax and wage reporting compliance, including determining if an employer identification number (EIN) is necessary, calculating withholding, making deposits, and keeping tax and reporting records.

■ **Employees vs. Independent Contractors:** Exempt organizations do not generally have to withhold or pay employment tax on payments to independent contractors, but they may have information reporting requirements. On the other hand, the requirements differ if the worker is classified as an employee. This article explains how an exempt organization must evaluate the business relationship between the organization and the worker to determine whether the worker is either an employee or independent contractor.

■ **Federal Tax Deposit Requirements:** An exempt organization must generally deposit employment taxes and certain other taxes before filing its return.

■ **Employment Tax Forms, Publications, and Notices:** Lists of (and links to) common employment tax forms, publications, and notices that an exempt organization may need.

■ **IRS e-file for Exempt Organizations:** IRS e-file and electronic payment options for employment tax returns, information returns, and exempt organization returns.

■ **How to Use the Income Tax Withholding and Advance Earned Income Credit Payment Tables**

■ **Employment Tax Resources for Exempt Organizations:** Additional resources on employment tax issues for tax-exempt organizations.

To access these materials, go to the Charities & Non-Profits site (<http://www.irs.gov/eo>), and select Employment Taxes for Exempt Organizations.

The IRS offers help through telephone assistors and with written material that is accessible either online, via mail, by telephone, and at IRS Taxpayer Assistance Centers in many areas across the country. For help specifically on employment tax issues, contact the Business and Specialty Tax Line (toll-free) at 800-829-4933. For help on questions about tax-exempt organizations, contact EO Customer Account Services (toll-free) at 877-829-5500. Order publications and forms by calling toll-free at 800-829-3676, or download publications and forms from the IRS Web site at <http://www.irs.gov>.

Tax professionals and representatives of tax-exempt organizations who wish to receive periodic updates from the IRS regarding exempt organizations tax law and regulations, available services, and other information can now subscribe to the *EO Update*, a new subscription-based email service. To subscribe, visit <http://www.irs.gov/eo>. 

Form W-4 is Now Available in Spanish

New for 2005 is the Spanish version of Form W-4, *Employee's Withholding Allowance Certificate*. *Forma W-4(SP), Certificado de Exención de la Retención del(la) Empleado(a)*, is available for use by your Spanish-speaking employees. *Forma W-4(SP)* can be used in place of Form W-4.

Publication 579SP, *Cómo Preparar la Declaración de Impuesto Federal*, provides instructions, in Spanish, for employees to use in preparing Form W-4 or *Forma W-4(SP)*. Employers are encouraged to alert their employees about *Forma W-4(SP)*. Call the IRS at 800-TAX-FORM (800-829-3676) to order printed copies of *Forma W-4(SP)*, Publication 579SP, Form W-4, or other IRS forms and publications. Forms and publications are also available on the Internet at <http://www.irs.gov>, at IRS offices, by mail, or by fax. 

Important Tips for Paying Taxes With EFTPS

It's time to look at using the Electronic Federal Tax Payment System (EFTPS) to its fullest...

Enroll in EFTPS For All 2005 Tax Payments

To make it easier when it's time to file your quarterly Form 941 returns in 2005, use EFTPS to make all your deposits. That way, at the end of every quarter you will have your history consolidated and at your fingertips; you can even go online and print it out. EFTPS stores the history for all the payments made through the system for the last 16 months. So it's easy to look back at how much you paid and when. To enroll, visit <http://www.eftps.gov>, or call EFTPS Customer Service at 800-555-4477 for an enrollment form.

Get an Internet Password and Use EFTPS-OnLine

If you are already enrolled in EFTPS and making payments by phone, all you need is an Internet Password to make payments or view your payment history online. You can make payments by phone and online and your history is consolidated under your Taxpayer Identification Number (EIN or SSN) within EFTPS. To get an Internet Password, call EFTPS at 800-982-3526. Have your EIN, PIN and enrollment trace number handy when you call.

Changing Bank Accounts? Don't Forget Your New PIN

With EFTPS, when you change bank accounts to have your payments deducted from a different account, you will be issued a new PIN that is associated with that new bank account. Your old PIN will still remain

active and associated with the old bank account. So if you use the old PIN, payments will be directed to the old account. Make sure you use the correct PIN when making payments.

Making Payments For the Right "Tax Period"

When you make a payment through EFTPS, you will enter (by phone or online) the "tax period" to which your payment should be applied. If making a payment by phone, you will be asked to enter the "2-digit filing year." This would be "05" for 2005, "04" for 2004, etc. If you're making a payment online, you will be asked to enter all 4 digits of the year to which the payment applies, i.e., 2005, 2004, etc.

Enroll in EFTPS...and if you're already enrolled, thanks for using the system. 

TEST YOUR KNOWLEDGE

Special Rules for Paying Taxes

Situation: Bob, a staff accountant at Arrowwood Accounting, was assigned the responsibility of reviewing the payroll procedures for its new client, Peachtree Manufacturing, Inc.

Peachtree started as a small assembler of patio furniture and had seen rapid growth, adding workers and acquiring several subsidiaries. These corporations operated independently and maintained separate accounting and payroll systems. In addition, several of the Peachtree headquarter employees (e.g. the president, treasurer, personnel, etc.) were also employed by the subsidiaries. These concurrently employed individuals received separate paychecks and Forms W-2 (Wage and Tax Statement) from each of the related corporations they worked for. Bob noted that, in several instances, employee earnings exceeded the Federal Insurance Contributions Act (FICA) wage base for social security and/or the federal unemployment (FUTA) wage base (i.e. \$87,900 and \$7,000, respectively, in 2004).

Question: What special procedure might Arrowwood's staff consider for Peachtree?

Answer: Bob might review whether Peachtree's operations would accommodate the "common paymaster" rules by paying the concurrently employed individuals through the payroll of one of the related corporations for which they work.

In general, an employer does not consider an employee's additional employment when applying the wage base limits for FICA and FUTA. However, if the additional employment is by a related corporation, who employs the same individual at the same time and pays this individual through a "common paymaster", the related corporations are considered to be a single employer. They have to pay, in total, no more in social security and Medicare taxes than a single employer would. The common paymaster who pays the wages must be one of the related corporations. See Regulations sections 31.3121(s)-1, and 31.3306(p)-1 for more information.

The common paymaster rules are for compensation only in the form of money, check, or the like. Similar common paymaster provisions may also apply in some of the state unemployment tax systems.

Resources for Additional Information:

Publication 15-A, *Employer's Supplemental Guide*—Chapter 7
(<http://www.irs.gov/pub/irs-pdf/p15a.pdf>)

Treasury Regulations:

■ FICA: Section 31.3121(s)-1, Concurrent employment by related corporations with common paymaster.

■ FUTA: Section 31.3306(p)-1, Employees of related corporations.
(http://www.access.gpo.gov/nara/cfr/waisidx_04/26cfr31_04.html) 

Are You Complying with Payroll Recordkeeping Requirements?

Employers can minimize their compliance and audit risks by meeting the recordkeeping requirements of the Internal Revenue Code (IRC). The IRC requires all employers that withhold and pay federal income, social security, and Medicare taxes to maintain certain records for each employee. Failing to meet these recordkeeping requirements can mean big penalties, not to mention large settlement awards, should you be unable to provide the required information when requested by IRS or in an employment-related lawsuit.

Income, Social Security, and Medicare Taxes

These are the records that employers must keep for at least four years after the due date of the employee's personal income tax return (generally, April 15) for the year in which the payment was made:

- The Employer Identification Number (EIN).
- Employee name, address, occupation, and social security number.
- Total amount and date of each payment of compensation and any amount withheld for taxes or otherwise. This should include reported tips and the fair market value of non-cash payments.
- Amount of compensation subject to withholding for federal income, social security, and Medicare taxes, and the amount withheld for each tax.
- Pay period covered by each payment of compensation.
- The reason(s) why the total compensation and the taxable amount for each tax are different, if that is the case.

- Employee's Form W-4, *Employee's Withholding Allowance Certificate*.
- Beginning and ending dates of the employee's employment.
- Statements provided by the employee reporting tips received.
- Information regarding wage continuation payments made to the employee by an employer or third party under an accident or health plan, including the beginning and ending dates of the period of absence from work and the amount and weekly rate of each payment (including payments made by third parties), as well as copies of the employee's Form W-4S, *Request for Federal Income Tax Withholding From Sick Pay*.
- Fringe benefits provided to the employee and any required substantiation.
- Requests from an employee to use the cumulative method of wage withholding.
- Adjustments or settlements of taxes.
- Copies of returns filed (on paper or by magnetic media), including forms 941, 943, W-3, 6559, Copy A of Form W-2, and any Forms W-2 sent to employees but returned as undeliverable.
- Amounts and dates of tax deposits.

Unemployment Tax

Employers subject to the Federal Unemployment Tax Act (FUTA) must also keep records to substantiate the following for at least four years after the due date of Form 940 (or 940-EZ) or the date the required FUTA tax was paid, whichever is later:

- The total amount of employee compensation paid during the calendar year.

- The amount of compensation subject to FUTA tax.
- State unemployment contributions made, with separate totals for amounts paid by the employer and amounts withheld from employees' wages (currently, Alaska, New Jersey, and Pennsylvania require employee contributions).
- All information shown on Form 940.
- The reason why total compensation and the taxable amounts are different, if that is the case.

Department of Labor, State Requirements

There are also record retention requirements set by the Department of Labor (DOL), as well as wage-hour and unemployment insurance agencies on the state level. You can read the DOL's rules at <http://www.dol.gov/dol/topic/wages/wagesrecordkeeping.htm>. Links to all state agencies are available at <http://www.americanpayroll.org/states.html>.

The American Payroll Association's strong partnership with the IRS and SSA allows it to prepare its classes and publications with the most accurate and up-to-date information to educate employers. IRS and SSA experts speak at many APA conferences and one-day seminars, including its Payroll Tax Forum. As a member of IRS' advisory committees, APA provides input toward improving the nation's wage and tax reporting process. More information about the APA is available at <http://www.americanpayroll.org>. **APA**

Social Security Now Offers W-2c Online

Social Security has expanded its online Business Services suite of wage reporting services to include W-2c Online. W-2c Online allows you to create, print and submit up to five Forms W-2c per W-3c over the Internet.

After the introduction of W-2 Online in 2002, many employers requested a similar method to enable them to report corrections electronically. Social Security thinks that you will find W-2c Online to be just as user friendly

as its other electronic services. As with W-2 Online, support services are available for W-2c Online. Even if you file your wage reports using methods other than electronic filing, you may still use W-2c Online to make corrections to those wage reports.

If you have any questions, visit Social Security online at <http://www.socialsecurity.gov/employer> or call 800-772-6270. **SSA**

You are invited to attend Social Security's National Payroll Reporting Forum

Who:

Employers, payroll professionals, wage and tax submitters and others interested in the latest changes for the upcoming tax season, filing electronically, online Social Security number verification, and more.

When:

June 2, 2005 8:30 a.m. to 4:30 p.m.

Where:

Wyndham Baltimore Inner Harbor
101 West Fayette Street
Baltimore, Maryland 21201

How:

Attendance is free but pre-registration is required. Go to the following link and select National Payroll Reporting Forum to register for the forum and make hotel reservations.

<http://www.socialsecurity.gov/employer/seminar2.htm>.

The forum is sponsored jointly by Social Security and the Internal Revenue Service. The agenda will include time for Federal agencies and the business community to identify, discuss and resolve common wage and tax reporting issues. Invited agencies include: U.S. Citizenship and Immigration Services, the Department of Labor, and the Administration for Children and Families.

Plan to attend and have a voice in Federal government initiatives that will affect the way YOU do business. **IRS/SSA**

HELP Telephone Numbers and Web Addresses to Use When You Have Questions:

Internal Revenue Service

Business and Specialty Tax Line
800-829-4933

Electronic Federal Tax Payment System (EFTPS) Hotline
800-555-4477

Employee Plans Taxpayer Assistance Telephone Service
877-829-5500 (toll free)

Employer Identification Number (EIN) Requests

800-829-4933
Monday - Friday, 7:00 a.m. to 10:00 p.m., local time (Pacific time in AK and HI) or <http://www.irs.gov>, key word (upper right) "EIN."

Form 941 and Form 940 Filing On-Line Filing Program / Austin Submission Center

New Toll Free Number for e-Help 866-255-0654
Supports IRS e-file, TeleFile and future e-Services customers. Go to <http://www.irs.gov/efile/article/0,,id=118520,00.html> for specifics.

Forms (IRS)
Order at 800-829-3676.

General IRS Tax Law Questions and Account Information
800-829-1040

Information Reporting Program Customer Service Section

866-455-7438 (toll free)
304-263-8700 (non-toll free)
Monday - Friday, 8:30 a.m. to 4:30 p.m., ET.

Telecommunications Devices for the Deaf (TDD) may be reached non-toll free at 304-267-3367.

Taxpayers can contact this unit via e-mail at mccirp@irs.gov.

Information Reporting Program Web Page

<http://www.irs.gov/smallbiz>

IRS Tax Fax

703-368-9694 (non-toll free)
This service offers faxed topical tax information.

Keywords on IRS.gov

IRS.gov is now using keywords as another way to help makes your visit less taxing! Look for the IRS keywords in its public service, outreach, and other materials for taxpayers and tax professionals. For a current list and more information about IRS keywords, check out <http://www.irs.gov/help/article/0,,id=108258,00.html>.

National Taxpayer Advocate's Help Line
877-777-4778 (toll free)

Retirement Plans Web Page
<http://www.irs.gov/ep?>

Social Security Tax Questions

Social Security Tax questions should be referred to the IRS at 800-829-1040.

Taxpayer Advocacy Panel
888-912-1227 (toll-free)

Telephone Device for the Deaf (TDD)
800-829-4059

Tele-Tax System
800-829-4477

Child Support Web Site for Employers

<http://www.acf.hhs.gov/programs/cse/newhire/employer/home.htm>

Social Security Administration

Copy A / Form W-2 Reporting

Questions about wage reporting (submitting Copy A of Form W-2 to SSA) should be referred to the SSA's Employer Reporting Service at 800-772-6270 or e-mailed to employerinfo@socialsecurity.gov.

General SSA Benefit Questions

General Social Security benefit questions should be referred to SSA's Tele Service Center at 800-772-1213.

Good Business and Good Tax Planning, Too

As you know all too well, tax time is just around the corner. Are you looking for a tax deduction for you and your business? If so, consider establishing a retirement plan for yourself and for your employees. Retirement plans offer deductible contributions, tax-deferred growth and an attractive incentive for recruiting and retaining valuable employees.

The IRS has a helpful Web site filled with lots of plain-language information about retirement plans at <http://www.irs.gov/ep>. Once you're there, just click on "Information for: Plan Sponsor/Employer." Among the info you'll find are:

- Pub 3998, *Choosing a Retirement Solution for Your Small Business*;
- Retirement Tips for Employers;
- Contribution limits for 2005 and before;
- Distribution and contribution deadline information;
- And much more.

FYI: There's still time for many businesses to establish a retirement plan now, make contributions and qualify for deductions for 2004. Just as an example, contributions to IRAs made by April 15, 2005 may be deductible for the 2004 calendar year. **IRS**