

FICA Requirements for State and Local Governments

The Internal Revenue Service (IRS) issued a short article in the Summer 1998 issue of the Reporter which may have confused some employers. We hope the following information clarifies what we originally intended our statement to convey.

State and local government employers are required to withhold the social security tax portion of Federal Insurance Contributions Act (FICA) tax (social security and Medicare) on wages paid to all workers covered under a Section 218 Agreement. Employers must also withhold social security tax on those workers not covered under a Section 218 Agreement nor under a public retirement system. Additionally, if an employee's position under a public retirement system is covered by a Section 218 Agreement, the employer must withhold the social security tax from the employee covered by that agreement.

Employers are also required to withhold the Medicare tax and make matching contributions for all employees hired after March 31, 1986, regardless of their coverage under a public retirement system. If the employee was hired before April 1, 1986, the employee is exempt from the Medicare tax if the employee has maintained continuous employment with the same employer since March 31, 1986, and the employee is a member of a public retirement system that is not covered by a Section 218 Agreement. The continuing employment exception will generally be lost if an employee terminates employment and is rehired, reappointed or re-elected after March 31, 1986. For example, a board member covered by a public retirement system who served from 1980 through 1988, then left the board and was re-elected in 1992, must pay Medicare tax beginning in 1992.

Remuneration for certain services is not subject to the FICA tax (unless covered under a Section 218 Agreement). This includes certain students enrolled and regularly attending classes at the school where they are working (See Revenue Procedure 98-16), election workers paid less than the threshold amount mandated by law in a calendar year, and patients or inmates performing services in a hospital, home or other institution where they are a patient or an inmate.

For additional information on payroll taxes for state and local government employers, call the IRS at 1-800-829-3676 and request a free copy of the Federal-State Reference Guide for State and Local Government Employers (IRS Publication 963). Publication 963 is also available via the Internet at <http://www.irs.ustreas.gov>.

If you have any questions about FICA coverage under a Section 218 Agreement, contact the appropriate state official.

Reporter

A Newsletter for Employers

Summer 1998

Help For The 1998 Tax Filing Season

Beginning in August 1998, IRS and SSA will conduct a series of public information reporting seminars designed to help magnetic media and electronic filers prepare for the tax year 1998 filing season. There is no registration fee and all employers are welcome, including state and local representatives.

The IRS discussion, led by their Martinsburg Computer Center, will include:

- Current changes to Publication 1220 including the latest Forms 1099 magnetic media/electronic filing information
- (1099-LTC, 1099-MSA and 5498-MSA) o Backup withholding
- Penalty updates

The SSA discussion will help employers:

- Understand current changes to Form W-2/W-3 reporting specifications for magnetic media and electronic filing.
- Avoid common reporting errors, saving processing time and resubmittal costs.
- Access valuable information, services and assistance to comply with end-of-year wage reporting requirements.

The SSA discussion will also include a brief overview of the major changes to the new reporting specifications planned for tax year 1999 implementation. An announcement for the 31 seminar sites, locations and dates (listed below) will appear—

- in the Internal Revenue Bulletin, in Publication 1220 for tax year 1998,
- on the SSA Employer Information Bulletin Board (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 Sites and Dates

Atlanta, GA	10/1	Detroit, MI	8/25	Oklahoma City, OK	9/22
Baltimore, MD	8/19	Hartford, CT	9/1	Omaha, NE	8/27
Billings, MT	8/25	Houston, TX	9/24	Phoenix, AZ	9/3
Boston, MA	9/15	Indianapolis, IN	9/29	Pittsburgh, PA	9/3
Buffalo, NY	8/27	Los Angeles, CA	9/29	Richmond, VA	9/29
Charlotte, NC	9/22	Milwaukee, WI	8/27	Salt Lake City, UT	9/1
Chicago, IL	10/1	Minneapolis, MN	9/24	San Francisco, CA	10/1
Cincinnati, OH	9/15	Nashville, TN	9/17	Seattle, WA	8/25
Dallas, TX	9/1	New Orleans, LA	9/15	Spokane, WA	9/22
Denver, CO	9/3	New York, NY	9/17	St. Louis, MO	9/17
				Tampa, FL	9/24

For more information, call the Information Reporting Call Site at (304) 263-8700. —SSA



EFTPS BIG SUCCESS

Start using EFTPS today! Join the millions of taxpayers already experiencing the ease and convenience of making payments electronically. More than 1.8 million businesses have already enrolled in EFTPS, which now processes about \$20 billion in weekly deposits. Half a million businesses have enrolled in EFTPS voluntarily.

Due to the success of EFTPS, Commissioner of Internal Revenue, Charles O. Rossotti announced on March 31, 1998, that the penalty waiver for enrolling and using EFTPS, has been extended until January 1, 1999. The announcement applies to businesses required to make their federal tax deposits electronically beginning July 1, 1997, and subsequent.

Information letters and enrollment packages will be mailed this summer to taxpayers required to make payments electronically beginning January 1999.

To join the millions of businesses already making electronic payments, call the toll-free EFTPS Customer Service numbers at 800-555-4477 or 800-945-8400. —IRS



FICA Requirements for State and Local Governments

State and local governments do not withhold the Social Security portion of the FICA tax on employees covered by a retirement system. However, they are required to withhold the Medicare portion of the FICA tax and make a matching employer contribution for employees covered by a retirement system who started working for the agency after March 31, 1986.

Employees who began working after March 31, 1986 are subject to the Medicare tax whether they were elected, appointed, or hired. For example, a board member covered by a retirement system who served from 1980 through 1988, who then left the board and was re-elected in 1992 must pay Medicare tax on the wages she received beginning in 1992. The continuous employment exception will generally be lost if an employee terminates his services and is rehired, reappointed, or re-elected after March 31, 1986.

There is no wage base limit for Medicare (except as noted below in the case of election workers). For example, the Medicare tax for a newly-elected council member paid \$500 per year is \$14.50 (\$500 x 2.9%), usually half is paid by the agency and half is withheld from the employee's pay.

Exceptions to mandatory Medicare coverage for employees covered by a retirement system include: individuals working in a hospital or institution where they are a patient or inmate, employees working on a temporary basis in case of a disaster, and election workers who make less than the threshold

amount (currently less than \$1000 in a calendar year).

For additional information on payroll taxes for state and local governments, call the Internal Revenue Service at 1-800-829-3676 and request a free copy of Publication 963, Federal-State Reference Guide. —IRS

List of Service Bureaus and Software Vendors

As part of SSA's expanded employer service, we are developing for publication a list of vendors who support magnetic media and/or electronic filing of Forms W-3/W-2 (Wage and Tax Statement) for submission to SSA. The list will include the names of—

- service bureaus that produce files on the prescribed types of magnetic media or via electronic filing, and
- vendors who provide software packages for employers or third party practitioners wishing to produce magnetic tapes, cartridges, diskettes or electronic files for transmission to SSA.

If you meet either criteria, you can be included on SSA's Vendor List. We expect to complete the list by

Fall 1998 and make it available over the Internet or by calling SSA. To place your company on the list, submit the following information to SSA by July 1, 1998—

- a. Company name
- b. Address (include city, state, and ZIP Code)
- c. Telephone number (include area code)
- d. Contact person
- e. Type(s) of service provided (e.g., service bureau and/or software)
- f. Type(s) of media offered (e.g., magnetic tape or tape cartridge, 5-1/4" or 3-1/2" diskettes, or electronic filing)
- g. Signature by Principal of company. Mail or fax your request to:

Social Security Administration
Office of Senior Financial Exec.
ATTN: Vendor List
Room 451 Altmeyer Building
6401 Security Boulevard
Baltimore, Maryland 21235

Fax number: (410) 966-8753.

The vendor list will be updated annually. Submit written, annual updates to SSA by July 1st of each year at the above address or fax number. (Please note: inclusion on this list in no way implies SSA's approval or endorsement.) —SSA

Eight-Inch Diskettes Eliminated for AWR Filing

SSA is considering no longer accepting annual wage reports (Forms W-3/W-2) filed on 8" diskettes. This is in an effort to simplify the disk reporting process and achieve a more efficient program for SSA, employers and the payroll community.

Currently, less than 15 percent of the diskettes received by SSA are 8" diskettes. They're produced by older computer equip-

ment that is costly to repair and requires SSA to maintain two different operating systems—one for 8" and one for 3-1/2" and 5-1/4" MS-DOS diskettes (used by most personal computers).

Employers or third-party preparers who file on 8-inch diskettes will be asked to file on 5-1/4" or 3-1/2" diskettes, 1/2" magnetic tape or on 3480 cartridges. —SSA

New SSA/INS Service Helps Employers with Hiring Questions

As an employer, you know when you hire new employees that inaccurate or fraudulent information can be very costly to your business. When your employee records agree with those of the Social Security Administration (SSA), you can report your employee's earnings accurately. SSA and Immigration and Naturalization Service (INS) are working together to help employers keep accurate records and employ only people who are eligible to work in the U.S.

The Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (IIRIRA) requires SSA and INS to pilot a new service that verifies for employers, electronically, a new employee's Social Security number and indicates if the employee is eligible to work in the U.S. The two agencies are currently recruiting employers from California, Florida, Illinois, New York and Texas to participate.

Employers who volunteer to participate in this pilot must meet the following criteria—

- Not discriminate against any person in hiring, firing or recruitment practices,
- Hire the employee and complete Form I-9 prior to initiating check,
- Make a verification check within three business days of hire,
- Verify all newly hired employees—verification is not selective,
- Provide equipment needed to make inquiries (usually a personal computer with modem), and

- Enter into a Memorandum of Understanding with SSA and INS.

After Form I-9 is complete, the employer sends basic employee data to SSA and, if necessary, to INS for verification. An employer may receive a "tentative nonconfirmation" of employee eligibility. This means either SSA or INS can not verify the data submitted. The employer must notify the employee that there is a discrepancy. The employee has 8 working days to contact the nonverifying agency to update the record. Sometimes the employee's name is misspelled or the Social Security number sent by the employer is incorrect. If the employee doesn't update the record, a final nonconfirmation notice is sent to the employer.

Employers who receive a nonconfirmation notice may terminate the employee without civil or criminal liability under any law. The termination action must be taken in good faith, relying on information provided through the confirmation system.

SSA and INS will provide the four-year pilot of verification services free of charge to employers. The confirmation system contains safeguards designed to protect the integrity of personal information contained in SSA and INS databases and employer participation may be limited due to available resources. If you have any questions or you want to participate, call INS at (202) 514-2317. —SSA

Post Office Reports Some W-3s Sent to Wrong Address

The U.S. Postal Service notified Social Security that a large number of employers are submitting paper Forms W-2/W-3, Annual Wage Reports, to an outdated address. Starting February 1, 1998, the U.S. Postal Service will return all annual wage reports sent to SSA, DOC, Albuquerque, NM 87180 to the sender.

Employers who have their legal residence, principal place of business, office, or agency located in the States listed below, take a chance of receiving a \$50 late filing penalty from IRS for each item returned. The 13 states are: Alabama, Arkansas, Florida, Georgia, Illinois, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, South Carolina, Tennessee and Texas.

The correct address that all employers nationwide should use for paper annual wage reports, regardless of place of legal residence, principal place of business, office, or agency is: Social Security Administration, Data Operations Center Wilkes-Barre, PA 18769 (-0001 for reports sent via regular mail and -0002 for certified mail (Fed.Ex, UPS, etc.)

Employers, especially those in the above listed states, should make sure they are using—

- current year Forms W-3. Instructions for the form contain the correct filing address, or
- the correct address for system-generated mailing labels to SSA.

Employers with questions regarding the filing address or annual wage reporting due dates should call Social Security's toll-free Employer Hotline at 1-800-772-6270. —SSA

Corrections to Employer's Tax Guide (Circular E)

On February 17, 1998 in the Internal Revenue Bulletin No. 1998-7, Announcement 98-9 contained corrections to Circular E, Employer's Tax Guide (Publication 15). These corrections dealt with Family Employees on (Pub. 15, page 7) and the Advance Earned Income Credit Payment Table (page 59).

These errors are found in the printed copies and copies downloaded from the IRS web site or bulletin board before January 9, 1998.

- The second Paragraph under the heading "Family Employees" on page 7 should read: Payments for the services of a child under the age of 21 who works for his or her parent whether or not in a trade or business are not subject to Federal unemployment (FUTA) tax.

- The Advance EIC Payment Tables contain errors (page 59 only). If these tables are used, some employees may receive slightly lower advance EIC payments than they are entitled to receive. However, because the errors create only small differences in advance EIC payments, employers are not required to correct payments already made or reprogram for the remainder of 1998. A corrected Circular E has been posted to the IRS web site at www.irs.ustreas.gov. The tables in Circular A, Agricultural Employer's Tax Guide (Pub. 51), and in Notice 1036, Early Release Copies of Income Tax Withholding and Advance Earned Income Credit Payment Tables, are correct as originally issued.

—IRS

IRS Extends Classification Settlement Program (CSP)

On March 5, 1996 the Internal Revenue Service implemented the CSP on a two year trial basis (Announcement 96-13). The CSP established new procedures which allow businesses and tax examiners to resolve worker classification cases early in the administrative process, thereby reducing taxpayer burden.

Review of the program and feedback from the public indicate that it has been successful in facilitating the early resolution of cases. The Service has extended the CSP until further notice with the issuance of Notice 98-21.

—IRS

Look for Your 941 TeleFile Tax Package

Have you received your invitation to file your 941 tax return by telephone?

April 1998 marked the first time that 941TeleFile, an IRS e-file option, was made available to small businesses nationwide. Each quarter, eligible small businesses can expect to receive a special tax package including easy to read instructions, the 941TeleFile Tax Record, a payment voucher for those who owe money and a paper Form 941 for

those who don't meet all of the requirements to file using 941TeleFile.

During the pilot test last year, small businesses in the Southeast Region, an area from Delaware through Louisiana including the District of Columbia, filed nearly 225,000 returns using 941TeleFile. Many of these businesses continue to use it again and again.

Last quarter, over three million small businesses received a 941TeleFile tax package.

If you receive an invitation to file by phone, give it a try. Just fill out the tax record, call TeleFile using the toll-free number listed, and keep the tax record for your files. The phone call takes about 10 minutes and there's nothing to mail to IRS. A voice recording will guide you through the phone call and all entries are repeated to you for verification. As you enter your wages and tips information, 941TeleFile computes all taxes and balances.

As a security measure, 941TeleFile will prompt you to enter the total of your deposits exactly as it appeared on Line 14 of your third quarter return. During the call, the system will repeat your entries to ensure that you have entered the correct information. At the end of the phone call, you are provided a confirmation number that you record in the space provided on your 941TeleFile Tax Record. This is your proof of filing and the tax record is your official record of filing your return. Remember, 941TeleFile is a paperless IRS e-file option - keep the tax record for your files.

For your convenience, 941TeleFile is available from 9:00 a.m., July 1, 1998, through midnight, August 10, 1998, to file your 2nd quarter return. —IRS

Use 941TeleFILE TODAY!