

Social Security Administration

Internal Revenue Service

Inside this Issue...

Redesigned Form 941 Debuted First Quarter 2005
page 2

Social Security Preparing to Begin Administrative Wage Garnishment
page 2

Modernized e-File for Tax Year 2004
page 2

Employment Tax Information for Exempt Organizations
page 3

Form W-4 Now Available in Spanish
page 3

Important Tips for Paying Taxes With EFTPS
page 4

Test Your Knowledge: Special Rules for Paying Taxes
page 4

Are You Complying with Payroll Recordkeeping Requirements?
page 5

Social Security Now Offers W-2c Online
page 5

Social Security's National Payroll Reporting Forum
page 6

Good Business and Good Tax Planning, Too
page 6



Department of the Treasury
Internal Revenue Service

www.irs.gov

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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

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Small Business/Self-Employed
Communications

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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**

Social Security Administration

Internal Revenue Service

Inside this Issue...

Automate Your 941 FTD Payments
page 2

Payroll Cards
page 2

Form 990 e-file
page 3

W-2 News - Subscribe Today!
page 3

Changes to Form W-4
page 3

IRS is Reducing Mailings to Save Postage
page 3

New e-file Requirements
page 4

The 2005 Small Business Resources Guide CD-ROM
page 4

Test Your Knowledge: Payments to Workers
page 4

Strategies to Protect Customer and Employee Data
page 5

Electronic W-2 Filing in Tax Year 2005
page 5

IRA and IRA Based Retirement Plan Information on Free CD-ROM
page 6

Corporate e-file Updates: 2004 Start-up exceeded IRS Projections
page 6



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Reporter

Summer 2005

A Newsletter
for Employers

IRS to Discontinue 941TeleFile Telefilers urged to use other IRS e-file options

The IRS has announced that it is discontinuing the TeleFile system after the 2005 filing season. The IRS TeleFile program allows the telephone filing of Form 941, *Employer's Quarterly Federal Tax Return*, Form 1040EZ, *Income Tax Return for Single Filers and Joint Filers With No Dependents*, and Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*.

The decision to discontinue TeleFile was based on several factors: the steady decline in usage; the expense of the TeleFile system; and, the growth of other electronic filing alternatives.

Those who TeleFile their 2005 second quarter Form 941 return will be sent a paper package for the third quarter. Any filer indicating on a subsequent quarter's return that they filed electronically or used a paid preparer will no longer be sent quarterly 941 mailings.

When does this happen?

- Form 941TeleFile ends August 11, 2005. Note: The system will allow the filing of the second (2nd) quarter Form 941 (for tax period April through June—due July 31, 2005), beginning at 9:00 a.m., July 1, 2005. August 11, 2005 is the last date the 941TeleFile system will be available.
- The 1040EZ TeleFile program ends August 16, 2005.
- Form 4868 (automatic 4-month extension) ends August 16, 2005 (including military filers). TeleFile cannot be used to request an additional 2-month extension using Form 2688.

With the discontinuance of TeleFile, the next reasonable question to ask is, "What do I use now?" There are several electronic alternatives available for 941, 1040EZ, and 4868 filers: *continued on page 2*

Filing W-2s Online – It's Easier Than You Think

Social Security's W-2 Online is the service everyone is talking about this year. It is ideal for companies that need to prepare 20 or fewer W-2s because you can access blank Forms W-2, complete and submit them online. You also can print copies for your employees and your records, and it is easier than you think. A recent survey conducted by an independent research company found that 97 percent of employers who used W-2 Online last year rated it as easy to use. Additionally, 96 percent gave the service an overall rating of good, very good or excellent.

You can use Social Security's W-2C Online if you have corrections to file (W-2C, *Corrected Wage and Tax Statement*). It has all the features of W-2 Online and you can use it regardless of how you submitted your original W-2 report.

Because you will be using a secure site to file your Forms W-2 or W-2C, you will first need to register for a PIN and password. To get started, go to <http://www.socialsecurity.gov/employer> and select Business Services Online; then select Registration. For more information, or for one-on-one assistance, call 800-772-6270 and ask for the Employer Service Liaison Officer serving your state. SSA


Automate Your 941 FTD Payments

The Electronic Federal Tax Payment System—EFTPS—is the easiest, safest, most convenient way to make your federal business tax payments securely via the Internet or over the phone. And it's free from the U.S. Department of the Treasury.

EFTPS is ideal for making your 941 payments—and all your federal business tax payments. Through the scheduling feature of EFTPS, you can plan your payments up to 120 days in advance, which means you won't miss a deadline.

You can also eliminate the hassles and risks associated with writing a check and taking it to the bank, and you receive many more benefits.

- Make your tax payments from home or office, 24 hours a day, 7 days a week.
- If you need to cancel any scheduled payments, you can—anytime up to two business days in advance of the settlement date.
- Make payments weekly, monthly or quarterly.
- Access up to 16 months of your EFTPS payment history online or you may call EFTPS Customer Service to access your payment history by telephone.
- Receive an immediate Acknowledgement Number that can be used as a receipt of the transaction.
- You control initiating your payments. EFTPS uses the highest level of security, so you can be assured your information is protected and no one has access to your account unless you authorize them. When you make payments online, you are required to enter three pieces of unique information; Taxpayer Identification Number, Personal Identification Number, Internet Password. This level of authentication adds to the security of the system.


Consider using EFTPS to schedule your payments in advance to avoid missing a deadline and incurring an IRS penalty. To enroll, visit <http://www.eftps.gov> or call 800-555-4477. 

Payroll Cards

Payroll cards are emerging as a popular wage payment option. Payroll cards offer the employer an avenue to further reduce the need to issue a paper check for wage payments. This can be beneficial for employers that have a significant number of employees without bank accounts (“unbanked” employees). Payroll cards can offer the employer reduced administrative costs and the employee is presented with a convenient means of securing their wage payment.


The IRS has issued no official guidance on payroll cards and treats this system no different than traditional systems of wage payment, such as check, cash, or direct deposit. Employers utilizing payroll cards have the same payroll tax responsibilities and record keeping requirements as with more traditional payment options. As such, an employer's use of payroll cards solely for the payment of wages does not change the fact that the employee has received taxable wage income and the employer is still bound to comply with withholding rules,

information reporting requirements, and to file appropriate employment tax returns. If an employer utilizing payroll cards is presented with a wage levy on one of their employees, the employer still has the same legal requirements and responsibilities for transmitting any due funds to the IRS. (As provided for in IRC Section 6331.)

Additional details on wage payments, payroll tax responsibilities and record keeping requirements can be found in Publication 15, *Circular E: Employer's Tax Guide*. Chapter 5 provides information about Wages and other compensation. Similar information can be found at: <http://www.irs.gov/publications/p15/ar02.html#d0e1001>. Additional information about employment taxes and contact information can also be found at: <http://www.irs.gov/businesses/small/content/0,,id=98942,00.html>. Additional information on Payroll Cards can be found at the American Payroll Association's Paycard Portal at: <http://www.payrollannex.org/paycard/paycardportal.cfm?pageid=1>. 

IRS to Discontinue 941TeleFile continued from page 1

- **IRS e-file.** Go to <http://www.irs.gov> and select the e-file logo for a comprehensive list of e-file options.
 - **Taxpayers can check out Free File** <http://www.irs.gov/efile/article/0,,id=118986,00.html> for free online filing of their individual income tax returns.
 - **Individual and business taxpayers (and tax professionals) can find out more about IRS e-file** by logging on to <http://www.aboutefile.com>.
 - **IRS Walk-in Sites** are available for taxpayers needing face-to-face help solving individual or business tax problems. For the location nearest them they can check <http://www.irs.gov> or check their local phone directory.
- There are several options available for small business/self-employed filers as well:
- **e-file for Business and Self-Employed Taxpayers** <http://www.irs.gov/efile/article/0,,id=118520,00.html> Electronic filing and payment options for businesses, including employment taxes, information returns, partnerships, corporations, and estates & trusts. Certain large corporations are now required to e-file their returns. (See <http://www.irs.gov/efile/article/0,,id=133842,00.html>)

- **Employment Tax e-file System** <http://www.irs.gov/efile/article/0,,id=98368,00.html> The Employment Tax e-file System is available for Authorized IRS e-file Providers (<http://www.irs.gov/efile/article/0,,id=118663,00.html>). Business taxpayers who use a payroll service provider (Reporting Agent) can electronically file Forms 940 and 941 if their service provider offers these services.
- **IRS e-file for Business Providers** <http://www.irs.gov/efile/article/0,,id=118516,00.html> Business taxpayers may find a listing of companies who offer IRS e-file for Business products and services. The listing of Approved IRS e-file for Business Providers contains addresses and phone numbers including links to their Web sites.
- **IRS e-file for Business Partners** <http://www.irs.gov/efile/lists/0,,id=101242,00.html> The IRS has partnered with various private industry companies to bring you special offers and discounts for using their e-file and payment option products. 

Reporter

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Small Business/Self-Employed
Communications
600 17th Street, MS:6400 DEN
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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Form 990 e-file

The IRS released its newest electronic form for the tax-exempt community—Form 990-PF, *Return of Private Foundation*, in January 2005.

In February 2004, the IRS released electronic forms for tax-exempt organizations in partnership with software developers, tax professionals and state charity officials, including Form 990, *Return of Organization Exempt from Income Tax*, Form 990-EZ, *Short Return of Organization Exempt from Income Tax*, Form 1120-POL, *U.S. Income Tax Return of Political Organizations*, and Form 8868, *Application for Extension of*

Time To File an Exempt Organization Return.

Five software developers currently offer electronic filing options to the Exempt Organization (EO) community for filing year 2005. These developers are CCH, Fast-Tax, Internet Programming & Consulting Inc. (1120POL only), Creative Solutions, and The Urban Institute, who offers free electronic filing over the Internet. You'll find a complete list of Approved IRS e-file for Business Providers, including links to each company's Web sites at <http://www.irs.gov/efile/article/0,,id=118516,00.html>. 

W-2 News – Subscribe Today!


Do you submit Forms W-2 (*Wage and Tax Statement*) to Social Security for your business or your clients? If you do, you will want to sign up for *W-2 News* — a free electronic newsletter.

Because your time is valuable, we will issue this newsletter only when important wage reporting information becomes available, such as when:

- Changes occur in W-2 reporting requirements;
- Changes occur in Paper and Electronic Filing Instructions;
- The new MMREF and AccuWage become available; or

■ The Business Services Online Web site opens for business.

To sign up, just go to <http://www.socialsecurity.gov/employer/w2news>, provide your email address and select Submit. It's that easy.

NOTE: You will automatically receive this newsletter if you provided your email address when you registered with Business Services Online, or if you indicated in your MMREF Record RA, Submitter Record, that your preferred method of contact was email/Internet. 

IRS Strengthens Withholding Compliance Program; Reduces Paperwork for Employers

Employers will no longer be required to routinely send copies of questionable Forms W-4, *Employee's Withholding Allowance Certificate*, to the IRS.


In the past, employers had to send to the IRS any Form W-4 claiming more than 10 allowances or claiming complete exemption from withholding if \$200 or more in weekly wages was expected. New regulations that eliminate this requirement are effective immediately.

Forms W-4 are still subject to review by the IRS. However, employers will no longer have to submit them to the IRS, unless directed to do so in a written notice to the employer or in future published guidance.

The IRS will use information reported on Forms W-2 to more effectively identify workers with withholding compliance problems. In some cases where a serious

under-withholding problem is found to exist for a particular employee, the IRS will notify the employer to withhold income tax from that employee at a more appropriate rate. This new process will also enable the IRS to more effectively address situations in which employees fail to file a federal income tax return.

Publication 919, "How Do I Adjust My Tax Withholding?" and a withholding calculator are available on <http://www.irs.gov> to help employees determine the proper amount of federal tax withholding. Publication 919 can also be obtained by calling 800-TAX-FORM (829-3676).

The IRS welcomes comments on these new regulations. You can find T.D. 9196 and the proposed regulations (REG-162813-04) in Internal Revenue Bulletin 2005-19 dated May 9, 2005, at <http://www.irs.gov/pub/irs-irbs/irb-05-19.pdf>, along with procedures for submitting comments. 


IRS is Reducing Mailings to Save Postage and Printing Costs

In an effort to reduce printing costs and postage and eliminate waste of unnecessary forms, the Internal Revenue Service is cutting back on the number of Forms 941, *Employer's Quarterly Federal Tax Return* mailed to taxpayers. Beginning with the 2005 third quarter mailing, any filer who indicates on their previous quarterly return that it was prepared by a preparer will no longer receive the quarterly mailing. Many filers have requested

that the IRS stop mailing forms for this reason and until now it was not possible.


In a related move, filers of Form 941 who file electronically will no longer receive the *SSA/IRS Reporter* newsletter in the mail. We encourage you to access either the IRS or SSA Web sites at either <http://www.irs.gov/businesses/small/article/0,,id=109886,00.html> or <http://www.ssa.gov/employer/pub.htm> to keep up with the news and information in this

newsletter. If you would like notification that the publication is available, sign up for the Small Business Self Employed e-mail list server newsletter at: <http://www.irs.gov/businesses/small/page/0,,id=81399,00.html>.

Tax professionals may also sign up for notification of the availability of the *SSA/IRS Reporter* via the *e-News for Tax Professionals* e-mail list server at: <http://www.irs.gov/taxpros/article/0,,id=98120,00.html>. 

New e-file Requirements

On January 12, 2005, the IRS released regulations that require certain tax-exempt organizations to file annual exempt organization returns electronically beginning in 2006. For tax year 2005 returns due in 2006, the regulations require organizations with total assets of \$100 million or more to file electronically. The electronic filing requirements only apply to entities that file at least 250 returns, including income tax, excise tax, employment tax, and information returns, during a calendar year. *Example:* If an organization has 245 employees, it must file Form 990, *Return of Organization Exempt From Income Tax*, electronically, because each Form W-2, *Wage and Tax Statement*, and quarterly Form 941 is considered a separate return; therefore, the organization files a total of 251 returns (245 W-2's, four 941's, one 940 and one 990).

Beginning in 2007, private foundations and charitable trusts will be required to file Form 990-PF, *Return of Private Foundation or Section 4947(a) Trust Treated as a Private Foundation*, electronically regardless of their asset size, if they file at least 250 returns. 

The 2005 Small Business Resource Guide CD-ROM

The Small Business Resource Guide CD-ROM for 2005 has a new look and enhanced navigation features. This year we have included the IRS Tax Map to help you find forms, publications and instructions by searching on a keyword or topic. This handy, interactive CD includes all of the business tax forms, instructions and publications along with all of the new tax law changes for 2005. In addition, the CD provides a wide variety of Web links to various government agencies, business associations and IRS organizations. Additionally, the "Rate the Product" survey feature is your opportunity to suggest changes for future editions of the Small Business Resource Guide CD. To request a copy of this CD online, visit the SB/SE Web site at: <http://www.irs.gov/businesses/small/article/0,,id=101169,00.html>.



TEST YOUR KNOWLEDGE

Payments to Workers

Situation: Wallace hung up the phone after talking to the service manager at Willow Oak Motors about a new mechanic, Sarah, who had started in their five-bay repair facility. While Willow Oak Motors treated the other mechanics as employees, Sarah questioned whether she should be classified as an independent contractor due to her extensive experience. The service manager wasn't sure how to proceed and referred the request to Wallace, the office manager.

Wallace knew that the mechanics at Willow worked regular hours and were paid on a percentage basis of the repair work performed. Willow furnished the service bay, parts, and supplies. The amounts charged for repair work were based on standard guidelines, as were the parts needed and the time for completion. Because of Sarah's experience, she would require less supervision than the other mechanics (repair orders and estimates are checked by the service manager).

Question: Can Wallace treat the payments to Sarah as being made to an independent contractor?

Answer: Sarah is probably an employee of Willow Oak Motors for federal employment tax purposes. In determining whether a worker is an independent contractor or an employee under common law, the relationship between the worker and the business needs to be considered, including all evidence of the degree of control and the degree of independence. These factors fall into three categories – *Behavioral Control*, *Financial Control*, and the *Type of Relationship* of the parties.

Behavioral Control covers facts that show whether the business has a right to direct and control how the work is done (for example, instructions about when, where, and how to accomplish the work). *Financial Control* shows whether the business has a right to control the business aspects of the relationship, including the extent of the worker's investment in the facilities and the extent to which a worker can realize a profit or loss. The type of *Relationship* category includes facts about the employee-type benefits available (insurance, vacation pay, etc.) and the extent to which the services of the worker are a key aspect of the regular business of the company.

If Wallace wanted the IRS to determine whether or not Sarah was an employee, he could file a Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS.

For further details and examples regarding the above factors, see Chapter 2 of Publication 15-A. Chapter 1 of Publication 15-A also discusses workers treated as employees by statute for certain employment tax purposes (statutory employees) and situations where a worker may be a statutory nonemployee.

Resources for Additional Information:

Publication 15-A, Employer's Supplemental Tax Guide – Chapters 1 and 2
(<http://www.irs.gov/pub/irs-pdf/p15a.pdf>)

Publication 1779, Independent Contractor or Employee
(<http://www.irs.gov/pub/irs-pdf/p1779.pdf>)

Independent Contractors vs. Employees
(<http://www.irs.gov/businesses/small/article/0,,id=99921,00.html>)

Consider Strategies to Protect Customer and Employee Data

Today, identity theft continues to be one of the fastest growing crimes in the United States. Almost 10 million people – or 4.6 percent of the adult population – were victims of some type of identity theft in 2002. Identity theft cost American businesses approximately \$50 billion in 2003. This cost includes the fraudulent creation and use of new financial accounts under an identity-theft victim's name without his or her knowledge, or the misuse of existing financial accounts belonging to them.

Recently there have been significant security breaches at several large and reputable organizations that maintain personal information about individuals, including their social security numbers. These security breaches have generated a great deal of anxiety and attention from the general public, the business community, and lawmakers at both the federal and state levels. The public is deeply concerned as they could spend countless hours and financial resources to clear their good names should identity theft strike them. The business community is worried as the public and government policy-makers are casting more scrutiny on them to create or improve safeguards that will truly protect critical

customer and employee data that could be used to commit identity theft. Legislators and government regulators are paying more attention to this national problem because victims of identity theft are also voters who are complaining about their identity theft experiences and looking for policy makers to create laws and regulations to help prevent or minimize this insidious problem.

Businesses/employers of all sizes and types must consider proactive measures to protect customer and employee data to minimize the risk of direct revenue losses as well as costs associated with liability for data security breaches. Here are some ideas to consider:

- Determine who within your organization should have access to customer, human resources, payroll, and employment tax data and limit access to those individuals.
- If your organization uses temporary workers, learn how your temporary-worker agency screens the workers it sends you and consider whether to use them for tasks that require access to your sensitive data.
- Evaluate your customer-relationship management, HR, payroll, and/or employment tax software systems for their ability to allow you to systematically limit access to key data elements

that are not necessary for viewing by all employees.

- With the help of your information technology department or technology support provider, educate employees on strategies to secure access to your customer, HR, payroll, and employment tax data on desktop and/or laptop personal computers.

- Create a data-privacy task force to include members of your HR, payroll, IT, and marketing/sales departments as well as senior management to address data privacy policies, procedures, and initiatives.

By considering and implementing many of these data privacy and security ideas, you will take the first steps toward minimizing identity theft that could harm the good name and reputation of your customers and employees, and, more importantly, of your own organization.

The American Payroll Association's partnership with the IRS and SSA allows it to prepare its many classes and publications with the most accurate and up-to-date information to educate employers. APA actively monitors data privacy and identity theft issues to educate employers about the importance of protecting employee data. More information about the APA is available at <http://www.americanpayroll.org>. **APA**

Social Security Requires Electronic W-2 Filing Beginning in Tax Year 2005

If your company now files W-2s with Social Security on magnetic tape or cartridge, you will be required to file electronically beginning in tax year (TY) 2005 (W-2s due in calendar year 2006). Similarly, if your company now files W-2s with Social Security on diskette, you will be required to file electronically starting in TY 2006 (W-2s due in calendar year 2007).

Companies that currently file on magnetic tape, cartridge or diskette format their reports

according to Social Security's Magnetic Media Reporting and Electronic Filing format (MMREF).

Filing electronically uses the same MMREF format, so re-programming is not necessary. Follow the same year-end process, up to the point where you copy the W-2 report onto a tape, cartridge or diskette and mail it to Social Security. Instead, log onto the Social Security Web site and upload the file. It's that simple. For security purposes, you will need

to register first for a PIN and password, which you may already have since the PIN is required in the RA- Submitter Record in your wage report. Social Security receives more than 230 million W-2s a year. Sixty-five percent of them are now transmitted electronically. Find out why so many businesses choose e-filing. Visit <http://www.socialsecurity.gov/bso/bsowelcome.htm> today. You'll be glad you did. **SSA**

IRA and IRA-Based Retirement Plan Information on Free CD-ROM

Does your firm have a SEP or SIMPLE IRA plan? Maybe you could use some help convincing clients or employees to get serious about retirement savings. Or maybe you're interested in learning more about your own IRA.

The IRS has a new CD-ROM containing information about traditional and Roth IRAs along with retirement plans based on IRAs, including SEPs, SARSEPs, and SIMPLE IRA plans. Included on the CD is information from the IRS, Social Security Administration, the Securities and Exchange Commission and other federal agencies about setting up, investing, making withdrawals from and correcting mistakes in operating these powerful retirement savings tools.

You'll also find IRA forms and publications, a calculator for estimating funds needed at retirement, investing tips, video clips and links to other Federal agency Web sites with information useful to you, your clients and your employees. There's also research material related to IRAs — from Code and Regulations to Revenue Procedures, Notices and Announcements — included in a section for tax and benefits professionals.

Order a free copy of Publication 4395, *Individual Retirement Arrangement (IRA) Resource Guide for Small Business Owners and Individuals* CD-ROM, at <http://www.irs.gov/ep> under "Educational Services" or by calling 800-TAX-FORM (800-829-3676). 

Corporate e-file Updates

2004 Start-up exceeded IRS Projections for 1120/1120S and extensions


Through March 15, 2005, the first major due date for corporate 1120/1120S returns, *U.S. Corporate Income Tax Return/U.S. Income Tax Return for an S Corporation*, the IRS had received over 142,030 returns and extensions and exceeded their goal.

New e-file Requirements for Large Corporations starting in 2006

Corporations with gross assets of \$50 million or more, and which also file at least 250 returns a year, are required to electronically file their returns starting in 2006 (for 2005 returns) under new Treasury Regulations. As noted, the electronic filing requirements for Tax Year 2005 only apply to entities that have assets of \$50 million or more and file at least 250 returns, including income tax, excise tax, employment tax, and information returns, during a calendar year. *Example:* If an organization has 245 employees in Tax Year 2005, it must file Form 1120 or 1120-S electronically, if it meets the other criteria (assets \$50 million or more) because each Form W-2, *Wage and Tax Statement*, and quarterly Form 941, *Employer's Quarterly Federal Tax Return*, is considered a separate return; therefore, the organization files a total of 250 returns (245 W-2's, four 941's, and one 1120/1120-S).

After the first effective year, the requirement will affect corporations with \$10 million or more in gross assets. For more information visit the IRS.gov Web site at: <http://www.irs.gov/taxpros/article/0,,id=109646,00.html>.

Future Enhancements — The IRS is building a Fed/State e-file program, which will be able to process 1120 and 990 families for 2006.

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

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.

Social Security Administration

Internal Revenue Service

Inside this Issue...

IRS Simplifying Employment Tax Filing in 2006 for Small Employers

page 2

IRS to Accept Facsimile Signatures on Employment Tax Returns

page 3

It's Never Too Early to Plan for Year-End

page 3

Social Security Announces New E-filing Changes

page 4

IRS Expands Credit Card Tax Payment Program

page 4

New EFTPS Batch Provider Software in Development

page 4

Need to Make Your Form 941 Deposits By Phone?

page 4

Reminder on New e-file Requirements for Large Corporations starting in 2006

page 5

Test Your Knowledge Record of Federal Liability

page 5

Helping Businesses Welcome Customers with Disabilities

page 6

New e-file Requirements for Large Tax-Exempt Organizations

page 6



Department of the Treasury
Internal Revenue Service

www.irs.gov

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Reporter

Fall 2005

A Newsletter
for Employers

Verify Social Security Numbers Online

The Social Security Number Verification Service (SSNVS) allows employers to use the Internet to match their record of employee names and Social Security numbers with Social Security records before preparing and submitting Forms W-2. Making sure names and Social Security numbers on the W-2 match our records is important because unmatched records can result in additional processing costs for you and uncredited earnings for your employees. Uncredited earnings can affect future eligibility to (and amounts paid under) Social Security's retirement, disability and survivors program.

When you can use SSNVS

Employers can verify the names and Social Security numbers of employees only after they are hired. It cannot be used as part of the pre-hiring process.

How to register to use SSNVS

1. Employers must register for a PIN and password at Business Services Online at <http://www.socialsecurity.gov/bsowelcome.htm>.
2. Social Security will send an activation code in the mail.
3. Use the activation code, pin and password at the Business Services Online site to begin using SSNVS.

Note: For more detailed instructions on registering and/or using SSNVS, get a copy of the SSNVS handbook at <http://www.socialsecurity.gov/employer/ssnv.htm>.

How to use SSNVS

1. Go to the Business Services Online Web site and log in.
2. Choose Social Security Number Verification Service. *continued on page 2*

New Form 941 Working Well

The first 2005 versions of the revamped Form 941 have been filed and processed. Overall, the new form has launched smoothly. IRS appreciates the time it took taxpayers, practitioners and software developers to learn about the new 941.

Based on these early filings, IRS Campuses furnished the following preparation tips for the new 941:

- Be sure to enter amounts for Social Security wages, tips and Medicare wages on Line 5, in Column 1;
- Use caution before making entries on Lines 7f or 7g; these lines are not normally used unless an IRS employee directs an employer to enter special information;
- Enter the "Total taxes after adjustments" figure on Line 8, not line 7h;
- If submitting a non-taxable return, send in both pages of the 941; sending in just one page will result in the document being rejected as an incomplete return; and
- Don't forget to sign Form 941 in Part 5!

continued on page 2

File Just One, Consider It Done!

IRS Simplifying Employment Tax Filing in 2006 for Small Employers

The IRS has worked to simplify forms and filing requirements in recent years, saving taxpayers time and frustration in preparing tax returns.

In its continuing drive to make it easier and less time-consuming for the small employers taxpayer to file Employment Taxes (ET), the IRS will introduce in early 2006 the new Form 944, *Employers' Annual Federal Tax Return*, which replaces the Quarterly Form 941 filing requirement for *certain* eligible small employers.

With employment taxes representing approximately two-thirds of all revenue that the Treasury receives, the viability of the federal tax system rests on the ability of the IRS to effectively administer employment taxes. One way to do this is by making it easier for small employers to comply with their employment tax filing responsibilities.

The purpose of new Form 944 is to reduce burden on the smallest of small business taxpayers by establishing new rules and processes that will allow certain employers to file their employment tax returns annually, and *in most cases* pay the employment tax due with their return.

A small employer will file the annual Form 944, *Employer's Annual Federal Tax Return*, to report wages paid, tips employees have reported to the employer, Federal income tax withheld, social security and Medicare taxes withheld, the employer's share of social security and Medicare taxes, and advance earned income credit payments.

This program is targeted for taxpayers who owe \$1,000 or less in total employment tax per year. The first returns will be due January 31, 2007.

IRS research has identified that approximately 1 million small employers of the approximately 6 million total Form 941 filers (17%) will be eligible to file Form 944, at the proposed \$1,000 tax liability threshold.

By filing a single return rather than four per year and paying with their return, most eligible small employers will save millions of hours in form preparation time alone, time that they will be able to devote to running their businesses. The amount of tax due will not change, only number of forms that must be filed and, in most cases, the timing of the payments.

The IRS believes that filing and paying employment taxes should be as easy as possible. By simplifying the process of employment tax filing, more small employers will have the opportunity to more easily comply with the law.

Drafts of the new form and instructions will be made available in the near future at <http://www.irs.gov>. Interested parties can submit their comments on the new form and instructions to e-mail address Form944Program@irs.gov. 

Verify Social Security Numbers continued from page 1

3. You have two options:

- Direct keying of up to 10 names/Social Security numbers onto SSA's Web site with immediate results; and
- Upload a file with up to 250,000 names/Social Security numbers with next business day results

4. You will receive a response of all names/Social Security numbers that do not match Social Security's records.

Restrictions on using SSNVS

- Do not use SSNVS before hiring an employee.
 - You may not verify someone's name and Social Security number until after you have offered him or her a job.
 - Social Security will review usage of SSNVS to ensure that employers are using it for the proper purposes.
- Do not use SSNVS to take punitive action against an employee whose name and Social Security number do not match Social Security's records.
 - A mismatch does not imply that the employer or the employee intentionally provided incorrect information.
 - A mismatch does not make any statement about an employee's immigration status and is not a basis, in and of itself, for taking any adverse action against an employee. Doing so could subject you to anti-discrimination or labor law sanctions.


What to do if a name and Social Security number do not match

- Make sure you did not make a typographical error.
- You may ask to see the employee's Social Security card to ensure you have the correct information.
- If you can't resolve the error, then ask your employee to contact the local Social Security office.
- You should have a consistent company policy and treat all employees the same.

Can third parties use SSNVS?


If you are a tax preparer, accountant, payroll agent, payroll service or you process Form W-2 on another company's Employer Identification Number (EIN), you can verify names and Social Security numbers on behalf of your clients, but only for wage reporting purposes. You only need one PIN (even if you represent more than one company).

If you need further help

Visit our Web site at <http://www.socialsecurity.gov/employer/ssnv.htm> for further information or call the Employer Reporting Service Center at 800-772-6270. 

New Form 941 continued from page 1

Some taxpayers and practitioners raised concerns about what happened if an earlier version of Form 941 was submitted in error for a 2005 quarter. IRS has not rejected any valid Forms 941 submitted using the old form. These are converted to the new format and processed.

Copies of Form 941, *Employer's Quarterly Federal Tax Return*, and Instructions are available on <http://www.irs.gov>. Can't find the answer to a question about preparing the new 941? Call the Business and Specialty Tax Line at 800-829-4933 for assistance. 

IRS to Accept Facsimile Signatures on Employment Tax Returns


The Internal Revenue Service has issued new rules allowing corporate officers or duly authorized agents to sign employment tax forms by facsimile, including alternative signature methods such as computer software programs or mechanical devices.

The rules, outlined in Revenue Procedure 2005-39 (<http://www.irs.gov/pub/irs-irbs/irb05-28.pdf>), will reduce burden on business taxpayers by simplifying employment tax filing and lowering the number of returns rejected by the IRS because of signature issues.

Rev. Proc. 2005-39 applies to the following forms:

- Any form in the 940 series, including Form 940, *Employer's Annual Federal Unemployment Tax Return*

(*FUTA*); Form 941, *Employer's Quarterly Federal Tax Return*; Form 943, *Employers Annual Federal Tax Return for Agricultural Employees*; and Form 945, *Annual Return of Withholding Federal Income Tax*;

- Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*;
- Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips*;
- Form CT-1, *Employer's Annual Railroad Retirement Tax Return*; and
- Any variant of these forms, such as Form 941c, *Statement to Correct Information*; Form 941-SS, *Employer's Quarterly Federal Tax Return*. 

It's Never Too Early to Plan for Year-End

Early autumn is the perfect time to begin preparing your year-end process, according to the American Payroll Association (APA), which offers the following time-proven first steps from its class, *Preparing for Year-End*:

- Develop a committee, including representatives from any departments in your organization that play a role in year-end, such as payroll, tax, accounting, accounts payable, human resources, benefits, information systems, and the mail room.
- Discuss the successes and shortcomings of last year's process.
- Create a calendar of payroll runs, adjustment runs, and tax deposits, considering holidays observed by your company, your bank, and your service providers.
- Inquire about any payments or benefits that other departments may be providing that would be considered taxable wages. See the Winter 2004 edition of the *SSA/IRS Reporter* for an article on this topic.
- Establish a checklist of year-end tasks, including due dates and responsible parties.
- Determine how you will provide your Forms W-2 this year to your employees and to the Social Security Administration – on paper or electronically? Check out the electronic options at www.socialsecurity.gov/bsa. Now is the time to discuss this with your software vendors, service providers, and/or forms suppliers.
- Ask your employees to review their pay stubs for the accuracy of the name, address, social security number, and any other

information pertinent to year-end, such as which state tax is being withheld.

- Consider using SSA's Social Security Number Verification Service to verify your employees' names and social security numbers and to avoid error notices (see www.socialsecurity.gov/employer/ssnv.htm).
 - By December 1, remind your employees to review their W-4 status and to file a new W-4 if their filing status or number of withholding allowances will change in the coming year. You may also want to direct them to the "Withholding Calculator" in the "Individuals" section of the IRS Web site.
 - Remind employees that those who wish to continue claiming exemption from withholding must submit a new W-4 by Feb. 15, 2006; and those who wish to continue receiving Advance Earned Income Credit payments must submit a new W-5 by Dec. 31, 2005.
 - Reconcile the following three items:
 - the total of the amounts from the first three Forms 941 for 2005,
 - the third quarter year-to-date figures on your payroll journal, and
 - a W-2 audit report as of September 30 (if your system allows it).
 - Look for more tips from APA in the next issue of the *SSA/IRS Reporter*!
- The APA is proud to be an integral partner with the Internal Revenue Service and the Social Security Administration. By working closely with IRS and SSA, APA prepares its classes and publications with the most accurate and

SSA/IRS

Reporter

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Small Business/Self-Employed
Communications
600 17th Street, MS:6400 DEN
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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up-to-date information to educate employers. IRS and SSA experts speak at many APA conferences and one-day seminars, including *Preparing for Year-End*. As a member of IRS' Advisory Council and IRS' Electronic Tax Administration Advisory Committee, APA provides input toward improving the nation's wage and tax reporting process. The APA Web site is located at www.americanpayroll.org. 

Social Security Announces New E-Filing Changes

Social Security has incorporated two changes into its Magnetic Media Reporting and Electronic Filing (MMREF) publication. Magnetic tapes and cartridges will be eliminated beginning with the tax year (TY) 2005 W-2 reports (due to Social Security in calendar year 2006). Also, diskettes will be eliminated beginning with the TY 2006 W-2 reports (due to Social Security in calendar year 2007).

Instead, wage reports must be filed electronically via Social Security's Business Services Online (BSO). BSO is a suite of Internet services for companies conducting business with Social Security. The MMREF publication and additional information on wage report filing can be obtained by accessing Social Security's employer reporting Web site at <http://www.socialsecurity.gov/employer> or by calling 800-772-6270.

Social Security receives more than 230 million Forms W-2 a year. Sixty-five percent of them are now transmitted electronically. Find out why so many businesses choose e-filing. Visit <http://www.ssa.gov/bsa/bsowelcome.htm> today. You'll be glad you did. **SSA**

IRS Expands Credit Card Tax Payment Program

Beginning January 1, 2006, businesses filing Form 940, *Employer's Federal Unemployment (FUTA) Tax Return* and Form 941, *Employer's Quarterly Federal Tax Return* with a balance due can pay the amount owed on the return by credit card over the phone or Internet. A credit card payment can be made for the balance on the current return that is due. Additionally, Form 941 filers can make credit card payments for up to three prior quarters. For example, in January 2006, Form 941 balance due payments will be accepted for Tax Year 2005, first, second, third or fourth quarter. These payments can be made through either of two authorized third-party service providers who will obtain credit authorization during the transaction and provide a confirmation number as proof of payment. The service providers charge a convenience fee based on the amount of the payment. Payments are processed through secure, commercial credit card networks and can be made 24 hours a day, seven days a week. Payments are effective on the date the charge is authorized.

Note: Federal Tax Deposits (FTDs) cannot be paid by credit card. Businesses can use the Electronic Federal Tax Payment System (EFTPS) to make all tax deposits electronically. Visit <http://www.irs.gov> (keyword: e-pay) for details on electronic payment options including a list of service providers and applicable convenience fees. **IRS**

New EFTPS Batch Provider Software in Development

The Electronic Federal Tax Payment System (EFTPS) will be launching a new version of the popular free software used by tax professionals for making multiple tax payments at one time. The new software is scheduled to be available by the end of 2005.

Highlights of the new software include:

- Ability to download software at <http://www.eftps.gov> or request a CD-ROM
- Tax professionals can register as a Batch Provider through the software
- Send up to 1,000 enrollments and 5,000 payments in one transmission
- Receive e-mail notification regarding enrollments, payments and upgrades
- Send clients a Taxpayer Inquiry PIN so they can look at their accounts online
- Make individual debits to Master Account or clients' accounts, or Bulk Payments from a Master Account
- Synchronize enrollments and payment history between the software and the EFTPS database in real-time
- Import/export enrollments and payments
- Create customized reports



If you are a tax professional, watch your mail or check online at <http://www.eftps.gov> for news about the launch of the new software.

If you are a taxpayer who works with a tax professional for making federal tax payments, let them know new, free software will be available later this year. **IRS**

Need to Make Your Form 941 Deposits (FTDs) By Phone?

Even though you cannot file your 941 using TeleFile anymore, you can make your federal tax deposit (941 FTD payment) by phone using EFTPS—Electronic Federal Tax Payment System.

Once you enroll in EFTPS, you can make your payments securely by phone (or online) 24 hours a day, 7 days a week. The phone and online systems guide you through making a payment by requesting each piece of information required, i.e., tax type, tax period, settlement date, amount, etc. You receive an immediate acknowledgement number that is your receipt for the payment instructions, and you have access to 16 months of EFTPS payment history online or by calling EFTPS Customer Service—also available 24/7.

To enroll in EFTPS, visit <http://www.eftps.gov>, or call 800-555-4477 for an enrollment form. **IRS**

IRS Corporate e-file Updates (new requirements)


Reminder on New e-file Requirements for Large Corporations starting in 2006

Corporations with gross assets of \$50 million or more, and which also file at least 250 returns a year, are required to electronically file their returns starting in 2006 (for 2005 returns) under new Treasury Regulations. After the first effective year, the requirement will affect corporations with more than \$10 million in gross assets. For more information visit the [irs.gov](http://www.irs.gov/efile/article/0,,id=103789,00.html) Web site at <http://www.irs.gov/efile/article/0,,id=103789,00.html>.

The IRS's Large and Midsize Business (LMSB) Operating Division and the Electronic Tax Administration (ETA) continue to meet with the various stakeholder groups (TEI, AICPA, ACT, and Software Developers) to understand and develop solutions for the issues that have been identified as a result of the new e-file mandate regulation. We are making progress on hardship waiver criteria and will have recommendations and guidance

on any automatic criteria by the end of November 2005.

Corporate e-file will also add the Fed/State program using the Web Services, Application-to-Application feature. Contact your software company for more information on these new items.

If you would like more information on 1120/1120S e-file, you may contact the project directly via e-mail at 1120@irs.gov. 

TEST YOUR KNOWLEDGE

Record of Federal Liability

Situation: Continuing staff expansion presented new challenges for Apricot Engineering. In prior years, Apricot was on a monthly deposit schedule for federal employment taxes (i.e. taxes accumulated during a calendar month were deposited by the 15th day of the following month). This year, having exceeded the \$50,000 threshold during the lookback period, the company was a semiweekly schedule depositor. Apricot's payroll manager, fortunately, had a good understanding of the semiweekly rules and the transition to the new deposit procedures had gone smoothly.

Now the time had come to prepare the Form 941, *Employer's Quarterly Federal Tax Return*. As a

semiweekly depositor, Apricot had the additional requirement of including Schedule B, *Report of Tax Liability for Semiweekly Schedule Depositors* (monthly schedule depositors, unless subject to the \$100,000 Next-Day Deposit Rule described in section 11 of Publication 15, *Circular E, Employer's Tax Guide*, generally provide a summary of monthly liability on the quarterly return instead completing this attachment). Schedule B is also not required if there is less than a \$2,500 liability (after subtracting any advance earned income credit (EIC) payments) during a quarter and the employer pays in full with a timely filed return.

The task of preparing Schedule B was assigned to Patrick, one of Apricot Engineering's payroll associates. Employees were paid every two weeks, so there were a number of transactions to consider. Patrick diligently transcribed the tax deposits onto Schedule B; subtotaled them by month; entered the quarterly total; and then turned the form over to the payroll manager for review.

The feedback on these efforts caused Patrick some surprise. According to the manager, although the listing of deposits was accurate and matched the banking records, it would likely result in correspondence from the IRS processing center and even perhaps in having a penalty asserted.

Question: What was the problem that the payroll manager noticed with the Schedule B?

Answer: Patrick unfortunately made the error of listing the deposits made during the quarter instead of providing a record of the employment tax liability arising from wage payments. The tax liability to enter for each payday includes: (1) the income tax withheld from employee paychecks; plus (2) both the employer and employee share of social security and Medicare taxes; less (3) any advance EIC payments made.

Schedule B is used to determine if timely deposits of employment taxes were made by semiweekly schedule employers (including monthly depositors that became "semi-weekly" by having an accumulated tax

liability—reduced by any advance EIC payments—of \$100,000 or more on any day). If incomplete or missing, the IRS may not be able to process the return and could need to contact the filer for additional information. And, since the IRS can't tell if your deposits were timely, because they don't know the actual dates of your tax liabilities, it may also assess the "averaged" failure to deposit penalty. This penalty is computed by comparing the deposits and payments to an equal allocation of the total tax liability over the period. Employers using *Form 941-SS* or *Form 941-PR* (applicable to certain U.S. possessions) should see the instructions to these forms for rules similar to the above.

Resources for Additional Information:

Notice 931, Deposit Requirements for Employment Taxes
(<http://www.irs.gov/pub/irs-pdf/n931.pdf>)

Publication 15, (Circular E), Employer's Tax Guide—Section 11
(<http://www.irs.gov/pub/irs-pdf/p15.pdf>)

Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors Form:
(<http://www.irs.gov/pub/irs-pdf/f941sb.pdf>)
Schedule B (Form 941) Instructions:
(<http://www.irs.gov/pub/irs-pdf/i941sb.pdf>)

Helping Businesses Welcome Customers with Disabilities

More than 50 million Americans with disabilities make up a huge market for businesses of all types and sizes. To help businesses welcome customers with disabilities, the Department of Justice created the ADA Business Connection. The newest feature of this multifaceted project is a ten-lesson online course called "Reaching Out to Customers with Disabilities," located on the Department's Americans with Disabilities (ADA) Web site, <http://www.ada.gov>.

The IRS offers two tax incentives to help businesses offset costs of ADA compliance: a small business tax credit of up to \$5,000, Form 8826, *Disabled Access*

Credit, and a business expense deduction of up to \$15,000 for businesses of any size, Publication 535, *Business Expenses*. These tax incentives may be used every year expenses are incurred.

Learn about the ADA, get answers to your questions, or order publications by contacting the Department's ADA Information Line at:

800-514-0301 (voice)

800-514-0383 (TTY)

or by visiting the ADA Business Connection at <http://www.ada.gov>. 

Form 990 e-file

New e-file Requirements for Large Tax-Exempt Organizations

On January 12, 2005, the IRS released regulations that require certain tax-exempt organizations to file annual exempt organization returns electronically beginning in 2006. For tax year 2005 returns due in 2006, the regulations require organizations with total assets of \$100 million or more to file Form 990, *Return of Organization Exempt from Income Tax*, electronically.

The electronic filing requirements apply only to entities that file at least 250 returns, including income tax, excise tax, employment tax, and information returns, during a calendar year. *Example:* If an organization has 245 employees, it must file Form 990 electronically, because each Form W-2 and quarterly Form 941 is considered a separate return; therefore, the organization files a total of 250 returns (245 W-2's, four 941's, and one 990).

Beginning in 2007, private foundations and charitable trusts will be required to file Form 990-PF, *Return of Private Foundation*, electronically regardless of their asset size, if they file at least 250 returns.

Fed/State e-file

IRS plans to offer Federal/State e-filing for charities and non-profits beginning in 2006. Over 25 states have partnered with IRS in the development of requirements. Participating states will begin testing in October 2005. Additional information about the Fed/State option will be posted on the IRS Web site at <http://www.IRS.gov/efile> as it becomes available. 

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 / Cincinnati Submission Center
New Toll Free Number for e-Help 866-255-0654
Supports IRS e-file and e-Service 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 for Individuals
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 make 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.

Social Security Administration

Internal Revenue Service

Inside this Issue...

Social Security Unveils 2005 Enhancements for Electronic Services
page 2

Form 990 e-file for Charities and Non-Profits
page 2

Important News About Electronic Payments
page 3

W-2 e-filing Option for Small Businesses
page 3

Reminders for a Successful Year-End
page 4

Verify Workers' Social Security Numbers Online
page 5

W-2 Test Software Now Available (AccuWage and AccuW2c)
page 5

IRS Electronic Payment Program Includes Options for Businesses of All Sizes
page 5

Adhering to the New Hire Reporting Program has Benefits
page 5

Know the Tax Consequences of Providing Equipment to Employees
page 6



Department of the Treasury
Internal Revenue Service

www.irs.gov

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Reporter

Winter 2005

A Newsletter
for Employers

Social Security Announces Wage Base Increase for 2006


Social Security has announced the increase for 2006 in the maximum amount of earnings subject to the Social Security tax. The Social Security wage base will be \$94,200, up from \$90,000 in 2005. Beginning January 1, 2006, employers should withhold Social Security taxes (6.2 percent) from employees' wages up to \$94,200 and withhold the Medicare tax (1.45 percent) on all wages. Employers must match the tax payments withheld from employees' wages.

In 2006, employees will earn one Social Security credit for each \$970 in earnings, up to a maximum of four credits for the year. And the full retirement age for people born in 1941 is now 65 years and 8 months. However, when employees reach full retirement age, they can work and receive unreduced Social Security retirement benefits. Social Security also announced that benefit amounts will increase in 2006 by 4.1 percent.

If your employees are less than full retirement age when they begin to receive benefits, they can earn more in 2006 without their benefits being reduced. These provisions are:

1. Social Security beneficiaries who haven't reached full retirement age can earn \$12,480 before their benefits are reduced. For every \$2 a person earns over \$12,480 before the year of his or her full retirement age, \$1 is withheld from benefits.
2. In the year employees reach full retirement age, \$1 in benefits is deducted for each \$3 they earn above \$33,240 until the month the employees reach full retirement age.
3. Benefits are not reduced when employees are full retirement age or older, no matter how much they earn.

Employees receiving Social Security disability benefits must report all wages, no matter how little they earn.

For more information on wage base and benefit increases, see the Social Security press release at <http://www.socialsecurity.gov>. 

IRS Corporate e-file Updates

Corporate IRS e-file on the new Modernized e-File (MeF) system has had a very successful filing season. Over 245,000 corporate returns and extensions have been electronically filed with a 13 percent less error rate than filing corporate returns by paper.

Changes are in store starting in 2006 (for Tax Years ending on or after December 31, 2005) for certain corporations.

Corporations with gross assets of \$50 million or more, which also file at least 250 returns a year, are required to electronically file their returns starting in 2006 (for 2005 returns) under new Treasury Regulations. After the first effective year, the requirement will affect corporations with \$10 million or more in gross assets.

Detailed information for corporate taxpayers has been provided on <http://www.irs.gov> to assist corporations with these new electronic filing requirements. Taxpayers can access the e-file information developed for corporations required to e-file with just 2 clicks from the IRS.gov home page.

Corporate taxpayers can also access several new documents on IRS.gov designed to facilitate their transition from paper to e-file. *IRS e-file for Large Taxpayers Filing Their*

continued on page 2

Social Security Unveils 2005 Enhancements for Electronic Services

Social Security has enhanced its online registration and electronic wage reporting services for the upcoming tax filing season. These new and enhanced services will be available December 19, 2005 via the Business Services Online (BSO) web page, Social Security's secure, interactive suite of Internet services for the business community. The Web page can be found at <http://www.socialsecurity.gov/bsowelcome.htm>.

The new online registration enhancements for the 2005 tax year will make it easier for household employers to register online. Also, new wage reporting enhancements will mean that:

- You can now save Forms W-2c once they are created and will no longer be required to create and submit Forms W-2c within the same session;
- You can now save up to 50 unsubmitted W-3 and W-3c reports, including up to 20 W-2s per W-3 report and up to 5 W-2cs per W-3c report;
- The Social Security Number Verification Service will allow employers to verify the accuracy of Social Security numbers reported by their employees; and
- Social Security's Employer Reporting Specialists can view the same submission status information as employers, allowing them to provide better customer service.

Also, here are some year-end reminders for employers:

- Make sure your electronic or magnetic media submission contains a valid PIN in positions 12-19 of the RA, submitter record. If you do not have a PIN, you can obtain one by going to <http://www.socialsecurity.gov/bsowelcome.htm> and selecting Registration. You will receive a PIN immediately upon successful completion of the registration process.
- Make sure you have your BSO PIN and Password. If you have forgotten your password, go to <http://www.socialsecurity.gov/bsowelcome.htm>, select Login, and then select the "I forgot my

continued on page 3

IRS Corporate e-file Updates continued from page 1

Own Corporate Income Tax Returns provides corporations that prepare their own return step-by-step instructions on how to e-file. It also provides information to help corporations understand and prepare for the impact of electronic filing, since this definition of return filers is new. It is designed to provide corporations with long-term e-file requirements and also the information necessary to complete the application to become an authorized e-file provider/Electronic Return Originator for their own return and to actually submit their own income tax return.


Tax Year 2005 Directions for Corporations Required to e-file provides optional directions that may be used by the effected corporations to assist in their transition to electronic filing.

IRS summarized all of the relevant information in a set of *Frequently Asked Questions for Large and Mid-Size Corporations*, which IRS

will continue to update as new information and scenarios are identified.

These documents can be found at <http://www.irs.gov/businesses/index.html> by clicking on the e-file for Large and Mid-Size Corporations link. The waiver notice, which was released on October 21, 2005, is now in the final stages of review and will be issued soon. It contains instructions for requesting a waiver including where the request should be filed.

Corporate e-file will also allow the taxpayer to submit their state return through the Fed/State program using the Web Services Application to Application functionality. Contact your software company for more information on these new items.

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

Form 990 e-file for Charities and Non-Profits

New e-file Requirements for Large Tax-Exempt Organizations


New IRS regulations require exempt organizations with total assets of \$100 million or more, who file at least 250 returns (including income tax, excise tax, employment tax, and information returns), to file Form 990 electronically for tax year 2005 returns due in 2006. *Example of the 250 return rule:* If an organization has 245 employees, it must file Form 990 electronically, because each Form W-2 and quarterly Form 941 is considered a separate return; therefore, the organization files a total of 250 returns (245 W-2's, four 941's, and one 990).

Beginning in 2007, the electronic filing requirement will be expanded to include tax year 2006 returns of exempt organizations with \$10 million or more in total assets; and private foundations will be required to file Form 990-PF, *Return of Private Foundation*, electronically regardless of their asset size, if they file at least 250 returns.

Fed/State e-file

IRS plans to offer Federal/State electronic filings for charities and non-profits beginning in 2006. Over 25 states have partnered with IRS in the development of requirements for a single point electronic filing system where non-profits will be able to file:

- a Federal return;
- a Federal return and one or more related state returns;
- a Federal return and one or more state registration forms;
- or one State return.

Testing by participating states began in the fall of 2005. Look for more information about the Fed/State option on the IRS Web site at <http://www.irs.gov/efile>. 

Important News About Electronic Payments



Record Year for EFTPS

The popular Electronic Federal Tax Payment System (EFTPS) has set a record for new enrollments in fiscal year 2005: more than 1,000,000 taxpayers enrolled to make their federal tax payments online, by phone, or through their tax professional. EFTPS is a secure, easy, and convenient way to pay all your federal taxes. When you use EFTPS, you can make sure payments arrive safely and on time because the payments are made electronically at your direction. To enroll, visit <http://www.eftps.gov>.

State Pilot in Development

EFTPS is currently working with the state of Illinois to develop a pilot program that will allow Illinois businesses to pay their state withholding and federal tax payments through EFTPS. Phase I of the pilot, tentatively scheduled to be available in 2006, will enable Illinois businesses to use EFTPS

online to make their payments. Long-term, EFTPS envisions this option to be available for any state wanting to participate. Watch the *SSA/IRS Reporter* for updates.

New Batch Provider Software in Development

EFTPS will soon launch a new version of the popular free Batch Provider software used by tax professionals for making multiple tax payments in one transaction. The new software offers many enhancements:

- Send up to 1,000 enrollments and 5,000 payments in one transmission;
- Receive e-mail notification regarding enrollments, payments and upgrades;
- Send clients a Taxpayer Inquiry PIN so they can look at their account history online.

If you are a taxpayer who works with a tax professional for making federal tax payments, let them know the new, EFTPS

Batch Provider software will soon be available. And, if you're a tax professional, watch the *SSA/IRS Reporter* for updates, or visit <http://www.eftps.gov> to check for availability in early 2006.

Keep Your Payments and Payment History Safe

EFTPS gives you an excellent way to make sure you still have your payment history available in the event of a disaster. As an EFTPS user, all you need is a phone or Internet connection to make your payments and retrieve your payment history immediately from anywhere. EFTPS keeps all your information secure, safe, and current. If you are concerned about losing payments or payment history, consider moving to the secure electronic way of making federal tax payments. Enroll in EFTPS at <http://www.eftps.gov>.

Social Security Unveils 2005 Enhancements continued from page 2

password" link. You will be asked to enter your Name, Social Security Number, Date of Birth, and EIN. A replacement password will be sent to you by first class mail, usually within 2 weeks.

- SSA will not accept TY 2005 W-2 reports on magnetic tape or cartridge. Submitters who previously filed on tape or cartridge must submit their report electronically.

If you would like to view the e-filing screens before you actually use them, Social Security has an online tutorial available. Also, the BSO Handbook offers step-by-step instructions on how to access all of the electronic services. Both the tutorial and the handbook can be found at <http://www.socialsecurity.gov/bsowelcome.htm>. You also can call the Employer Reporting Service Center from Monday-Friday, 7 a.m. to 7 p.m. EST, at 800-772-6270, or e-mail Social Security at employerinfo@ssa.gov.

W-2 e-filing Option for Small Businesses

Social Security has a free electronic filing solution for small businesses. It's called W-2 Online and it has many advantages:

- It's safe and secure;
- There are no paper forms to purchase;
- No software is needed;
- You get an extra 30 days to file (until the last day of March);

- You get an immediate receipt of filing, and more.

Find out why 97% of small businesses rate W-2 Online as convenient and very easy-to-use. Go to <http://www.socialsecurity.gov/bsowelcome.htm> and register today.

What Employers Are Saying About W-2 Online

“I filed my W-2 Online last year and couldn't believe how easy it was (of course, I only had to do two, but still!!!). I was really surprised with the ease in which I accomplished the task. Great job.”

Olympic Aero Services

“I enjoy doing this process (W-2s) electronically instead of manually and definitely will continue to use the online system.”

L.S., State Bank of Richmond

“I'm a CPA who does maybe 12-15 employers W-2's for them (mostly small businesses). Loved doing the W-2/3 on line. Saved a lot of time and expense.”

B.B., CPA, Atlanta, GA

“Thanks so much for your excellent work on the W-2/W-3 wage reporting website. I appreciate the system tremendously and hope it continues to expand.”

D.S., DCTSI

“The W2/W3 website is a GRANDSLAM!”

K.B., CPA

Reminders for a Successful Year-End

Year-end is upon us! The American Payroll Association (APA) offers more tried-and-true tips to help ease your year-end processing, following up on their article in the Fall 2005 *SSA/IRS Reporter*.

December

- Remind any workers who have had "life changes" such as marriage, divorce, or a change in number of dependents to make the appropriate changes to their withholding via Form W-4.
- Remind employees that those who wish to continue claiming exemption from withholding must submit a new W-4 by Feb. 15, 2006, and those who wish to continue receiving Advance Earned Income Credit payments must submit a new W-5 by Dec. 31, 2005.
- Collect benefit and payroll adjustment information and post to employees' payroll, including relocation, educational assistance, group-term life insurance, third-party sick pay, company cars, manual checks, and void checks.
- Order or buy enough Forms W-2 for all the employees who have worked for you this year, as well as some excess to allow for any mistakes. Better yet, consider preparing, printing, and filing your W-2s online at <http://www.socialsecurity.gov/bsa>.

December-January

- Obtain new forms, withholding tables, and publications. Review the new Social Security wage base (\$94,200), deferred compensation limits, mileage rates, and state unemployment wage bases.
- Notify employees of applicable changes and any steps they must take.

January 1

- Reset all year-to-date balances to zero.
- Reset all wage bases, rates, and limits according to your research.
- Discontinue payments of Advance Earned Income Credit to any employee who has not given you a 2006 Form W-5.

January

- Reconcile W-2 totals against the four Forms 941 for 2005.

- Run a report to verify W-2 information before printing the forms. Make sure you have a Social Security Number for each employee. Review employees with wages higher than the Social Security wage base (\$90,000 for 2005), benefits that must be reported in box 10 or 12, or statuses that must be checked in box 13.

- Buy postage for mailing Forms W-2.

- If your company offers any pre-tax deductions, prepare a notice for employees that explains the calculations of the numbers in boxes 1, 3, and 5.

By January 31

- Deliver or mail Forms W-2, "Wage and Tax Statement," to all 2005 employees.
- File Form 941 (943 for agricultural employers), "Employer's Quarterly Federal Tax Return."
- File Form 940 (940-EZ for certain one-state employers), "Employer's Annual Federal Unemployment (FUTA) Tax Return."
- For each of Forms 941, 943, 940, and 940-EZ, if all taxes have been deposited when due, the deadline is extended until February 10.

February 16

- For any employee who claimed exemption from withholding last year, but has not submitted a 2006 W-4, begin withholding based on a marital status of "single" and zero withholding allowances.


By February 28

- File Forms W-2 (Copy A) with the Social Security Administration. If you file electronically, you have an extra month (until March 31) to file.

March

- While your year-end experience is still fresh in your mind, review the process and evaluate its strengths and weaknesses. Note changes you should make for next year.

The APA is proud to be an integral partner with the Internal Revenue Service and the Social Security Administration. By working closely with IRS and SSA, APA includes the most accurate and up-to-date information

in its classes, publications, and audio seminars, such as the three in December specifically geared toward year-end. Archived versions are also available. The APA Web site is located at <http://www.americanpayroll.org>. 

SSA/IRS

Reporter

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John Berger, Editor

Send mail to (NOT for change of address):
Internal Revenue Service
Small Business/Self-Employed
Communications
Room 1100, Fallon Building
31 Hopkins Plaza
Baltimore, MD 21201

e-mail (NOT for change of address):
SSA.IRS.REPORTER@irs.gov
Fax: 410-962-2572

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

MS:6273

Ogden, UT 84207

Attn: BMF Entity Control Unit

Outside US:

Philadelphia IRS Center
Philadelphia, PA 19255

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Verify Workers' Social Security Numbers Online

Employers can now use the Internet to verify that the payroll record of employee names and Social Security numbers matches Social Security's records. The new service, called *Social Security Number Verification Service (SSNVS)*, is available through Social Security's Business Services Online (BSO) website at <http://www.socialsecurity.gov/bsowelcome.htm>. The online service is available to all employers and third-party submitters for wage reporting (Form W-2) purposes.

Using SSNVS is faster and easier than submitting your requests on magnetic media or paper listings, or even using Social Security's telephone verification option. Plus, making sure your wage reports contain employee names and Social Security numbers that match Social Security's records will help ensure the successful processing of your annual wage reports and save you administrative processing costs. It also allows Social Security to properly credit your employees' earnings records, which determine their future Social Security benefit entitlement.

While the service is available to all employers and third-party submitters, it can only be used to verify current or former employees and only for wage reporting (Form W-2) purposes.

For more information, visit <http://www.socialsecurity.gov/employer/ssnv.htm> or call the Employer Reporting Service Center, at 800-772-6270, Monday- Friday, 7 a.m. to 7 p.m. ET. **SSA**

Adhering to the New Hire Reporting Program has Benefits

Employers, there are many reasons to report your new hires!

The federally mandated New Hire Reporting program is vital to the success of the child support enforcement program. Employers make a huge difference in ensuring that children receive the financial support they deserve by submitting new hire data to state agencies shortly after the date of hire. This information is stored on the State Directory of New Hires and then forwarded to a centralized repository, the National Directory of New Hires, which contains employment information (new hire reports, quarterly wage reports, and unemployment claimant data) for the entire nation. These data are matched daily against

continued on page 6

W-2 Test Software Now Available (AccuWage and AccuW2c)

Free software to test the accuracy of your 2005 Magnetic Media Reporting and Electronic Filing (MMREF) formatted reports is now available. The AccuWage software tests your MMREF-1 files by checking for over 200 different errors before you send the report to Social Security for processing.

AccuWage is easy to use. Just go to <http://www.socialsecurity.gov/employer> and select *Wage Reporting Software*. Download and install the AccuWage software on your personal computer. Then type in the directory where you saved the W2REPORT file. AccuWage will read the file and inform you of any detected errors. (Note: If you downloaded AccuWage between August 1 and August 19, 2005, you will want to download and install the newer version that is now available, and re-test your files.)

AccuW2c 2005 is also available. AccuW2c allows you to check your MMREF-2 correction reports.

For more information about AccuWage software, the MMREF formats, or for answers to other questions about wage reporting, please call 800-772-6270 and ask for the Employer Services Liaison Officer serving your state, or visit <http://www.socialsecurity.gov/employer> and select Call the Experts. **SSA**

IRS Electronic Payment Program Includes Options for Businesses of All Sizes

Electronic payment (e-pay) options are convenient, safe and secure, and give taxpayers assurance that payments are received on time. There's nothing to mail, taxpayers are provided confirmation of receipt, and electronic payments are easily traced.

Beginning January 1, 2006, businesses filing Form 940, *Employer's Federal Unemployment (FUTA) Tax Return* or Form 941, *Employer's Quarterly Federal Tax Return* with a balance due can pay the amount owed by credit card. This option is available to businesses of all sizes. See IRS Publication 15, Circular E, for information about federal tax deposit rules. Credit card payments can be made by phone or Internet. Service providers charge a fee for the service. **Note:** Federal Tax Deposits (FTDs) cannot be paid by credit card.

The credit card option is one of three ways for businesses to make balance due payments electronically. Taxpayers who e-file, through a tax professional or online, can file and pay the balance due at the same time by authorizing an electronic funds withdrawal from their bank account. This option integrates e-filing and e-paying and is available to businesses filing various employment, corporate, estate and trust, and exempt organization returns and forms.

Additionally, the Electronic Federal Tax Payment System (EFTPS) – the U.S. Department of Treasury's electronic payment system for making federal tax deposits – can also be used to pay the balance due on all returns and forms. EFTPS payments can be made by phone or Internet. Enrollment is required.


Visit <http://www.irs.gov> (keyword: e-pay) for details on all electronic payment options. **IRS**

Adhering to New Hire Reporting Program has Benefits continued from page 5

child support cases to locate missing parents, establish paternity, establish or modify child support orders, enforce support orders, and obtain health insurance coverage for children. States also use the information from employers to reduce overpayments for unemployment insurance, disability insurance, and workers' compensation benefits. Many states have developed ways to make it easier for employers to report their new hire data, including Internet reporting, reporting by phone, and reporting by fax. In addition, multi-state employers may elect to submit all their new hire reports to one state. If employers choose this option, they must first notify the Secretary of HHS in writing of the state which they have chosen. Notifications may be submitted on line

at <http://www.acf.hhs.gov/programs/cse/newhire/employer/private/nh/newhire.htm> or via fax or mail to:

U.S. Department of Health & Human Services
Office of Child Support Enforcement
Multistate Employer Registration
Box 509
Randallstown, MD 21133
(410) 277-9479 (for questions)
(410) 277-9325 (fax)

For more information about New Hire Reporting, including links to each state's reporting requirements, visit the Federal Office of Child Support Enforcement website at: <http://www.acf.hhs.gov/programs/cse/newhire/employer/private/nh/newhire.htm>. 

Know the Tax Consequences of Providing Equipment to Employees


Payments employers make to employees with equipment required as a condition of employment are wages for federal employment tax purposes, unless such amounts are paid under an accountable plan.

An accountable plan is a reimbursement or other expense allowance set up by the employer for employees. The expense directly related to the trade or business is substantiated to the employer providing the reimbursement and the accountable plan provides for the employee to return any excess expenses within a reasonable period.

The accountable plan requirement has not been met in the following:

- Workers holding like positions are paid for rental or lease of their vehicles and equipment without regard to the extent to which their individual equipment was valued or used. The business connection has not been met.
- No substantiation is required or furnished and payment is without regard to the extent to which the equipment is actually used. The substantiation requirement has not been met.
- There is no procedure for renting, identifying, or quantifying any payments in excess of actual expenses. The requirement to return excess expenses has not been met.

The tax consequences to employees when an employer reimburses expenses under an accountable plan are:

- Amounts treated as paid under an accountable plan are excluded from the employee's gross income.
- The amounts paid are not reported as wages or other compensation of employee's W-2.
- The payments are exempt from the withholding and payment of income and employment taxes. 

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 / Cincinnati Submission Center
New Toll Free Number for e-File
866-255-0654
Supports IRS e-file and 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 for Individuals
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>

Keywords on IRS.gov

IRS.gov is now using keywords as another way to help make 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.