

Social Security
Administration

Internal
Revenue Service

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Department of the Treasury
Internal Revenue Service

www.irs.gov

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Reporter

Spring 2006

A Newsletter
for Employers

File Just One, Consider It Done!

IRS Takes Steps to Ease Employment Tax Filing Requirements

In recent years, the IRS has worked to save small business taxpayers millions of hours in preparing their taxes by simplifying forms and filing requirements. Starting in 2006, the IRS takes a major step forward in simplifying the Employment Tax filing requirements for certain small employers with the introduction of the new *Employers' Annual Federal Tax Program* (Form 944). Form 944 replaces the quarterly Form 941 filing requirement for certain eligible small employers. The first returns for calendar year 2006 will be due January 31, 2007.

The purpose of the new Form 944 is to reduce burden on the smallest of small business employers 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. This program is designed for employers who have a total annual employment tax liability of \$1,000 or less.

By filing a single return rather than four per year and paying with their return, small employers will save time in form preparation, time that they will be able to devote to running their businesses.

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. IRS estimates this new program will apply to about 950,000 small employers. Here's how the program will work:

Annual Filing Eligibility

- Who's eligible? Those who have a \$1,000 or less in total annual employment tax liability.
- How will those eligible be notified? IRS will send written notification to eligible small employers that they are to file Form 944. Letters will go out around

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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 Forms W-2c (Corrected Wage and Tax Statement) 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

IRS Eases Employment Tax Filing Requirements continued from page 1

February 1st of each year to newly eligible Form 944 filers.

■ What about new employers? When new employers apply for their Employer Identification Number (EIN) they will be asked to indicate what amount of tax/wages they expect to pay annually. If an EIN applicant indicates tax of \$1,000 or less (approximately \$4,000 or less in annual wages), the IRS will place them into the Form 944 program. If over these amounts, the IRS will establish their Employment Tax filing requirement as a 941. The IRS will advise the new business taxpayer of their filing requirement, either Form 941 or Form 944, in the same letter that provides the taxpayer their new EIN.

Annual Filing Requirements

■ Identified employers must file Form 944, *Employer's Annual Federal Tax Return*, by January 31st each year for the preceding calendar year's tax liability. Form 944 filers will not file any Forms 941 for that calendar year.

■ Form 944 filers can pay their annual employment tax by January 31st of each year, unless they are required to make Federal Tax Deposits.

■ Form 944 filers whose businesses grow unexpectedly during the year to a total tax liability of \$2,500 or more (approximately \$10,000 in wages), will need to make Federal Tax Deposits (FTD) in accordance with the current guidelines to avoid any failure to deposit penalties. They must still file the Form 944 for the year.

Special Circumstances

■ Designated Form 944 employers who believe their businesses will grow to more than \$1,000 in total employment tax liability for the calendar year should contact the IRS no later than April 1st to be re-established as a Form 941 quarterly filer for the current year.

■ While electronic filing for the Form is expected to be available in January 2007,

designated Form 944 employers who wish to electronically file Forms 941 quarterly should also contact the IRS by April 1 to be returned to a Form 941 filing requirement.

■ The program does not apply to Schedule H filers or Form 943 filers.

Events Making an Employer Ineligible for Annual Filing in a Subsequent Year

■ Employer exceeds purposed threshold amount of \$1,000 employment tax liability per year. They will be sent a notice advising them that they have been returned to a Form 941 quarterly filing requirement.

For Further Information

Please refer to <http://www.irs.gov/businesses/small/article/0,,id=146224,00.html> for a draft of the new Form 944 and <http://www.irs.gov/irs/article/0,,id=152458,00.html> for a copy of the news release. Instructions will be made available in the near future. 

TEST YOUR KNOWLEDGE

Payments for Moving Costs

Situation: At a recent meeting to review its compensation policies, Magnolia Laminating decided to begin paying moving costs when hiring for certain positions. In the past, new employees were responsible for their own moving expenses; this policy, however, was now considered too limiting when filling critical vacancies.

With the multitude of moving costs that could be involved, Magnolia was not sure whether to offer a lump sum relocation payment or to reimburse based on expense receipts from the employee. What's more, the employment tax effects of the various approaches were not clear. Cathy, the controller/treasurer for Magnolia, had been appointed to report back to the board with suggested alternatives.

Question: What factors and tax effects might Cathy consider in her report?

Answer: Qualified moving expenses paid: (1) to an employee under an accountable plan; or, (2) indirectly for an employee's benefit (e.g. employer payments to a moving company), are excluded from an employee's income (and are excluded from employment taxes and income tax withholding) unless the employer has knowledge that the employee deducted the expenses in a prior year.

Qualified moving expenses are for moves closely related to the start of work at a new job location that meet the time and distance tests described in Publication 521, *Moving Expenses*. Additionally, qualified costs must be reasonable and are limited to: (1) moving costs for household goods and personal effects (including in-transit or foreign-move storage expenses); and (2) traveling (including lodging but not meals) to the new home.

Information on accountable plans is provided in Publication 521 and Section 5 of Publication 15, (Circular E), *Employer's Tax Guide*. As described in these references, accountable plan reimbursements are for costs that: (1) a deduction would have been allowed if the employee had paid for them without reimbursement; (2) an adequate accounting of the expenses is made to the employer within a reasonable period of time; and (3) any excess reimbursements (including advances and allowances) are returned to the employer within a reasonable period of time.

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Have a Question about Filing Forms W-2?

Contact IRS if...

Your question deals with completing a specific box on the W-2. Form W-2 instructions can be found in IRS' Publication 393, *Federal Employment Tax Forms*, (<http://www.irs.gov/pub/irs-pdf/p393.pdf>) or you may telephone the IRS Martinsburg Computing Center at (304) 263-8700 or toll free (866) 455-7438.

Contact Social Security if...

You need help with submitting Copy A of Forms W-2 to Social Security, or if you have questions about electronic filing. You can reach SSA's Employer Reporting Branch at 800-772-6270. You may also call or e-mail the wage reporting expert serving your State. **SSA**

Social Security's Wage Reporting Experts

Calls from	Telephone	e-mail Address			
Alabama*	334-223-7013	roy.s.bradford@ssa.gov	Nebraska	816-936-5649	john.gezich@ssa.gov
Alaska	206-615-2125	tim.beard@ssa.gov	Nevada	510-970-8247	bill.brees@ssa.gov
American Samoa	510-970-8247	bill.brees@ssa.gov	New Hampshire	617-565-2895	regina.bachini@ssa.gov
Arizona	510-970-8247	bill.brees@ssa.gov	New Jersey	212-264-1117 212-264-4402	tyrone.s.benefield@ssa.gov angela.caputo@ssa.gov
Arkansas†	501-324-5130	charles.burton@ssa.gov	New Mexico†	505-346-7244	jacquelyn.mirabal@ssa.gov
California	510-970-8247	bill.brees@ssa.gov	New York	212-264-1117 212-264-4402	tyrone.s.benefield@ssa.gov angela.caputo@ssa.gov
Colorado	800-314-1964 or 303-844-7313	carolyn.sykes@ssa.gov	North Carolina*	919-790-2877 x3007	jennifer.haglund@ssa.gov
Connecticut	617-565-2895	regina.bachini@ssa.gov	North Dakota	800-314-1964 or 303-844-7313	carolyn.sykes@ssa.gov
Delaware	215-597-4632	frank.obrien@ssa.gov	Northern Mariana Islands	510-970-8247	bill/brees@ssa.gov
District of Columbia	215-597-4632	frank.obrien@ssa.gov	Ohio	312-575-4244	paul.dieterle@ssa.gov
Florida-North*	321-255-1553 x1202	marlene.a.ulisky@ssa.gov	Oklahoma†	501-324-5130	charles.burton@ssa.gov
Florida-South*	305-672-4517	peter.blalock@ssa.gov	Oregon	206-615-2125	tim.beard@ssa.gov
Georgia-North*	770-531-1615 x227	kirk.jockell@ssa.gov	Pennsylvania	215-597-4632	frank.obrien@ssa.gov
Georgia-South*	229-226-5563 x225	marie.sharp@ssa.gov	Puerto Rico	212-264-1117	tyrone.s.benefield@ssa.gov
Guam	510-970-8247	bill.brees@ssa.gov	Rhode Island	617-565-2895	regina.bachini@ssa.gov
Hawaii	510-970-8247	bill.brees@ssa.gov	South Carolina*	803-253-3558 x3005	sandra.simons@ssa.gov
Idaho	206-615-2125	tim.beard@ssa.gov	South Dakota	800-314-1964 or 303-844-7313	carolyn.sykes@ssa.gov
Illinois	312-575-4244	paul.dieterle@ssa.gov	Tennessee*	615-743-7588	jerry.brothers@ssa.gov
Indiana	312-575-4244	paul.dieterle@ssa.gov	Texas-Central/South†	512-916-5391	diane.owens@ssa.gov
Iowa	816-936-5649	john.gezich@ssa.gov	Texas-North/Dallas†	817-978-3123	bern.sullivan@ssa.gov
Kansas	816-936-5649	john.gezich@ssa.gov	Texas-Southeast†	936-441-9243	teresa.stivers@ssa.gov
Kentucky*	859-294-5153 x3055 859-219-1461 x111 270-842-9183 x235	stephen.seithers@ssa.gov jason.cornett@ssa.gov billy.vincent@ssa.gov	Texas-West†	505-346-7244	jacquelyn.mirabal@ssa.gov
Louisiana†	504-240-7321	william.carroum@ssa.gov	Utah	800-314-1964 or 303-844-7313	carolyn.sykes@ssa.gov
Maine	617-565-2895	regina.bachini@ssa.gov	Vermont	617-565-2895	regina.bachini@ssa.gov
Maryland	215-597-4632	frank.obrien@ssa.gov	Virgin Islands	202-264-1117	tyrone.s.benefield@ssa.gov
Massachusetts	617-565-2895	regina.bachini@ssa.gov	Virginia	215-597-4632	frank.obrien@ssa.gov
Michigan	312-575-4244	paul.dieterle@ssa.gov	Washington	206-615-2125	tim.beard@ssa.gov
Minnesota	312-575-4244	paul.dieterle@ssa.gov	West Virginia	215-597-4632	frank.obrien@ssa.gov
Mississippi*	601-693-4859 601-965-5945 x3030	sue.d.clark@ssa.gov janice.m.buckley@ssa.gov	Wisconsin	312-575-4244	paul.dieterle@ssa.gov
Missouri	816-936-5649	john.gezich@ssa.gov	Wyoming	800-314-1964 or 303-844-7313	carolyn.sykes@ssa.gov
Montana	800-314-1964 or 303-844-7313	carolyn.sykes@ssa.gov			

* Alternate Contact – 404-562-1315 Atlanta (Pat McCarron)

† Alternate Contact – 281-449-2955 Dallas (Debbie Forsythe)

Moving Costs

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Employer payments for nonqualified moving costs (for example, pre-move house hunting and temporary living costs) and payments under non-accountable arrangements (such as non-accountable lump sum payments, relocation allowances, or bonuses) are includible in an employee's income, however. Income tax is withheld, as are social security and Medicare taxes. Additionally, the employer computes federal unemployment tax on the payments and matches the withheld social security and Medicare taxes.

See the instructions to Form W-2, *Wage and Tax Statement*, for how to report moving expenses on the W-2 form. Special rules for foreign moves and the Armed Forces, and further examples of moving expenses, are given in Publication 521. Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, also provides rules for certain S corporation shareholders and moving services provided in-kind by the employer.

Resources for Additional Information:

Publication 15, (Circular E), Employer's Tax Guide—Section 5 <http://www.irs.gov/pub/irs-pdf/p15.pdf>

Publication 15-B, Employer's Tax Guide to Fringe Benefits—Section 2 <http://www.irs.gov/pub/irs-pdf/p15b.pdf>

Publication 521, Moving Expenses
<http://www.irs.gov/pub/irs-pdf/p521.pdf>

Instructions to Form W-2/W-3, Wage and Tax Statements and Transmittal of Wage and Tax Statements
<http://www.irs.gov/pub/irs-pdf/iw2w3.pdf>

Tax Topic 455, Moving Expenses
<http://www.irs.gov/taxtopics/tc455.html> **IRS**

Outsourcing Payroll Duties Can be a Sound Business Practice, but Know Your Tax Responsibilities as an Employer

Many employers outsource some of their payroll and related tax duties to third party payroll service providers. They can help assure filing deadlines and deposit requirements are met and greatly streamline business operations. Some of the services they provide are:

Administering payroll and employment taxes on behalf of the employer, where the employer provides the funds initially to the third-party—Reporting, collecting and depositing employment taxes with state and federal authorities.

Employers who outsource some or all of their payroll responsibilities should consider the following:

- The employer is ultimately responsible for the deposit and payment of federal tax liabilities. Even though the third-party is making the deposits, the employer is the responsible party. If the third-party fails to make the federal tax payments, the IRS may assess penalties and interest on the employer's account.
- The employer is liable for all taxes, penalties and interest due.
- The employer may also be held personally liable for certain unpaid federal taxes.
- If there are any issues with an account, the IRS will contact the employer.
- IRS correspondence is sent to the address of record so it is strongly suggested that the address not be changed to that of the payroll service

provider as it may significantly limit the employer's ability to be timely informed of tax matters involving their business.

■ For the employer's protection, the payroll service provider should be asked if they have a fiduciary bond in place. This could protect the employer in the event of default.

Employers should ask the service provider to enroll in and use EFTPS (Electronic Federal Tax Payment System), so the employer can confirm payments made on their behalf. EFTPS maintains a business's payment history for 16 months and can be viewed on-line after enrollment.

In addition, businesses should enroll in EFTPS to make any additional tax payments that their Third Party Provider is not making on their behalf. The IRS recommends employers verify EFTPS payments as part of their bank account reconciliation process. EFTPS is secure, accurate, easy to use and provides an immediate confirmation for each transaction.

The service is offered free of charge from the U.S. Department of the Treasury, and enables employers to make and verify federal tax payments electronically 24 hours a day, 7 days a week through the Internet, or by phone.

For more information, employers can enroll online at <http://www.eftps.gov>, or call EFTPS Customer Service at 800-555-4477 for an enrollment form.

There have been recent prosecutions of individuals and companies who have, acting under the

guise of a service provider, stolen funds intended for payment of employment taxes.

Remember, employers are ultimately responsible for the payment of income tax withheld and both the employer and employee portions of social security and Medicare taxes. **IRS**

SSA/IRS

Reporter

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John Berger, Editor

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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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You are Invited to Attend...

What: 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: May 11, 2006
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>

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. **SSA**

Payroll Best Practice: Constant Reconciliation

“I use a payroll service provider (or payroll software). Why do I need to reconcile my payroll? It’s all computerized! What could go wrong?”

As sophisticated as many of today’s payroll software programs are, whether off-the-shelf, user-modified, or furnished by a service provider, they may not be fool-proof. A type of entry or reversal never anticipated by the programmer, an adjustment that doesn’t balance gross-to-net, or a reversal that creates negative quarter-to-date or year-to-date earnings could cause your payroll to be “out of balance.”

Catching the error right after the period it happened is much easier than trying to find it at quarter-end or year-end when you notice, for example, that your totals for Forms 941 and W-2 don’t match. Early discovery of the problem also gives you the opportunity to correct it before preparing your tax forms.

One way to catch these sorts of problems is to reconcile your payroll after every processing.

Create an electronic spreadsheet with a separate column for each pay date. Create rows for:

1. Items that add to the total gross payroll (regular, sick, vacation, overtime, bonus, etc.);
2. Total gross payroll—this should be a self-calculating field, a total of the above items;

3. Pre-tax deductions (such as cafeteria plan, 401(k) plan);
4. Taxable grosses (federal, state, Medicare)—these should be self-calculating fields, the total gross less the appropriate pre-tax deductions;
5. Taxes (federal, social security, Medicare, state);
6. Post-tax deductions;
7. Net pay—this should be self-calculating, total gross less pre-tax deductions, taxes, and post-tax deductions.

Each pay period, take the figures from your payroll journal totals, and enter them into the fields for items 1, 3, 5, and 6 above. Then see if your spreadsheet calculations for items 2, 4, and 7 match the calculations on your payroll journal.

Add more columns for Quarter-to-Date (QTD) and Year-to-Date (YTD) figures.

The fields in these columns should also be self-calculating, adding the appropriate columns together. As these numbers change every time you enter the items for a new pay period into a new column, see if your spreadsheet calculations for QTD and YTD match those on the payroll journal.

There’s almost no limit to what you could add to your spreadsheet:

- Verifications that social security taxes are 6.2% of social security wages and that Medicare taxes are 1.45% of Medicare wages.

- Verification that the difference between Medicare wages and federal wages is equal to the total of qualified plan elective deferrals (401(k), 403(b), or 457 plans).

- Rows for imputed income amounts, such as taxable benefits, that add to taxable gross figures but do not add to the paycheck gross or net pay.

- Columns for each quarter’s 941, to compare with the QTD columns (remember that total social security and Medicare tax on the 941 will be twice what was deducted from employees’ pay).

- A column for the W-3 totals, including appropriate box 12 amounts, to compare with a sum of the columns for the Forms 941 and with the YTD column.

- Columns for federal and state tax deposits, to compare with the columns for the QTD, YTD, Forms 941, and W-3.

- Columns for any adjustments via Forms W-3c and 941c.

As a member of IRS advisory committees, APA provides input toward improving the nation’s wage and tax reporting process. APA’s 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. More information about the APA is available at <http://www.americanpayroll.org>. APA

International Agreement between the U.S. and Japan

Do you have U.S. employees working for U.S. companies in Japan or Japanese personnel working for Japanese companies in the United States? If so, you may be able to realize substantial tax savings under a new Social Security agreement that went into effect on October 1, 2005.

The new agreement helps reduce business costs by eliminating double taxation for Social Security and health insurance. Before the agreement, U.S. companies who employed U.S. citizens in Japan often paid Social Security taxes to both the U.S. and Japan on the same earnings, as well as contributions for both U.S. Medicare and Japanese national health insurance. Frequently, Japanese companies with Japanese personnel in the United States also paid taxes to both countries. The combined U.S. and Japanese contribution rate could exceed 37 percent of salary. Under

the agreement, these workers and their employers are covered and taxed under either U.S. Social Security and Medicare or Japanese Social Security and health insurance, but not both.

The agreement also helps fill gaps in benefit protection for people who have divided their careers between the two countries. Under the agreement, workers and their families may qualify for partial U.S. or Japanese Social Security benefits based on combined credits from both countries.

In addition to the new agreement with Japan, the U.S. has Social Security agreements with 20 other countries. If you want to know more about any of these agreements, please visit SSA’s website at <http://www.socialsecurity.gov/international>, or call Social Security’s Office of International Programs at (410) 965-4538 or (410) 965-0377. SSA

Timing is Everything

Retirement News for Employers, the IRS newsletter for employers who have—or are considering having—a retirement plan, has a new feature: “Timing is Everything”.

“Timing is Everything” is a one-page flyer designed for employers to share with their employees and provides bullet-point information about retirement. Each flyer is part of the *Retirement News for Employers* newsletter and features:

- Printer-friendly graphics—Ink supply won't be drained when printed;
- Plain-language tips—No translation needed; and
- The Retirement Plans Community web address—Readers can just point and click <http://www.irs.gov/retirement> for even more retirement tips from the IRS.

Employers may print the “Timing is Everything” flyer and include it in their employees’ pay envelopes or post it on a bulletin board—the flyer looks good whether it's printed in color or in black & white. Or, an employer can use the flyer in company emails or newsletters.

Each “Timing” flyer will have important tips for employees on retirement issues. Future flyers will have information on receiving retirement plan distributions, IRA contributions and more.

The IRS also has an online archive of “linkable” “Timing is Everything” flyers where viewers can click on linked items in each flyer and find additional information. You'll find them in both the Plan Sponsor/ Employer and Plan Participant/Employee sections of the Retirement Plans Community web page (<http://www.irs.gov/ep>). **IRS**

IRS e-file Guidance 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, tax-exempt organizations with \$100 million or more in total assets that file 250 or more returns a year, including income tax, excise tax, information and employment tax returns, will be required to electronically file Forms 990.

Notice 2005-88 establishes the bases under which tax-exempt organizations and corporations can request waivers from the electronic filing requirement:

- Where the exempt-organization cannot meet electronic filing requirements due to technology constraints; or
- Where compliance with the requirements would result in undue financial burden on the filer.

Electronic filing has been available to tax-exempt organizations since 2004. The IRS has worked closely with stakeholders representing tax-exempt organizations and software developers in developing e-file procedures. Extensive information about the e-filing requirement and procedures for requesting waivers is available on IRS.gov.

For tax years ending on or after December 31, 2006, the electronic filing requirement will be expanded to include tax year 2006 returns of tax-exempt organizations with \$10 million or more in total assets if they file 250 or more returns a year. In addition, private foundations and charitable trusts will be required to file Forms 990-PF electronically regardless of their asset size, if they file at least 250 returns.

Tax-exempt organizations that do not meet the announced parameters requiring electronic filing are encouraged to take advantage of the many benefits electronic filing offers. More information about electronic filing for tax-exempt organizations, including authorized providers, is available at <http://www.irs.gov/charities>. **IRS**

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-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.

Social Security Administration

Internal Revenue Service

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Reporter

Summer 2006

A Newsletter for Employers

IRS and SSA Announce Four Changes to Electronic Filing

1. New Batch Provider Software for Tax Professionals Available from EFTPS

Tax professionals that prepare and pay federal taxes for clients or multiple Taxpayer Identification Numbers (TIN), have a secure, easy and convenient way to make up to 1,000 payments in one transmission using the newly updated Batch Provider Software from the Electronic Federal Tax Payment System (EFTPS).

The latest version of the popular free software contains many enhancements designed to make paying easier:

- Send up to 1,000 enrollments and 5,000 payments in one transmission;
- Use memorized transaction capability where the last transaction is automatically displayed for each EIN/SSN;
- Make individual debits to a Master Account or clients' account (or use both);

continued on page 2

2. Social Security Requires Electronic Filing Beginning with Tax Year 2006 W-2s

If your company now files W-2s with Social Security on *diskette*, you will be required to file electronically starting in tax year 2006 (W-2s due in calendar year 2007), as Social Security will no longer accept diskettes. Similarly, as of tax year 2005, Social Security no longer accepts W-2s filed on magnetic tape and cartridge.

Companies that 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. All you need to do is follow your same year-end process, up to the point where you would copy the W-2 report onto a tape, cartridge or diskette and mail it to Social Security.

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3. Electronic Data Exchange (EDI) and Proprietary Formats for Electronically Filed Forms 940 and 941 to be Discontinued

The Internal Revenue Service (IRS) recently announced plans to discontinue the acceptance of electronically Filed Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, and Form 941, *Employer's Quarterly Federal Tax Return*, that are transmitted in the EDI and Proprietary formats. Participants currently using the EDI and Proprietary formats can transmit Form 941 for the 3rd Quarter until November 13, 2006. After that time, the IRS will no longer accept e-file transmissions in these formats.

Decline in use of these formats, combined with increasing costs to maintain these formats, prompted this decision. This decision is also

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Department of the Treasury
Internal Revenue Service

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4. IRS to Eliminate 3 1/2-inch Diskettes

Effective January 1, 2007, the Internal Revenue Service (IRS) Enterprise Computing Center in Martinsburg, WVA (IRS/ECC-MTB) will no longer accept information returns filed on 3 1/2-inch diskettes.

IRS/ECC-MTB encourages filers to file electronically on the Internet using the FIRE (Filing Information Returns Electronically) system at <http://fire.irs.gov> (if the link does not work, you may need to copy and paste it into your browser window). *Note:* If you already have a Transmitter Control Code (TCC) for diskette filing, you do not need to reapply.

Some advantages of filing electronically are:

- Paperless Form 4804 not required;
- Secure Socket Layer (SSL) 128-bit encryption;
- More attempts than magnetic media filing to replace bad files within a specific time frame before imposing penalties;
- Better customer service due to online availability of transmitter's files for research purposes;
- Extendable due dates for electronically filed Forms 1098, 1099 and W-2G;
- Longer period to test electronic files: November 1st through February 15th; and
- Available results available within 1-2 workdays regarding the acceptability of the data transmitted.

Additional information on the electronic filing of information returns can be found in Publication 1220, *Specifications for Filing Forms 1098, 1099, 5498 and W-2G Electronically or Magnetically* [Rev. Proc. 2005-49 (<http://www.irs.gov/app/scripts/retriever.jsp>)], reprinted from IR Bulletin - dated August 1, 2005, or Publication 3609, *Filing Information Returns Electronically* (<http://www.irs.gov/app/scripts/retriever.jsp>).

Please call toll free at 866-455-7438 between 8:30 a.m. - 4:30 p.m. EST if you have any questions. **IRS**

New Batch Provider Software continued from page 1

- Send clients a Taxpayer Inquiry PIN so they can look at their accounts online;
- Synchronize enrollments and payment history between the software and the EFTPS database in real-time;
- Import/export enrollments and payments; and
- Create customized reports.

The EFTPS Batch Provider Software allows tax professionals to set roles and responsibilities for multiple users of the software. If the EFTPS Batch Provider Software will be used by more than one person, levels of access for each of the users can be set ... allowing central control of who can view, update, add or remove payments from the database. There is also a Calendar to help keep track of payment due dates, holidays and communications with other users of the software.

As part of the software upgrade, EFTPS will send e-mail notifications regarding enrollments, payments and upgrades. In addition, a dedicated Tax Professional Customer Service Help Line (800-945-0966) is available for any problems users might have. The User's Manual and Quick Start Guide (go to <http://www.eftps.gov>) will help tax professionals get started with a step-by-step process.

If you are a tax professional, visit <http://www.eftps.gov> to download the new software, or call EFTPS Batch Provider Customer Service at 800-945-0966 to request the software on a CD.

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 is available. **IRS**

SSA Requires Electronic Filing continued from page 1

Instead, you will log onto our 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.

Each year Social Security receives more than 235 million W-2s. Sixty-seven percent of them are now transmitted electronically. Find out why so many businesses choose e-filing. Visit <http://www.socialsecurity.gov/bsowelcome.htm> and register today. **SSA**

IRS to Discontinue EDI continued from page 1

necessary as part of the IRS' efforts to provide a more modernized and efficient method of receiving Form 940/941 returns.

The IRS will continue to support the Employment Tax e-file System which utilizes the Extensible Markup Language (XML) standard for the transmission of Forms 940/941. The Employment Tax e-file System provides greater flexibility for filing Forms 940/941 electronically. See <http://www.irs.gov/efile/article/0,,id=118519,00.html> for more information on the Employment Tax e-file System (XML) and how it can improve your filing process. **IRS**

Tips on Federal Tax Deposit Coupons

The Internal Revenue Service would like to share a few important tips for employers who are still making federal payroll deposits with paper tax deposit coupons:

- Employers who applied for and received an EIN after January 2004 are most likely already enrolled in EFTPS as part of the express enrollment (<http://www.irs.gov/pub/irs-pdf/p4275.pdf>) initiative for new businesses. Employers should have received a confirmation package and an EFTPS PIN. More information can be found in Publication 4275, *Express Enrollment for New Businesses – IRS Customer Service Scripts* (<http://www.irs.gov/pub/irs-pdf/p4275.pdf>), on <http://www.irs.gov>.
- Employers who have been utilizing paper tax deposit coupons generally receive new

tax deposit coupon booklets automatically. If they do not receive a new booklet, they should call 800-829-4933 to reorder.

- If employers' mailing address changes, they need to complete and file both Form 8109-C, *FTD Address Change*, and Form 8822, *Change of Address Form*. Filing Form 8109-C updates the mailing address only for the purpose of delivery of tax deposit coupons. The Form 8109-C is located in the coupon booklet. Form 8822 updates the mailing address on IRS records for all other tax purposes.
- Employers who want new coupon booklets sent directly to their payroll provider or tax practitioner should complete and file Form 8109-C to show the payroll provider or practitioner's mailing address. Filing Form

8109-C will not change the address of record with IRS.

- Employers who need to obtain a FTD coupon can visit their local Taxpayer Assistance Center (TAC). Locations are listed in the local phone directory and also at <http://www.irs.gov/localcontacts/index.html>. Depending on an employer's deposit requirements, they will receive two to four forms, with the Employer Identification Number and business name already entered. The person requesting the coupons must be a responsible official of the business or have a signed Power-of-Attorney or Tax Information Authorization to receive the completed Form 8109-B. A new tax deposit coupon booklet will also be ordered for the employer at that time. If there is not a local TAC in the area, employers can call 800-829-4933 to request several Forms 8109-B be mailed to them.

How to Use Valuable Online Services for the Post-Filing Season

Even though the filing season is over, you can still get valuable help from Social Security's *Business Services Online*. For instance, you can:

- Check the status of your submission(s);
- View and acknowledge a notice asking you to resubmit your data; and
- Browse information about errors found in your submission.

Who Can Use the Service

The service is available to all submitters whose W-2 Report is formatted according to Social Security's Magnetic Media and Electronic Filing (MMREF) specifications, or people who filed using W-2 Online. If you filed using magnetic media or electronic data transmission, please allow 2-3 weeks for your submission information to be available. Submission information is not available for paper submissions.

What You Need

All you need is a PIN and password. If you don't have a PIN and password, you can register for one at <http://www.socialsecurity.gov/bsowel/bsowelcome.htm>.

Business Services Online will assign a PIN to you, and allow you to choose a password.

Once you have your PIN and password, just take the following steps.

1. Log in to Business Services Online.
2. Select the "Request Access to BSO Services

Link", and select "View File, Wage Report Status, Errors, and Error Notices."

3. In about two weeks, you will get an activation code.
4. Once you have your activation code, log back in to Business Services Online.
5. Select "Activate Access to BSO Services."
6. Enter your activation code.
7. Return to the Business Services Online Home page.

More than one person in a company can have a PIN and password. If you use a third-party preparer, you can still access the services above by using your PIN, password, and the EIN entered in the RE, Employer Record.

How

Once you log into Business Services Online, you can:

- View Submission Status Information or View Employer Report;
- Acknowledge Resubmission Notice; and
- Request Resubmission Extension (Note: You may NOT request an extension if you have previously resubmitted data for this wage file identifier or more than 45 days have passed since the date on the resubmission notice.)

For more information about online services, download a copy of the BSO Handbook available at <http://www.socialsecurity.gov/employer/bsohbnew.htm> or call 800-772-6270. 

- If an employer is unable to obtain a paper coupon in time to make a required deposit, a same-day wire transfer may be an option. Employers should check with their financial institution to find out if this service is offered and if there are any applicable fees associated with using this method to make a payroll deposit.

- Employers should be sure to keep track of their FTD coupon booklet. Issuing duplicate books is costly to the government and time consuming for employers.

Better yet, employers can join the millions who are making their federal tax deposits electronically or by phone. The Electronic Federal Tax Payment System (EFTPS) is the preferred method of making payroll deposits and business tax payments. EFTPS is fast, secure and available 24 hours a day, 7 days a week. Payments may be made online or via the phone and can be scheduled up to 120 days in advance.

Enrolling in EFTPS is simple and can be done by completing an application online at <http://www.eftps.gov> (See related article on page 6, "Sign up for *Simplify* e-Newsletter.") Employers can also call 800-555-4477 to request a paper application. They will receive a confirmation letter and PIN within 15 business days of completion of the application and can then start making deposits. More information is available at <http://www.irs.gov>; click on the EFTPS logo. 

Tips on Dealing with an IRS Audit

The Internal Revenue Service enforces federal tax laws through the audit process. Resolution of minor issues such as a mathematical error can usually be accomplished by correspondence between the IRS and the taxpayer. Some restricted-scope audits can be handled by a representative of your organization meeting with the IRS in their offices.

An IRS on-site examination, commonly referred to as a field audit, may be a limited one such as an employment tax examination. Or it may be part of a comprehensive audit conducted under the IRS—Industry Case Program commonly known as an IC audit.

Your organization usually will be informed by letter or by phone that it has been selected for a field audit. The letter, often referred to as the “confirmation letter”, may contain a request for the information the agent wants to peruse, or this request may come at a later date. In either case, the next step for the IRS is to have the agents who will be conducting the fieldwork meet with your organization.

Before this meeting takes place, you should establish an internal team that will coordinate your organization’s participation during the examination. This may include representation from payroll, accounts payable, accounting, human resources, internal auditing, general counsel, and outside tax professionals.

A properly functioning internal team should appoint an *audit controller* to manage the examination and supervise the input from any of your employees. This individual should assemble and regulate the flow of information between the IRS and your organization. The audit controller should review all information before it is turned over to the IRS and be present during tours and interviews of your employees.

The objective is not to restrict or hide information. Rather, the objective is to make sure the information released to the IRS is organized, complete, and focused.

Requests for information by field agents should be made through your audit controller in writing by use of Form 4564, the *Information Document Request* (IDR). You are required to provide the IRS with all legally allowed information that is requested. However, you should also note that your organization needs to provide only the information specifically requested by the IRS.

It is perfectly acceptable to have unresolved audit issues with the field auditors. If at any time your organization does not feel a field agent is conducting himself/herself professionally, the audit should be stopped and you should ask to discuss the matter with the field auditor’s supervisor to resolve differences.

Audit issues that cannot be resolved during the examination and which are not part of a closing agreement may be appealed to an IRS Appeals Office. Failure to resolve open audit issues with this Office may be litigated through a formal trial. Because of the time and expense involved with litigation of unreconciled tax disputes this option should be chosen only as a last resort. ^{APA}

Editor’s note: APA’s partnership with the IRS and SSA allows it to prepare its publications and classes, such as *Preparing for Year-End and 2007*, with the most accurate and up-to-date information to educate employers. More information about the APA is available at <http://www.americanpayroll.org>.

SSA/IRS

Reporter

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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

About Reprinting Articles

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IRS and SSA “Help” Telephone Numbers and Web Addresses Now on IRS.gov

IRS and SSA “Help” telephone numbers and Web addresses are now posted on IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=109886,00.html>.

States Now Requiring Electronic Child Support Payments

Illinois, Indiana, and Massachusetts have passed legislation now in effect, requiring employers to remit their child support payments electronically. California and Florida passed similar legislation, to take effect later in 2006. The criteria for determining if your company must submit electronic payments vary by state and are listed below.

Illinois: Employers with 250 or more employees or fewer than 250 employees and paying on 10 or more orders are required to remit their child support payments electronically.

Indiana: Employers with 50 or more employees and having at least one employee with an income-withholding order are required to remit their child support payments electronically. Indiana also has a non-compliance fine of \$25 per employee, per pay period.

Massachusetts: Employers with five or more employees are required to remit their child support payments electronically. Also, employers with a history of irregular or untimely payments or other instances of failure to remit child support payments may be required to remit electronically.

California: Employers who file their taxes electronically are required to remit their child support payments electronically. The law took effect 1/1/05, but no date for enforcement has been announced because the CA State Disbursement Unit is still being implemented. It will probably be at least late spring or summer before the law takes effect.

Florida: Employers with 10 or more employees or who pay \$30,000 or more in state taxes annually are required to remit their child support payments electronically, effective 10/1/2006.

For more information, go to the HHS Web site at <http://www.acf.hhs.gov/programs/cse/newhire/employer/home.htm>. Contact your state child support enforcement office or Nancy Benner at nbenner@acf.hhs.gov or call 202-401-5528. 

IRS Taxpayer Advocate Service Protects Taxpayer Rights

If you or your business have ever encountered a difficult or complicated tax problem, or if your employees have unresolved tax issues or are facing hardships related to or made worse by such problems, contact the Taxpayer Advocate Service of the IRS. It is a free service.

The Taxpayer Advocate Service provides an independent system to ensure that tax problems not resolved through normal channels are handled promptly and fairly. The Office of the Taxpayer Advocate operates independently of any other IRS office and reports directly to Congress through the National Taxpayer Advocate. Each state (and IRS campus) has at least one Local Taxpayer Advocate.

You qualify if you've attempted other channels and you face economic harm or significant cost, a 30-day delay to resolve the issue, or a response or resolution deadline that the IRS has promised but has not met. Payroll tax issues, which are among the most common tax problems for many businesses, are particularly challenging because they carry the potential for stiff penalties.

Besides handling individual and business problem cases, TAS attempts to remedy broad, systemic issues that can frustrate many taxpayers (and IRS employees). If you know of such a problem – one that affects an entire group or segment of taxpayers – you can report it to TAS via the Systemic Advocacy Management System on the TAS public Web site (<http://www.irs.gov/advocate>). We resolve some of these issues by working cooperatively with other IRS functions. Others require changes to the law or the tax code, which the National Taxpayer Advocate may propose in the Annual Report to Congress.

Here's how to contact us:

- Call the Taxpayer Advocate Service toll-free telephone number: 877-777-4778 (or TTY/TTD: 800-829-4059);
- Call, write, or visit the Local Taxpayer Advocate office for your state. You can find a list of TAS offices in Publication 1546 (<http://www.irs.gov/pub/irs-pdf/p1546.pdf>), *Troublesome Tax Issues*, which is available on the IRS Web site; or
- Visit the Taxpayer Advocate Web site at <http://www.irs.gov/advocate/index.html>. 

Electronic Filing (e-file) is Required for Some Large Tax-Exempt Organizations

The e-file requirement, imposed on some large tax-exempt organizations requiring e-filing of Forms 990 in 2006, will expand to include more organizations in 2007. On January 12, 2005, the IRS released temporary regulations that require (<http://www.irs.gov/charities/article/0,,id=133968,00.html>) certain tax-exempt organizations to file annual exempt organization returns electronically.

For tax years ending on or after December 31, 2005, tax-exempt organizations are required to e-file Forms 990 if the organization has \$100 million or more in total assets and files 250 or more returns a year, including income tax, excise tax, information and employment tax returns. This e-filing requirement will be expanded in 2007 to include tax-exempt organizations with total assets of \$10 million or more, who file 250 or more returns a year.

Private Foundations and charitable trusts, regardless of their asset size, will also be required to e-file Forms 990-PF beginning in 2007, if they file at least 250 returns a year.

There are limited circumstances where a tax-exempt organization can request a waiver from the e-filing requirement. Notice 2005-88 sets out the criteria and the procedures for requesting a waiver of the electronic filing requirement. The Service will generally grant a waiver where the taxpayer can demonstrate undue hardship, including the incremental costs to file electronically as well as technical issues that prevent electronic filing.

All tax-exempt organizations are encouraged to e-file and take advantage of the many benefits e-filing offers. E-filing is quick, accurate, and provides a quick acknowledgment that the IRS has received your return. More information about e-filing for tax-exempt organizations, including authorized providers, is available at www.irs.gov/charities (<http://www.irs.gov/charities/>). 

Product and Service Announcements from IRS and SSA

Hurricane Katrina Housing Credit Available

An employer who conducted an active trade or business in the Gulf Opportunity (GO) Zone can claim the Hurricane Katrina housing credit. The credit is equal to 30% of the value (up to \$600 per month per employee) of in-kind lodging furnished to a qualified employee (and the employee's spouse and dependents) from January 1, 2006 through July 1, 2006.

The value of the lodging is excluded from the income of the qualified employee, but is treated as wages for purposes of taxes imposed under the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA). Generally, the deduction for salaries and wages must be reduced by the amount of the credit (before the tax liability limit).

The employer must use Form 5884-A (<http://www.irs.gov/pub/irs-pdf/f5884a.pdf>) to claim the credit, which is a credit against income tax. Refer to Publication 4492 (<http://www.irs.gov/pub/irs-pdf/p4492.pdf>). For complete information on IRS relief and assistance to recent hurricane victims, please go to the IRS Web site at <http://www.irs.gov/newsroom/article/0,,id=147085,00.html>. **IRS**

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.

In 2007, Social Security will no longer print and mail paper copies of the MMREF to employers. Registering for *W-2 News* will alert you as to when the publication is available online.

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. **SSA**

Learn about the ADA

Reaching Out to Customers with Disabilities is an easy way for businesses to learn about the Americans with Disabilities Act (ADA) and the tax incentives that can help offset the costs of complying with the ADA.

This web-based, interactive online course condenses ADA regulations, technical guidance and Justice Department policy in ten simple, understandable lessons. With straightforward language, numerous examples, easy navigation and links to supplemental information, this course is designed for owners, managers, and employees of all types of businesses.

The course, part of the Department's ADA Business Connection initiative, is located on the ADA Web site: <http://www.ada.gov/reachingout/intro1.htm>

Or contact the ADA Information Line at: 800-514-0301 (voice) 800-514-0383 (TTY) **DOJ**

Sign Up for the Simplify e-Newsletter

The U.S. Treasury launched a *Simplify* campaign in November 2005 to communicate to businesses the benefits of paying taxes electronically. The *Simplify* campaign supports the Treasury's goal to shift away from federal tax deposit (FTD) coupons to electronic payment through EFTPS.

To subscribe to the *Simplify* e-newsletter, please go to the sign up page (<http://www.simplifyeftps.org/eNewsletter/Sign-Up-for-e-newsletter.html>) on the Simplify Web site. **IRS**

Three Popular Resources for Small Businesses Now Available

The 2006 Small Business Resource Guide (SBRG) CD-ROM is a handy, interactive CD designed to equip business owners with skills and knowledge needed to successfully manage a business. This CD covers a wide range of topics from starting a business to retirement plan options.

New Publication 1066C, *A Virtual Small Business Tax Workshop DVD* (with English, Spanish and Mandarin Chinese subtitles) is an innovative educational product designed to help small business owners and the self-employed understand and meet their federal tax obligations. The 10 lesson workshop consists of interactive video presentations of tax subjects and a text-only Help lesson with links to the latest information on IRS.gov.

Publication 1518, *The Tax Calendar for Small Businesses and Self-Employed*, features information on general business taxes, IRS and SSA customer assistance, electronic filing and paying options, retirement plans, business publications and forms, common tax filing dates, and Federal legal holidays.

Order copies of these popular small business products and others online <http://www.irs.gov/businesses/small/article/0,,id=101169,00.html> or through the IRS distribution center by calling 800-829-3676. **IRS**

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Department of the Treasury
Internal Revenue Service

www.irs.gov

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Reporter

Fall 2006

A Newsletter
for Employers

Editor's note: No one wants a disaster to happen, but almost as bad as a disaster is not being prepared for one. The events of 9/11 and the rash of hurricanes and other natural disasters over the last several years make disaster preparation and planning imperative.

Disaster in the Workplace: Proactive Steps for the Payroll Department

With the news in recent years of fires, floods, hurricanes, earthquakes, and terrorism, businesses must be prepared with ways to continue to serve their customers, pay employees, and withhold and deposit taxes. The following tips from the American Payroll Association may prove invaluable to you.

Every company should develop a Business Continuity Plan that includes:

1. Interim office space: A search should be conducted to locate interim office space (e.g., hotel meeting rooms, company warehouses) in case your facility is rendered uninhabitable. Agreements for more than one suitable space may be desirable for even greater protection. Some organizations have developed their own office space for such emergencies.

2. Office equipment rental: If your offices are damaged, or if you can continue in your location but your payroll

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IRS Offers Tips on How to Correct Reporting of Misclassified Employees

The number of natural disasters that have hit the United States in the last several years has caused many businesses to hire additional workers to help them meet increased demand for their goods or services. These businesses must classify their workers properly to make sure everyone can meet their tax obligations.

Most employers make every effort to meet their employment tax obligations. They take the care to review all factors affecting their relationship with their workers and classify their workers as employees or independent contractors accordingly. Occasionally, an employer does make an error and classifies an employee as an independent contractor and has to correct that mistake.

When an employer does incorrectly classify an employee as an independent contractor, the employer is still responsible for paying the employee's federal

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Form 940 Will Be Much Improved for Tax Year 2006

Payroll professionals and business owners filing Form 940 *Annual Federal Unemployment (FUTA) Tax Return*, for 2006 (due by 1/31/2007) will notice a big difference in the form and instructions. The IRS has completely redesigned Form 940 to be more user-friendly, reducing the burden for more than one million filers.

Many individuals and organizations have asked the IRS to change Form 940. Taxpayers often struggle to determine which lines to complete and which to skip. In addition, they find it difficult to make computations and to fill in explanations of exempt payments.

In May 2004, a team led by the IRS Office of Taxpayer Burden Reduction (TBR) began the process of redesigning Form 940. IRS employment tax experts worked with representatives from other federal and state agencies, gathering input from internal and

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income tax withholding and the employee's share of Federal Insurance Contributions Act (FICA)/Railroad Retirement Tax Act (RRTA), even if it was not withheld from the employee's wages. The employer still must pay the employer's share of matching FICA/RRTA and Federal Unemployment Tax (FUTA). Penalties and interest may also apply.

All these payments can add up for the employer, but the good news is that the Internal Revenue Service does provide some relief for employers who have made a classification error. Internal Revenue Code Section (IRC §) 3509 provides an opportunity to correct the tax treatment of misclassified employees. IRC § 3509 provides reduced rates for the employee's share of FICA taxes and for the federal income tax that should have been withheld. Employers are still responsible for the full amount of their share of FICA taxes. IRC § 3509 does not provide a reduced FUTA rate.

If the employer does not qualify for the reduced rates under IRC § 3509, the employer may still be relieved from paying the federal income tax that should have been withheld from the employee. They need to provide evidence that the employee reported the income on their federal income tax return and paid the federal income tax due. The employer who requests this relief must have the employee sign a Form 4669 (*Employee Wage Statement*) stating that the income was reported and the taxes attributable to the income have been paid.

The employer must complete and sign Form 4670, *Request of Relief from Payment of*

Income Tax Withholding and submit this form along with any properly executed Form(s) 4669 to request for relief from payment of this tax liability. This does not relieve employers of any penalties or additions to tax for failure to withhold the tax.

However, an employer will not owe employment taxes for misclassified workers, if they meet all three requirements described in § 530 of the Revenue Act of 1978, Publication 1976, (<http://www.irs.gov/pub/irs-pub/1976.pdf>) *Independent Contractor or Employee? Section 530 Employment Tax Relief Requirements:*

1. The employer must have had a reasonable basis for not treating the workers as employees.
2. The employer (and any predecessor business) must have treated the workers and any similar workers as independent contractors for all applicable periods beginning after December 31, 1977.
3. The employer must have filed Form 1099 MISC (Miscellaneous Income), for each worker, if such form was required.

If the employer meets the Section 530 requirements, the section provides businesses with relief from federal employment tax. It terminates the business's, not the worker's, employment tax liability (attributable to such workers) under Internal Revenue Code (IRC) Subtitle C (Federal Insurance Contributions Act (FICA)/Railroad Retirement Tax Act taxes, federal income tax withholding, and Federal Unemployment Tax Act (FUTA) taxes, and any interest or penalties attributable to the

liability for employment taxes (Rev. Proc. 85-18, 1985-1 C.B. 518).

However, the Section 530 relief provision does not apply in the case of a worker who, pursuant to an arrangement between the business and a client, provides technical services for that client as an engineer, designer, drafter, computer programmer, systems analyst or other similarly skilled worker engaged in a similar line of work. (Section 1706 of the Tax Reform Act of 1986)

For additional information on the worker classification issue:

- IRS Headliner 152, (<http://www.irs.gov/businesses/small/article/0,,id=155756,00.html>), *IRS Offers Tips on How to Correct Misclassification of Employees*
- Publication 15-A, (http://www.irs.gov/pub/irs-pub/p15A_05.pdf) *Employer's Supplemental Tax Guide*
- Publication 1779, (<http://www.irs.gov/pub/irs-pub/1799.pdf>) *Independent Contractor or Employee?* brochure.

Caution: Employee misclassification can affect retirement plan coverage, vesting, and funding. Relief may also be available for retirement plans. Information about the IRS correction programs that enable sponsors of retirement plans to preserve the tax benefits of their plans is available on the Employee Plans Compliance Resolution System (EPCRS) pages of IRS.gov (<http://www.irs.gov/retirement/article/0,,id=96907,00.html>). 

IRS Web Site an Invaluable Resource When Disaster Strikes

The IRS' objective is to provide resources and assistance to members of the payroll and practitioner community, individuals and businesses who have been impacted by one of these events or who might be. The IRS Web site (<http://www.irs.gov>) provides numerous links to this information. Although there is an emphasis on recent, hurricane-related events, information on the IRS Web site is pertinent in other disaster scenarios.

■ Help for Hurricane Victims:

Information on Tax Relief, Charitable Issues

<http://www.irs.gov/newsroom/article/0,,id=147085,00.html>

■ Disaster Relief Resource Center for Tax Professionals

<http://www.irs.gov/taxpros/article/0,,id=150578,00.html>

■ Tax Relief in Disaster Situations

<http://www.irs.gov/newsroom/article/0,,id=108362,00.html>

■ Additional Guidance for Those Affected by Hurricanes

<http://www.irs.gov/businesses/small/article/0,,id=157669,00.html>

■ FAQs for Hurricane Victims

<http://www.irs.gov/businesses/small/article/0,,id=156144,00.html> 

external stakeholders to create a plain language form that is logical, easy to follow, and compatible with optical scanning.

The new Form 940 incorporates the advantages of Form 940-EZ (discontinued for tax year 2006) into a simplified form for all filers. Highlights include:

- A logical sequence from the taxpayer's point of view;
- Eight separate parts with visual cues, breaking up the task into smaller steps;
- A new Schedule A for multi-state employers or credit reduction situations;
- Check boxes instead of "A, B, C" questions; and
- No more need for hand-written explanations of exempt payments.

Advance "vision drafts" of Form 940 and Form 940 Schedule A can be viewed on the "Vision Draft Forms" page of IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=146224,00.html>. Please note that these versions are subject to further revision and should not be used for filing.

The IRS is committed to reducing unnecessary taxpayer burden and welcomes input from tax and payroll professionals, business owners and the general public on opportunities to make it easier to comply with the tax laws. More information, including a link to Form 13285A, *Reducing Tax Burden on America's Taxpayers*, can be found on the TBR page of IRS.gov, <http://www.irs.gov/businesses/small/content/0,,id=146284,00.html>. 

Disaster in the Workplace: Proactive Steps for Payroll continued from page 1

department's equipment is rendered unusable, you will need temporary office equipment (e.g., computers, fax machines, phone lines). Make advance arrangements for rental, delivery and installation in case of emergency.

3. Temporary housing for employees: Having employees who can be at an interim office while the employer is recovering from a disaster is very important, so temporary living space must be arranged for them in advance. Even if your offices are relatively unharmed, your employees' homes may be uninhabitable, and you may want to provide housing to key employees so they can continue to work for you. Alternate transportation may also be planned in advance to get employees to and from the temporary housing and interim office.

4. Off-site backup files: A new location and ready employees won't serve you well unless you have an up-to-date copy of all payroll balances and employee files and backup copies of all necessary software. Besides the possibility of a disaster, frequently backing up your data is essential preparation for any system failure.

5. Paycards: Depending on the type and severity of the disaster, you may be able to print paychecks but not be able to distribute them to employees in certain geographic areas. Or, if you can print and distribute paychecks, your employees may have nowhere to cash them. You may want to make prior arrangements with banks to pay wages via paycards and have supplies of paycards available at your outlying locations, ready to have net pay amounts associated with them.

6. Employee safety: The safety, well-being, and whereabouts of employees should be the first things determined immediately after a disaster strikes and should always be kept in mind. All managers should have a list of their employees' home and emergency-contact phone numbers, as well as general emergency numbers, available at all times.

7. Communication: Make sure the Business Continuity Plan is documented and provided to all employees so everyone is thinking along the same lines should disaster strike. Indecision can cost employees their lives and employers their business. The plan should be periodically updated and reviewed: for example, have there been changes in personnel, phone numbers, software, or equipment?

8. Information from government agencies: In times of disaster, federal and state government agencies have been very responsive and flexible with adversely affected employers. For example, IRS has often granted immediate extensions of deposit and filing due dates and has posted the details at <http://www.irs.gov>. (See related article on page 2, "IRS Web Site an Invaluable Resource When Disaster Strikes.")

*APA's partnership with the IRS and SSA allows it to prepare its publications and classes, such as *Preparing for Year-End and 2007*, with the most accurate and up-to-date information to educate employers. Further information about disaster recovery, paycards, payroll education, and much more can be found at APA's Web site, <http://www.americanpayroll.org>.* 

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SSA.IRS.REPORTER@irs.gov
Fax: 410-962-2572

CHANGE OF ADDRESS? OUT OF BUSINESS?

Notify the IRS. Submit Change of Address Form 8822 available at <http://publish.no.irs.gov/FORMS/PUBLIC/PDF/12081L05.PDF> 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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IRS and SSA "Help" Telephone Numbers and Web Addresses Now on IRS.gov

IRS and SSA "Help" telephone numbers and Web addresses are now posted on IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=109886,00.html>.

Top Reasons for Not Using FTD Coupons



1. Coupons Can Be Lost.

It happens. You receive your Federal Tax Deposit (FTD) coupon booklet and it gets misplaced just as it's time to make a payment. Suddenly you have no alternative for making a timely payment to avoid late penalties.

If you were enrolled in the Electronic Federal Tax Payment System (EFTPS), you could make your payment by phone or Internet and avoid the penalty.

2. It Takes Extra Time to Make a Payment With a Coupon.

To make a payment by FTD coupon, you have to complete the form, write a check, get it signed (if you're not the signer) and then take it to the bank. That takes a lot of time on a busy day.

If you were enrolled in EFTPS, you could make a phone call or log on to <http://www.eftps.gov> to make your payment in a matter of minutes. You could even schedule your payment in advance so it's made on the date you indicate. (Payments must be made at least one calendar day in advance of due date prior to 8:00 p.m. ET.)

3. You Don't Have a Convenient Record of All Your Payments.

When it comes time to filing your tax returns, you need to look through the check register or locate any copies you made of your coupons and checks to determine what you paid when. This can be a time consuming task.

With EFTPS, you have 16 months of your payment history immediately available to you on-line so you can easily calculate all your payments. You can even download or print out your payment history.

4. You're Never Quite Sure When Your Payment Gets to IRS.

Even though you take your payment to the bank, sometimes glitches happen and you're not quite sure when IRS received your payment and if it was on time.

EFTPS gives you an immediate confirmation that your payment was received. You get an acknowledgement number for every transaction and that number can be used in referencing payments with the IRS.

5. Paying By Coupon and Check Could Be Costly.

It takes staff time out of the office to take a payment to the bank. That costs you money. If you use a courier to deliver your payments to the bank, that costs, too. And if your payment is somehow late or lost, that can be very costly.

EFTPS is free. There are no costs from the government for using EFTPS. All you need is a phone, or a computer with a secure Internet browser.

6. You Don't Know if Your Payroll Provider Made Your Payments.

If you turn over your FTD coupon booklet to your payroll provider, you don't know exactly when those payments are being made. And if you change providers, you may not have coupons when you need them.

If you ask your payroll provider to use EFTPS for your payments, then you could enroll in EFTPS as a business and you would have complete access to your payment history online. You would be able to see when your payments are being made. Many payroll providers using EFTPS encourage their clients to do just that—so clients have peace of mind knowing their payments are being made in a timely manner. In addition, if you change providers, you can always make your own payments by phone or online until you find a new payroll company and you can pay all your other federal taxes using EFTPS.

7. Your Payroll Provider Needs to Make Your Payments But You Have the Coupon Booklet.

Many times clients forget to send the booklet to their provider or the client needs to retain it to make other form type tax payments. When it is time to make the payment, the party without the FTD Coupon Book has to call or visit IRS to get additional coupons. This adds additional time to the payment process and could cause a penalty to be incurred.

If you and your payroll company were both using EFTPS to make payments you wouldn't have to worry about who has the coupons.

There are many reasons to use EFTPS, these are just a few. Consider enrolling in EFTPS to make it easier to pay federal taxes. You can enroll online at <http://www.eftps.gov>, or call EFTPS Customer Service at 800-555-4477 for an enrollment form. 

What to Do If You Receive a National Medical Support Notice

If one of your employees has child support obligations, a state child support enforcement agency (CSEA) may send you a National Medical Support Notice (NMSN). The NMSN is a standardized form that advises you when your employee has been ordered to provide health insurance coverage for his or her child through your company's health care plan.

The NMSN is a federal form that all state child support enforcement agencies must use. Once an order to provide medical coverage has been established and health care coverage is available through the employer, the Plan Administrator must enroll the child.

Some of the form's advantages are:

1. It simplifies the work of employers and plan administrators by providing uniform documents requesting health care coverage;
2. It constitutes a Qualified Medical Child Support Order and meets the requirements of the Employee Retirement Income Security Act (ERISA) (sections 609(a)(3) and (4));
3. It satisfies state law provisions for withholding employee contributions for health care coverage, and provides the priority of withholding between child support and medical support where available funds are insufficient to cover both; and
4. The form states the duration of the obligation and the name and address of a contact at the child support enforcement agency.

The NMSN is actually four documents and instructions:

- Part A, "Notice to Withhold For Health Care Coverage"
- Employer Response
- Part B, "Medical Support Notice to Plan Administrator"
- Plan Administrator's Response

The form is divided into parts for the employer and for the plan administrator. As the employer, the first part, "Part A—Notice To Withhold For Health Care Coverage," is important as it gives you the identifying information for the case. If you provide health insurance coverage to your employees and there is no delay of coverage due to a waiting period, you do not need to complete any part of the form. Simply send "Part B—Medical Support Notice to the Plan Administrator" to your plan administrator.

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TEST YOUR KNOWLEDGE

Changes in Business Structure

Situation: Allen was the owner of a sole proprietorship doing business as Juniper Customizers ("Juniper"). Started as a one-person specialty metal fabricator, several employees had been hired to work at Juniper over recent years. With this continuing expansion, Allen had been reviewing plans to take in another owner and incorporate the business as Juniper Customizers, Inc. ("JCI").

Allen was aware that he had two related tax roles: (1) self-employed sole proprietor; and (2) employer. In his self-employed status, Allen reported the business operations on his individual tax return by attaching the applicable schedules (the self-employment tax and any resulting income tax on the business profit were remitted as quarterly estimated tax payments).

In his dual status of employer, Allen had obtained an employer identification number ("EIN") and withheld social security, Medicare, and federal income taxes from the employees' wages. Federal unemployment tax was also computed on the wage amounts and Allen (as the employer) matched the withheld social security and Medicare taxes.

Allen worked closely with a tax practitioner to stay current in the various withholding, depositing, and filing requirements for an employer and now wanted to understand the employment tax impact of forming JCI.

Question: What issues might be included in discussions with Allen's business advisor?

Answer: Changing a business structure involves the consideration of a range of factors including economic, legal, and tax. An appreciation of the employment tax aspects could help maintain compliance with filing and payment obligations.

If the business is incorporated, employees of the Juniper sole proprietorship will generally become employees of JCI. Additionally, as discussed in section one of Publication 15-A, *Employer's Supplemental Tax Guide* (<http://www.irs.gov/pub/irs-pdf/p15a.pdf>), corporate officers who work in the business (such as Allen, who plans to work as president of JCI) will generally be employees of the corporation. An officer who performs no services or only minor services, however, and neither receives nor is entitled to receive any pay, is not considered an employee.

JCI may be considered a "successor" employer since it will receive all or most of the property used in the trade or business of the "predecessor" Juniper sole proprietorship and will also be employing the same workers. Under these provisions, when JCI figures the annual wage base limit for social security, it may be able to count the wages of the "acquired" Juniper employees paid in the same calendar year before the transfer of property. Similar rules apply in computing the federal unemployment tax.

See further information on the successor employer rules in sections 9 and 14 of Publication 15, (Circular E), *Employer's Tax Guide* (<http://www.irs.gov/pub/irs-pdf/p15.pdf>). The items discussed include an additional schedule that may need to be filed with the IRS when there is an employer change and a revenue procedure applicable to several employer change situations.

Other Rules. As a new entity, JCI will generally need an EIN separate from the one used by the Juniper sole proprietorship owned and operated by the individual Allen. The chart (Do I Need an EIN?) on page 2 of Form SS-4, *Application for Employer Identification Number*, (<http://www.irs.gov/pub/irs-pdf/fss4.pdf>) provides a listing of general and special EIN situations for business structure changes and other events (such as when a new EIN would not be needed for certain entity classification changes by a limited liability company). The instructions (<http://www.irs.gov/pub/irs-pdf/iss4.pdf>) also provide a variety of ways to obtain an EIN (including applying online).

Resources for Additional Information:

Publication 542, *Corporations*
<http://www.irs.gov/pub/irs-pdf/p542.pdf>

Publication 583, *Starting a Business and Keeping Records*
<http://www.irs.gov/pub/irs-pdf/p583.pdf>

Businesses with Employees—Paying Yourself
<http://www.irs.gov/businesses/small/article/0,,id=101038,00.html> 

Medical Support Notice

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Here is a short summary of the steps that must be taken upon receipt of the NMSN. More detailed instructions are available at the Office of Child Support Enforcement Web site (http://www.acf.hhs.gov/programs/cse/newhire/employer/private/medical_support.htm)

Step 1: Determine whether any of the four categories on the Employer Response apply to you or this employee. If any apply, complete the Employer Response form and return it to the Issuing Agency within 20 business days.

Step 2: If none of the four categories on the Employer Response apply, forward Part B to your plan administrator.

Step 3: The plan administrator will notify you when enrollment has been completed. You must then notify your payroll department to make the appropriate deductions for the employee contribution required under the health plan.

Step 4: If, in fact, you determine that the amount of support, coupled with the deduction for health care premiums, exceeds the maximum deduction allowable, you must look to state law in the state where the employee is employed to determine the priority for payment. If the state priority for withholding precludes the payment of the premium, complete the Employer Response and return it to the Issuing Agency.

Step 5: If enrollment cannot be completed until after a waiting period or other contingency, you must notify the plan administrator when the employee is eligible for enrollment. You should also notify the issuing agency of the timeframe for enrollment.

The Federal Office of Child Support Enforcement greatly appreciates your role in supporting the health and well-being of America's children. 

Social Security Announcements

Verify Social Security Numbers Online

The Social Security Number Verification Service (SSNVS) allows you to match the name and Social Security number of employees you hire with Social Security's records. Go to <http://www.socialsecurity.gov/bso/bsowelcome.htm> to use SSNVS.

You have two options for using SSNVS:

1. You can directly key up to 10 names/Social Security numbers at a time onto Social Security's website with immediate results, or
2. You can upload a file with up to 250,000 Names/Social Security numbers with next business day results.

It is important to remember that SSNVS cannot be used to prescreen employees before they are hired.

For more information go to <http://www.socialsecurity.gov/employer/ssnv.htm>.

Create an SSNVS File Using Spreadsheet Software Program

You can verify up to 250,000 names/Social Security numbers using a spreadsheet software program to create an SSNVS file, as long as you put it in the correct format. Social Security will not be able to process a file that is not in the correct format.

If you are using Excel, to ensure that your electronic file submission is processed successfully, the file must not be in the ".xls format."

To create the file you will need one column that is at least 130 characters long. This column will hold all data for each record. The specifications for the record layout can be found at http://www.ssa.gov/employer/ssnvs_handbk.htm. To get to the specifications quickly, select "Submission File Format" in the right hand column.

To save an Excel file for processing:

1. Select *Save As* on the File Menu;
2. In the *Save As* dialog box, select the drop down box *Save As* type;
3. Select *Formatted Text* (space delimited) (*.prn); and
4. Type the filename and click *Save*.

Once you have saved your file, check your file against the Submission File Format to ensure the record length is 130 characters and all fields are properly placed in their respective position. The Multiple Request Indicator field in positions 128-130 must be populated with "000" and may not be left blank.

Social Security Eliminates Diskettes and Tapes for W-2 Reporting

Social Security has eliminated magnetic tapes, cartridges and diskettes as acceptable media for submitting W-2 reports to SSA. Beginning with Tax Year 2006 (W-2s due to SSA in calendar year 2007), wage reports containing 250 or more Forms W-2's 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. It is wise to get ready for the 2007 filing season. Visit <http://www.socialsecurity.gov/bso/bsowelcome.htm> today and register for a PIN and password.

Elimination of the Paper Version of the Magnetic Media Reporting and Electronic Filing (MMREF) Publication

Social Security will discontinue mailing the paper version of the Magnetic Media Reporting and Electronic Filing (MMREF) document after 2006. In July, Social Security mailed a compact disk containing the MMREF to all employers who file electronically or on magnetic media.

If employers prefer, the web version of the MMREF publication is also available. Just go to <http://www.ssa.gov/employer/pub.htm>. Software developers are encouraged to visit the Social Security website to download the newest version of the MMREF. You also can subscribe to *W-2 News*, Social Security's electronic newsletter for employers, and receive an email when the latest version of the MMREF is available on the web.

AccuWage and AccuW-2C Now Available

AccuWage and AccuW-2C software for 2006 are designed to test current and prior year wage reports prepared in the MMREF formats. The software allows you to check Forms W-2 (*Wage and Tax Statement*) and W-2c (*Wage and Tax Statement Correction*) reports for correctness before you send them to Social Security. It is also a valuable tool for software developers to use as part of their process to validate their wage reporting (W-2) software.

A free copy of AccuWage and AccuW-2C is now available and may be downloaded from <http://www.socialsecurity.gov/employer/accuwage>.