

Federal, State and Local Governments Newsletter

Volume 1

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FEDERAL



STATE



LOCAL

ONE STOP SHOPPING

OUR OPERATIONAL
STRATEGY IS
TO BUILD
RELATIONSHIPS
AND
PARTNER WITH
OUR CUSTOMERS
AND
STAKEHOLDERS
TO DELIVER
EDUCATIONAL
OUTREACH.

ONE-STOP SHOPPING FOR GOVERNMENT ENTITIES

By ALLEN JONES, FSLG DIRECTOR

Welcome to a new era of public service in the Internal Revenue Service (IRS). This is the first IRS national newsletter specifically developed with government entities in mind. As part of the modernization of the IRS, the office of Federal, State and Local Governments (FSLG) in the Tax Exempt and Government Entities (TE/GE) operating division was established to serve government entities throughout the United States.

The mission of our office is to provide you with the necessary information and assistance to understand and comply with the Federal tax laws. Our operational strategy is to build relationships and partner with our customers and stakeholders to deliver educational outreach. We also maintain our tax administration enforcement responsibilities through examination programs.

Our primary technical expertise is employment tax law and information return reporting. However, we have full responsibility for assisting you in addressing any Federal tax issue. To support the Service's customer focus emphasis, we will assist you in addressing issues (i.e., collection, excise tax, pension plans, and notices) with other divisions and functions within IRS.

Whether you are a Federal agency, state agency, local government, or quasi-governmental entity, we look forward to hearing from you so that we can make your job easier. Please call your local FSLG contact listed in this newsletter for assistance or to learn more about our office.

Federal, State and Local Governments Customer Assistance

Call toll-free for general information and account assistance:

Customer Account Services

(877) 829-5500

Access the Web site of Federal, State and Local Governments

www.irs.gov/govts

For a written response, send correspondence to:

Internal Revenue Service

Federal, State and Local Governments T:GE:FSL

Attn: Jan Schlegel, Operations Manager

1111 Constitution Avenue NW

Washington, DC 20224

MESSAGE FROM EVELYN A. PETSCHKE

COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES (TE/GE) DIVISION

I am excited to unveil the first edition of the IRS Federal, State and Local Governments Newsletter to our customers. This newsletter is one of the ways in which we will keep you informed of the latest developments in our programs.

The Federal, State, and Local Governments office was established to promote voluntary, up-front compliance by helping you better understand the complex tax laws we administer. I encourage you to provide us with your feedback as we continue to improve our programs.

I look forward to our continuing partnership.

REVISION OF PUBLICATION 963

The first revision since 1997 of Publication 963, *Federal-State Reference Guide*, was released in June of 2002. This publication is a valuable reference for all government entities on issues relating to social security coverage, employment taxes, employee/independent contractor questions, retirement systems, information reporting and other topics. It also contains contact information for the National Conference of State Social Security Administrators, and Social Security Administration. You may view and download Publication 963 at www.irs.gov/govts or call 1-800-829-3676.

www.irs.gov/govts

CALENDAR OF EVENTS

We will use this calendar to keep you informed of major regional or national events in which FSLG will be participating in the coming months. We will also list local events as space allows. For more detailed information, visit www.irs.gov/govts or contact your local FSLG Specialist.

12/2/02

Florida State Financial Officers

Association Conference

Kelso, WA

12/4/02

Washington Association of School

Business Officials

Renton, WA

12/6/02

Washington Association of School

Business Officials

Spokane, WA

12/5-6/02

National League of Cities

Salt Lake City, UT

1/27/03

West Virginia Association of Counties

Charleston, WV

2/17-19/03

North Carolina Association of School

Business Officials

Greensboro, NC

3/5-7/03

South Carolina Association of School

Business Officials

Myrtle Beach, SC

FEDERAL, STATE AND LOCAL GOVERNMENTS CONTACTS

<u>STATE</u>	<u>SPECIALIST</u>	<u>TELEPHONE NUMBER</u>	<u>EXT.</u>
Alabama	Judy Nichols John Givens	(251) 340-1781 (251) 340-1761	
Alaska	Gary Petersen	(907) 456-0317	
Arkansas	Jan Germany	(501) 324-5328	253
Arizona	Kim Savage	(928) 214-3309	5
California	Gordon Parker Phyllis Garrett Fred Darbonnier	(909) 388-8161 (213) 576-3765 (916) 974-5614	
Colorado	Karen Porsch Chuck Sandoval	(719) 579-0839 (303) 446-1156	231
Connecticut	Phyllis Burnside	(401) 525-4205	
Delaware	Kevin Mackesey	(302) 856-3332	12
Florida	Sheree Cunningham Fernando Echevarria Paulette Leavins Mae Whitlow	(727) 570-5526 (954) 423-7406 (904) 220-6764 (407) 660-5822	440 293
Georgia	Denver Gates	(404) 338-8205	
Hawaii	Sue Ann Jansen	(503) 326-5057	
Idaho	Chris Casteel	(208) 334-1050	233
Illinois	Ted Knapp Joyce Reinsma Janie Smith	(618) 244-3453 (312) 566-3879 (630) 493-5148	
Indiana	Valerie Hardeman	(317) 226-5305	
Iowa	David Prebeck	(515) 573-4120	
Kansas	Gary Decker Allison Jones	(316) 352-7475 (316) 352-7443	
Kentucky	Ray McLennan	(270) 442-2607	127
Louisiana	Gloria Brooks Robert Lettow	(225) 389-0358 (318) 869-6312	119
Maine	Bob Westhoven	(207) 784-6988	
Maryland	James A. Boyd	(410) 962-9258	
Massachusetts	Mark A. Costa	(800) 651-4524	
Michigan	Daniel Clifford Lori Hill	(313) 628-3109 (906) 228-7831	
Minnesota	Pat Wesley	(218) 720-5305	225
Mississippi	John Givens Robert Lettow	(251) 340-1761 (318) 869-6312	
Missouri	Joe Burke Sharon Boone	(636) 940-6389 (417) 841-4535	

<u>STATE</u>	<u>SPECIALIST</u>	<u>TELEPHONE NUMBER</u>	<u>EXT.</u>
Montana	Katherine Dees	(406) 761-1825	229
Nebraska	Thomas Goman	(402) 361-0202	
Nevada	Gordon Parker	(909) 388-8161	
New Hampshire	Bob Westhoven	(207) 784-6988	
New Jersey	Pat Regetz Jennifer Macht	(908) 301-2119 (732) 819-3760	322
New Mexico	Toni Romero-Ackerman	(505) 837-5541	
New York	Martin Boswell Ernest Child Henry Ng Fran Reina	(315) 448-0811 (585) 262-1902 (212) 719-6600 (315) 793-8171	110
North Carolina	Joe Fish	(336) 378-2966	
North Dakota	Al Klamann Rhonda Kingsley	(701) 227-0133 (701) 239- 5400	261
Ohio	Trudee Billo Amy Genter	(419) 522-2359 (419) 522-2259	
Oklahoma	Pat O'Neil	(405) 297-4895	
Oregon	Marilee Basaraba Sue Ann Jansen	(503) 326-5030 (503) 326-5057	
Pennsylvania	Patricia Crawley Doug Siegert Nora Bliven	(215) 861-1364 (412) 395-4871 (717) 291-1991	118
Rhode Island	Phyllis Burnside	(401) 525-4205	
South Carolina	Clifford Brown	(803) 253-3523	
South Dakota	Marlyce Luitjens	(605) 226-7216	231
Tennessee	Sharon Shelton	(615) 250-5191	
Texas	Olivero Martinez Steve O'Brien Robert Jackson Susan Serrano	(972) 308-1180 (512) 464-3120 (281) 721-7993 (512) 499-5435	
Utah	Katherine Dees	(406) 761-1825	229
Vermont	Fran Reina	(315) 793-8171	
Virginia	Eugenia Bahler Michael Durland	(703) 285-2350 (540) 887-2600	138
Washington	Clark Fletcher	(425) 821-3296	
West Virginia	Michael Durland	(540) 887-2600	
Wisconsin	Susan Borchardt Ruthann Watts	(414) 297-1672 (262) 798-8386	
Wyoming	Dwayne Jacobs	(307) 672-7425	33

COMMENTS OR SUGGESTIONS?

We welcome
your comments
and
your suggestions
for information
you would like
to see in this newsletter.

Please
contact us
through our website at
www.irs.gov/govts.

SECTION 218 AGREEMENTS AND THE STATE SOCIAL SECURITY ADMINISTRATOR

BY SSA-OPB, OFFICE OF EARNINGS AND INFORMATION EXCHANGE

Section 218 of the Social Security Act allows states to voluntarily cover services of state and local government employees for social security and Medicare. Each state has a Section 218 Agreement that it has entered into with the Social Security Administration (SSA). The terms of this legal document, however, differ from state to state and from entity to entity within a state.

The State Social Security Administrator (SSSA) helps state and local entities understand the agreement terms and helps them to comply with associated reporting and withholding responsibilities. This ensures that public employees have social security and Medicare insurance protection that the state has requested.

Each state, as well as Puerto Rico and the Virgin Islands, has its own SSSA, who is a state employee. Social Security Regulation 20 CFR 404.1204 provides the legal obligation for each state to designate such an official while state law specifies the state department or officer who will handle this function. The SSSA answers the following types of questions for state and local government employers:

- Does my entity have a Section 218 Agreement?
- Which positions are covered?
- Are they covered for full social security (retirement, survivors, disability, hospital insurance) or for Medicare-only?
- Are any positions or services excluded (i.e., part-time positions, student services)?
- How can my entity obtain Medicare coverage for employees hired before April 1, 1986 who are in a retirement system?

For additional information about Section 218 coverage in your state, contact your local State Social Security Administrator listed on the National Conference of State Social Security Administrators (NCSSSA) Web site at www.ncsssa.org. Or visit SSA's "State and Local Government Employer" Web site at www.ssa.gov/slge.

REPORTING SOCIAL SECURITY AND MEDICARE TAXES

BY SSA-OPB, OFFICE OF EARNINGS AND INFORMATION EXCHANGE

State and local government employers are generally required to withhold social security and Medicare taxes on wages paid to employees not covered by a public retirement system or under a state's Section 218 Agreement with the Social Security Administration. If the public retirement system is covered under a Section 218 Agreement, social security and/or Medicare taxes must be withheld.

State and local government employees, with certain exceptions, hired after March 31, 1986, are subject to Medicare tax withholding. If an employee was

THE TERMS
OF THE
SECTION 218
AGREEMENT
DIFFER
FROM
STATE TO STATE
AND FROM
ENTITY TO ENTITY.

hired before April 1, 1986, and has been in continuous employment with the same employer, the employee is exempt from the Medicare tax if the employee is a member of a public retirement system that is not covered for Medicare under a Section 218 Agreement.

Social security and Medicare coverage and tax withholding requirements for state and local government employees are unique. For additional information, call the Internal Revenue Service at (800) 829-3676 and ask for a free copy of Publication 963, Federal - State Reference Guide (for state and local government employers). You can also download this publication from the IRS Web site at www.irs.gov/forms_pubs/pubs.html.

If you have questions about whether your employees are covered for Social Security and Medicare under your state's Section 218 Agreement, contact the appropriate State Social Security Administrator listed on the National Conference of State Social Security Administrators (NCSSSA) Web site at www.ncsssa.org.

NATIONAL CONFERENCE OF STATE SOCIAL SECURITY ADMINISTRATORS (NCSSSA)

By TERESA COMMEAU, NEW HAMPSHIRE STATE SOCIAL SECURITY REPRESENTATIVE

The ever-changing and complex regulations for social security and employment tax require constant monitoring and interpretation. For over 50 years, the National Conference of State Social Security Administrators (NCSSSA) has provided an effective network of communication for Federal, state and local governments concerning Social Security coverage and Federal employment tax policy.

With the enactment of Section 218 to the Social Security Act of 1950, states could exercise the option to provide social security coverage for state and local employees. All states have subsequently entered into Section 218 Agreements with the Federal government. The individual department responsible for administering the social security program varies from state to state, depending on the particular state's enabling legislation.

State administrators began to operate in an area where no precedent existed. It became apparent that a forum was needed where the administrators could address many problems and questions posed by the new program. The first forum between State Social Security Administrators and Federal officials was held in January 1952, in Bloomington, Indiana. As a result, the NCSSSA was established to provide a unified state perspective at the Federal level for problem solving and to maintain an open forum for the development of new policy.

Since its formation in 1952, the NCSSSA has worked closely with SSA and IRS to address social security and Medicare coverage and employment tax issues

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raised by state and local government employers and State Social Security Administrators throughout the United States.

The NCSSSA hosts national workshops periodically and annual meetings where SSA and IRS officials address the concerns of state and local government representatives. The NCSSSA officials also represent public sector employers on various SSA and IRS committees and work groups.

For additional information about NCSSSA, please visit its Web site at www.ncsssa.org.

FILING FORMS W-2 ON-LINE

BY KEN ANDERSON, SSA-OPB, OFFICE OF EARNINGS AND INFORMATION EXCHANGE

The Social Security Administration knows that reporting your employees' wages quickly and accurately is important to you.

Submitters can now file wage reports over the Internet using SSA's Business Services Online (BSO). During tax year 2001, over 20,000 submitters chose SSA's online filing services and filed more than 15 million Forms W-2, Wage and Earning Statement(s). The following are some of the advantages when you use BSO to file your reports. You get:

- An additional month to submit wage reports
- More time to spot errors before submission
- The opportunity to test wage report accuracy before submission
- Wage report tracking opportunity after submission
- A faster, more accurate and less expensive filing method
- A confirmation of processed totals (Form W-3, (title), data)
- A paperless way to file

To use BSO, your wage reports must follow the new Magnetic Media Reporting and Electronic Filing (MMREF) requirements. Access the SSA Web site at www.ssa.gov/employer to learn more about the MMREF requirements or to register to file your tax year 2003 W-2s using BSO. You may also call the SSA Employer Reporting Services Center toll-free at (800) 772-6270.

SSA is excited to bring Social Security reporting to you through the Internet, and invite you to share in the enthusiasm for electronic filing. Using BSO is no longer the way of the future; it is a choice for today.

FILING
FORMS W-2
ON-LINE
PROVIDES A FASTER
MORE ACCURATE
AND LESS
EXPENSIVE
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SSA STATE AND LOCAL GOVERNMENT WEB SITE

The 87,000 public employers in the 50 United States, Puerto Rico, and the Virgin Islands now have a place to call home on the SSA Internet site. If you have questions about the unique social security and Medicare coverage provisions for public employees in your domain, you will want to bookmark this address for easy access regularly: www.ssa.gov/slge

FRINGE BENEFITS Q & A – TREATMENT OF EMPLOYER-PROVIDED VEHICLES

BY STEWART ROULEAU, FSLG PROGRAM MANAGER

Generally, fringe benefits must be included in an employee's gross income and are subject to income, social security and Medicare taxes. Examples of fringe benefits include cars for personal use, meals, and tickets to entertainment or sporting events. Some fringe benefits are specifically excluded from income by law. We will use this newsletter to address various fringe benefit topics. In this issue, we address employee use of an employer-provided vehicle.

Is the personal use of an employer-provided vehicle taxable? In general, the fair market value of the use of an employer-provided vehicle is taxable to the employee, and subject to withholding for income, social security, and Medicare taxes. An exception is provided for a qualified non-personal use vehicle.

What is a qualified nonpersonal-use vehicle? A qualified nonpersonal-use vehicle is any vehicle an employee is not likely to use more than minimally for personal purposes because of its design. Qualified nonpersonal-use vehicles include:

- 1) Clearly marked police and fire vehicles
- 2) Unmarked vehicles used by law enforcement officers. The officer must be authorized to carry a firearm, execute search warrants and make arrests
- 3) An ambulance or hearse used for its specific purpose
- 4) any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds
- 5) Delivery trucks with seating for the driver only or driver plus a folding jump seat
- 6) A passenger bus with a capacity of at least 20 passengers used for its specific purpose
- 7) School buses
- 8) Tractors and other special purpose farm vehicles

All of your employee's use of a qualified nonpersonal-use vehicle is a working condition fringe benefit. You can exclude the value of that use from your employee's income.

TO BE
EXCLUDABLE
FROM THE
EMPLOYEE'S
INCOME,
REIMBURSEMENT
FOR EXPENSES
MUST BE MADE
UNDER AN
ACCOUNTABLE
PLAN.

IT IS THE
EMPLOYER'S
RESPONSIBILITY TO
DETERMINE THE
VALUE OF THE
PERSONAL USE OF A
VEHICLE.

FOR 2003,
THE
STANDARD
MILEAGE RATE IS
36 CENTS PER MILE.

How is the personal use of other employer-provided vehicles valued? If you have an employer-provided vehicle that is not a qualified nonpersonal use vehicle, and the employee uses the vehicle for personal use, including commuting, the fair market value of the personal use of the vehicle is usually a noncash taxable fringe benefit.

It is the employer's responsibility to determine the actual value of this fringe benefit and to include the taxable portion in the employee's income.

There are three special valuation rules to determine the value of the personal use of a vehicle:

Automobile Lease Value Rule – Under this rule, you determine the value of the vehicle by using its annual lease value. In general, you must begin using this rule on the first day you make the automobile available for any employee for personal use (see Publication 15-B for exceptions). The vehicle must be manufactured primarily for use on public streets, roads, and highways.

IRS Publication 15-B, Employer's Guide to Fringe Benefits, contains tables that indicate the annual lease value, based on the fair market value of the vehicle. These values are based on a four-year lease term. After four years, the vehicle must be revalued and the lease value recomputed.

If you also provide fuel, you must add to the lease valuation amount the fair market value of the fuel or use a rate of 5.5 cents per mile. If you provide any additional services for the vehicle, other than maintenance or insurance, you must add the fair market value of that service to the annual lease value of the automobile to figure the value of the benefit.

All elected officials must use this rule for the use of a provided vehicle.

For complete information on the rules for the lease valuation rule, including providing a vehicle for a period of less than one year, see Publication 15-B.

Vehicle Cents-Per-Mile Rule – Under this rule, you determine the value of the business use by multiplying a rate by the actual miles driven for personal use. For 2002, the rate is 36.5 cents per mile; for 2003, the rate is 36 cents per mile. You may use this method if you meet all the following requirements:

- (1) You reasonably expect the vehicle to be regularly used in your trade or business throughout the year.
- (2) The vehicle is driven, primarily by your employees, at least 10,000 miles during the year, and
- (3) The fair market value is less than an amount designated by IRS (\$15,300 in 2002).

"Regular use" generally means at least 50% of the use is for business. For more information, see Publication 15-B.

Commuting Rule – Under this rule, you determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute by \$1.50. If more than one employee commutes in the vehicle, this value applies to each employee. This amount must be included in the employee's wages or reimbursed by the employer. This rule can be used only if you meet all the following requirements:

- (1) You own or lease the vehicle and provide it to an employee to use in your business, and for bona fide noncompensatory business reasons, you require the employee to commute in the vehicle.
- (2) You establish a written policy prohibiting personal use except for commuting and de minimis personal use.
- (3) The employee does not use the vehicle for personal purposes, other than commuting and de minimis personal use.
- (4) The employee is not a control employee. A control employee includes a government employee whose compensation is equal to or greater than Federal Government Executive Level V (\$121,600 for 2002) or an elected official.

See Publication 15-B for more detailed information.

Employees must keep track of business miles by keeping a log containing date, mileage (beginning and ending), destination, business purpose, personal use miles, and commuting. This information should be kept on a daily basis.

An employee takes a city vehicle home to prevent harm to it. The vehicle has a city seal on the door and is not to be used for personal use. Is there a tax consequence in this situation? If the vehicle is not a qualified nonpersonal-use vehicle as discussed earlier, then the employee has a commuting benefit when taking the city vehicle home. The value of that benefit is subject to employment taxes.

Get IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, for more information on fringe benefits. Call the IRS at (800) 829-3676 to order your free copy, or download it from www.irs.gov.

EMPLOYEES
MUST KEEP
TRACK OF
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MILES
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THE ROLE OF GOVERNMENTAL LIAISONS

BY GENE MILLER, NATIONAL HEADQUARTERS GOVERNMENTAL LIAISON TO TE/GE

The Governmental Liaisons (GLs) in the IRS Office of Governmental Liaison and Disclosure, under the new Communications and Liaison (C&L) Division, serve as the primary liaison with State Tax Administrators concerning the Governmental Liaison Programs and activities. GLs are responsible for developing and implementing cooperative tax administration activities between IRS and state and local government and Federal agencies. GLs also have responsibility for the Congressional Affairs Program and are the IRS' primary points-of-contact for U.S. Congressional offices regarding general tax administration matters. GLs provide assistance to the Operating Divisions (ODs) and Functional Divisions (FDs) to achieve their strategic program objectives. They also serve as communication channels for IRS partnerships with governmental stakeholders facilitating cooperation in tax administration.

The GL role is distinctly different from the role performed by the Office of FSLG in the TE/GE Division. FSLG serves as IRS' communications channel for compliance and outreach activities for Federal, state and local governments as **taxpaying entities**. In their daily activities, GLs notify the FSLG contacts whenever compliance issues arise. And conversely, the FSLG analysts contact GLs on inquiries concerning partnerships and joint projects with IRS in the tax administration arena.

At National Headquarters, the office of Governmental Liaison and Disclosure provides national oversight and guidance for the GL programs. This office also acts as an advocate for the states with ODs and FDs, while providing internal and external communications on GL activities and issues. In addition, this office identifies and resolves policy, legal and disclosure issues for GL activities, and secures decisions on a wide range of issues affecting IRS relationships with governmental stakeholders.

Gene Miller serves as the National Headquarters governmental liaison to TE/GE. Gene can be reached at (202) 622-9331.

GLS ARE RESPONSIBLE FOR DEVELOPING AND IMPLEMENTING COOPERATIVE TAX ADMINISTRATION ACTIVITIES BETWEEN IRS AND STATE AND LOCAL GOVERNMENTS AND FEDERAL AGENCIES.