



Social Security Coverage and Reporting

Spring 2012 Edition

...leading the way

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State and Local Outreach and Assistance

The Division of Local Government Services (DLGS), through the Social Security Coverage and Reporting Branch (SSCRB), continues to provide Social Security (FICA/Medicare) outreach and assistance to all public entities throughout the Commonwealth of Kentucky.

The Division/Branch will also direct individual Social Security Benefit inquiries to the appropriate Federal Social Security District Office for assistance in the geographical area. State and Local governmental entities are encouraged to utilize all website functions at <http://finance.ky.gov/ourcabinet/caboff/OOC/dlgs/sssas.htm> and/or contact the Division/Branch for guidance and assistance concerning federal Social Security Administration (<http://www.ssa.gov>), Internal Revenue Service (<http://www.irs.gov>), as well as State Social Security Administrator Coverage requirements and responsibilities.

The [State Social Security Coverage and Reporting - Newsletter](#) provides a summary outline with relevant website links for research, discussion, and contact use by individuals and governmental agencies. All Newsletter information should be thoroughly researched and discussed with the SSCR Branch contact staff to ensure proper interpretation and application of State Social Security requirements.

Social Security - 2012 FICA Tax Rates

FICA Rates

- Employee – FICA Rate Reduction to 4.2%
- Employer – FICA Rate Continuation at 6.2%

Medicare Rates

- Employee – MED Rate Continuation at 1.45%
- Employer – MED Continuation at 1.45%

Social Security (FICA/MED) Combined Rates

- SS Combined FICA Rate – 10.4%
- SS Combined MEDICARE Rate – 2.9%

Social Security (FICA+MED) Overall Combined Rates

- SS Employee Combined Rate – 5.65%
- SS Employer Combined Rate – 7.65%
- SS Overall Combined Rate – 13.3%

IRS/SSA Federal Filing Requirements

(Please review/confirm all Social Security examples with IRS/SSA Requirements)

Internal Revenue Service (IRS)

- Form 941/Schedule B Reporting
<http://www.irs.gov/pub/irs-pdf/f941.pdf>
<http://www.irs.gov/pub/irs-pdf/f941sb.pdf>
 - Report Monthly/Quarterly Tax Deposit Amounts
 - Balance Daily Deposits to Schedule B Report
 - Balance Annual Agency Tax Deposits to Total W-2/W-3 Wages/Taxes Withheld
- Form 941x Reporting
<http://www.irs.gov/pub/irs-pdf/f941x.pdf>
 - Report Based Upon Discovery Date Determination within Reporting Quarter
 - Establish Deposit Dates of W-2c (One or More)/W-3c(One)
 - Balance Each Tax Deposit to W-2c/W-3c Wages/Taxes Withheld

Social Security Administration (SSA)

- Form W-2 – Employee Wage and Tax Report
<http://www.irs.gov/pub/irs-pdf/iw2w3.pdf>

-Establish/Reflect Retirement System Wages/Taxes
Gross Wages Equal Retirement Taxation Base

-Establish Social Security (FICA w/Max. - Medicare w/No Max.) Wages/Taxes
Gross Wages Less:
1. Employee Retirement
2. Employee-paid Health Insurance
3. Employee-paid Flexible Spending Account
Net Wages Equal Social Security Taxation Base

-Establish Federal Income Tax (FIT) Wages/Taxes
Gross Wages Less:
1. Employee Retirement
2. Employee-paid Health Insurance
3. Employee-paid Flexible Spending Account
4. Employee-deducted Deferred Compensation
Net Wages Equal Federal Income Taxation Base

-Establish State Income Tax (SIT) Wages/Taxes
Gross Wages Less:
1. Employee Retirement
2. Employee-paid Health Insurance
3. Employee-paid Flexible Spending Account
4. Employee-deducted Deferred Compensation
Net Wages Equal State Income Taxation Base

-Establish Local Income/Occupational Tax (LIT; OT) Wages/Taxes
Gross Wages Generally Equal Local Income/Occupational Taxation Base
Apply Local Deductions, if applicable
Apply Local Various Local Rates

- Form W-3 - Agency-Employer Wage and Tax Report

- Balance annual Form W-3 Form with all W-2 wages and taxes
 - Balance annual Form W-3 Form with total of quarterly Form 941 tax deposit reports

- Form W-2c – Employee Wage and Tax Correction Report

- <http://finance.ky.gov/NR/rdonlyres/7D1509F2-C2F1-4AE8-BC13-1CCB4D4464DC/0/iw2cw3c.pdf>

- Establish Wage/Tax/Other Correction Amount
 - Report both Incorrect and Correct Wage and Tax Data
 - Balance each Employee W-2c with W-3c Agency Submission
 - Balance all Employee W-2c Tax amounts with the Form 941x Tax Submissions

- Form W-3c – Agency-Employer Wage and Tax Correction Report

- Balance each Form W-3c Report with one or more W-2c Taxes and Wages
 - Balance all Quarterly W-3c Reports with the Form 941x Tax Deposit Reports

Employee Taxable Benefit Information

Cell Phones – Employer-provided - IRS Update information

<http://www.irs.gov/newsroom/article/0,,id=245741,00.html>

- Establish Non-Compensatory, Employer-Provided, Business Cell Phone for Employee
- Determine Non-Compensatory Business Purposes, which may include the Employer :
 - Need to be able to contact the Employee at all times for work-related emergencies
 - Requirement that the Employee be available to speak with clients at all times when the Employee is away from the office
 - Need to speak with clients located in other time zones at times outside the normal work day of the employee
- Exclude from Employee income the personal use of a Non-Compensatory, Employer-provided, Business Cell Phone based upon De Minimis fringe benefit usage
- Apply Employee Taxable Benefit Requirements to Employer-Provided, Personal Cell Phone usage
- Apply Employee Taxable Benefit Requirements to Cell Phones provided to the Employee to:
 - Promote Goodwill
 - Boost Morale
 - Attract Prospective Employees
 - Additional Employee Compensation

Vehicles – Employer-Provided

<http://finance.ky.gov/NR/rdonlyres/932E0B8F-9E9B-4F4F-BC86-0FD5478F5F54/0/cars.pdf>

<http://finance.ky.gov/NR/rdonlyres/FFA8274F-629F-441A-99FC-5CFF4F1E6A75/0/cars.pdf>

- Establish Employee Taxable Benefit Basis for Vehicle Personal Use
- Determine Employee Personal Use Vehicle Valuation, Applying One of Four Methods:
 - General Valuation Rule
 - Lease Value Rule
 - Cents-Per-Mile Rule
 - Commuting Rule
- Determine “De Minimis” (Minimal) Benefit Exclusions
 - ”De Minimis” Benefit Definition - Any property or service an employer provides to an employee that has so little value, taking into account how frequently similar benefits are provided to other employees, that accounting for it would be unreasonable or administratively impracticable.

-Cash and Cash Equivalent fringe benefits, no matter how little are never excludable as a “De Minimis” Benefit, except for occasional meal money or transportation fare

- Determine Employee Working Condition Benefit Exclusions:

-Working Condition Benefit Definition – Employer-provided property and services that allow the employee to perform his or her job, subject to detailed substantiation requirements.

-Employee Use of a Qualified Non-Personal Use Vehicle is a Working Condition Benefit (100%), with specifically-listed examples, such as:

1. Police, Fire, and Public Safety Vehicles – Clearly Marked
2. Law Enforcement, Unmarked Vehicles – Officially Authorized
3. Ambulance or Hearse – Specific Purpose Use
4. Cargo Vehicle - Gross Weight over 14,000 Pounds
5. Delivery Trucks – One Driver Seat
6. Passenger Bus – Capacity of 20 or more Passengers
7. School Buses
8. Tractors/Special Purpose Farm Vehicles
9. See Specifically-listed Examples
10. Bucket Trucks, cement mixers, combines, cranes, derricks, dump trucks, garbage trucks, flatbed trucks, forklifts, qualified moving vans, qualified specialized utility repair trucks, and refrigerated trucks

Uniforms – Employer-Provided

- Determine Non-Taxable, Work Clothes and Uniform Allowances and Reimbursements by:

- Must meet the Accountable Plan Rules
- Must be specifically required as a condition of Employment
- Must not be adaptable to general usage as ordinary clothing
- Must not be worn for general usage as street wear clothing
- See specific IRS listed examples

Federal, State, and Local Coverage Requirements

Public, Governmental Employees are provided Social Security (FICA; Medicare) Coverage in a different manner than Private Business Employees. Since the inception of the federal Social Security program, State Government participation in Social Security Coverage has developed beginning in 1951 with Social Security Act, Section 218, Voluntary Agreements between each State and the Federal Social Security Administration. The evolution of State and Local Government Employee Social Security Coverage includes a date-driven history of approximately 900 Federal-State Modification Contracts to the Kentucky, Section 218, Voluntary Agreement, with approximately 1,600 State-Local Plan and Agreement Contracts for Local Employee Coverage and Exclusions.

Mandatory Medicare federal requirements, beginning April 1, 1986, and Mandatory FICA federal requirements, beginning July 1, 1991, provide automatic Social Security Coverage for any Non-Section 218 Public Employee positions, not participating in a Qualified Public Retirement System.

However, all positions under Local Retirement System plans must have a Social Security Section 218 Coverage Agreement with position inclusions/exclusions or refrain from Coverage participation through a Non-Section 218 Referendum process.

The Public Employee State-Local Social Security Coverage history of statutory requirements directly relate to Federal Social Security Administration Public Employee Benefit requirements and Internal Revenue Service Agency Tax requirements. The State Social Security Administrator, the SSA, and the IRS partner in all Social Security functions to provide Coverage, Benefit, and Tax services to all Public Employees and Employers. A summary of Kentucky Coverage issues is provided below:

Agency Section 218 Coverage Information Updates

- Name Changes
- Mergers
- New Coverage Establishment
- Existing Coverage Corrections
- Dissolutions

Contact Information Updates

- State Agencies
- Local Section 218 Agencies
- Local Non-Section 218 Agencies

Division of Local Government Services
Social Security Coverage & Reporting Branch
PO Box 639
Frankfort, KY 40602-0639

Telephone: 502/564-3952

Fax: 502/564-2124

[Website](#)

[Joe L. Lancaster, Jr.](#)

State Social Security Administrator

[Tammy L. Taylor](#)

Internal Policy Analyst III

[Danielle Martin](#)

Social Security Staff

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Newsletter is published for Kentucky
Governmental Employers

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