



Social Security Coverage and Reporting

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FSLG FISCAL YEAR 2008 ACCOMPLISHMENTS

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BY JAYNE MAXWELL, CPM MANAGER

During Fiscal Year (FY) 2008, Federal, State, and Local Governments (FSLG) successfully continued two major compliance initiatives: an examination program for Federal agencies, and an examination program for large entities (those with annual payroll in excess of \$40 million). In addition, FSLG completed its first market segment project, addressing community college compliance, and initiated two others addressing compliance of housing authorities and fire districts. With the Federal agencies, FSLG commenced 16 cases and closed 20. For large entity compliance, FSLG opened 30 cases and closed 40. These examinations focused on worker reclassification, employment taxes of fringe benefits, settlement payments, information return reporting, and other issues. In addition to examinations, FSLG conducted 860 compliance checks. A compliance check does not examine returns or assess tax, but assesses the level of taxpayer compliance. Compliance checks continue to play an important enforcement role for FSLG. Typically, a compliance check includes Form 941, 944, 945, W-2, and the Form 1099 series.

In FY 2007, FSLG began conducting projects that adopted a market-segment approach for identifying and selecting returns for examination. These projects allow FSLG to determine trends and issues within a category of governmental entities. FSLG will use the results to plan outreach activities to improve compliance for that group. FSLG completed the first of these projects on community colleges in FY 2008 and will publish a report of its findings. FSLG also began a market segment project on fire districts in FY 2007.

The first phase of the project was focused outreach events. The second phase, conducted in FY 2008, consisted of compliance checks performed on fire districts randomly selected from each state. Although FSLG had initially planned to begin an examination phase in FY 2009, it has decided not to pursue the examination phase, due to some recent legislative changes and the fact that most fire districts are relatively small (FSLG generally conducts examinations on entities with annual payroll of \$10 million or more). Instead, it will develop an action plan for additional focused outreach to help fire districts improve compliance; this will include phone forums, articles in industry publications, etc.

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In FY2008, we conducted an exam satisfaction survey for the first time. FSLG taxpayers were asked to complete a survey that would provide feedback to assess the taxpayer's satisfaction level related a recently completed examination. Survey results indicated an overall satisfaction of 5.76 on a scale of 1 to 7 with 7 being most satisfied. The taxpayers were most satisfied with Courtesy of Specialist (6.31). The lowest satisfaction score, 5.27, was given for the length of the process. FSLG continues to explore ways to expedite the examination process without detracting from the quality or the service provided. FSLG coordinated and conducted outreach presentations to government entities within the U.S. Territories including Guam, Commonwealth of the Northern Mariana Islands, (CNMI), U.S. Virgin Islands (USVI), and Puerto Rico and expanded its Federal Agency Outreach Seminars. FSLG began conducting outreach events in Spanish for Puerto Rico and began releasing the semiannual FSLG Newsletter in a Spanish edition to better serve these customers and reduce their tax compliance burden.

Plans for FY 2009

A central theme in the FY 2009 Work Plan is our focus on improving enforcement activity. FSLG is committed to continuing the Federal Agency and Large Entity compliance initiatives that began in FY 2005. We anticipate opening 15 examinations of Federal agencies and closing 15; for large entities, the goal is to open 30 large entity examinations and close 35.

FSLG will participate in an Employment Tax National Research Program (NRP) project to develop data to help identify sources of the tax gap related to employment taxes. The tax gap research project on employment taxes will be developed during FY 2009, as part of an IRS-wide effort. FSLG has committed to examine approximately 250 returns or 60 entities for each of three years. These audits are expected to begin in FY 2010.

In FY 2008, FSLG successfully initiated its third market segment project. The housing authority examination project will be completed in FY 2009. Findings should be published by the end of FY 2009.

In FY 2009, FSLG will begin compliance projects focused on two particular issues: Form 1099-MISC non-filers, and a project to check compliance with classification settlement program (CSP) and other closing agreements. Most of the cases in these projects will open and close within FY 2009. As a further aid to governments, FSLG will create a questionnaire that government entities may use to conduct self-checks of their compliance. The questionnaire will be added to the FSLG page on the www.irs.gov website.

One of the primary areas of outreach and education will be Internal Revenue Code Section 3402(t), which requires that Federal and state agencies, and any other governmental entities with annual payments (excluding payroll) of \$100 million or more withhold 3% from any payments made to any person providing property or services, beginning in 2011. FSLG will continue over the next two years to meet with Federal agencies and state and local governments affected by Section 3402(t) to discuss the proposed regulations, obtain suggestions and comments and to provide education on the final regulations when issued. FSLG will continue to partner with the Social Security Administration as its major external partner in issues relating to social security coverage and Section 218 Agreements. It will also maintain and increase activities with other stakeholders, such as the National Conference of State Social Security Administrators (NCSSSA). Stakeholders will be involved in the development of outreach products and with other actions to maximize the benefits of customer education efforts.

Special Report: Economic Recovery Bill Provides Social Security with Resources to Help Americans

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009. Among its provisions are one-time payments to Social Security and Supplemental Security Income (SSI) beneficiaries, as well as funding to help the agency address critical needs.

One-Time Payments of \$250 For Social Security and SSI Beneficiaries

Nearly 55 million people who receive Social Security and SSI benefits will get a special one-time payment of \$250. They should receive the one-time payment by late May 2009.

- o The payments will be automatic, so people receiving benefits do not need to take any action.
- o People who receive both Social Security and SSI benefits will receive only one payment of \$250.
- o The legislation also provides for a one-time payment to recipients of Department of Veterans Affairs (VA) and Railroad Retirement Board (RRB) benefits. However, if a person receives Social Security or SSI benefits and also receives VA or RRB benefits, he or she will only receive one \$250 payment. Social Security will send that payment.
- o In April, Social Security will send an advance notice with further information to each person who is eligible for the one-time payment.
- o So that we can issue the payments as quickly as possible, we ask that people not contact Social Security unless their payment is not received by June 4, 2009.

Meanwhile, SSA encourages people to visit www.socialsecurity.gov/payment for answers to frequently asked questions about the economic recovery one-time payments.

OUR WEB SITE HIGHLIGHTS By James Driver

The Social Security Coverage and Reporting Branch has a great web site that helps State and Local government entities keep up with the latest tax news. This site, <http://finance.ky.gov/ourcabinet/caboff/OOC/dlgs/ssa.htm>, has links to past newsletters, reporting forms, tax charts, information brochures, statutes/rulings, and so much more.

This can be your direct online link to help you and your entity navigate different employment tax issues. Please feel free to comment on anything else you would like us to add that might be a benefit to you. You can send comments to james.driver@ky.gov.

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