

*Please distribute this informational release to all appropriate payroll or finance officials within your organization.*



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**Division of Social Security**

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State Government Edition

# ***Payroll Seminar for State Agencies Set for October 26.***

The Internal Revenue Service, the Social Security Administration and the Commonwealth of Kentucky have scheduled a seminar for state government payroll and finance officials as part of a joint state-federal employment tax education and compliance effort.

Officials from the IRS and SSA, as well as representatives from state government's Division of Social Security, Personnel Cabinet and Treasurer's Office will host the seminar scheduled for October 26 in Room 125 of the Capitol Annex. State government is the target of the seminar which is aimed at improving compliance of federal reporting and withholding mandates and Social Security coverage requirements.

The topics to be covered include:

- Which employees are covered for Social Security and Medicare
- Form W-2 update and reporting
- 1999 year end reconciliation
- Form 1099
- The Social Security Statement
- Social Security benefits
- Taxable fringe benefits

Representatives of the Division of Social Security will be contacting you regarding your attendance at the October seminar.

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# 1999 Form W-2

## Overview

### Who must file Form W-2?

Employers must file Form W-2 for wages paid to each employee from whom:

- Income, social security, or Medicare taxes were withheld or
- Income tax would have been withheld if the employee had claimed no more than one withholding allowance or had not claimed exemption from withholding on **Form W-4**, Employee's Withholding Allowance Certificate.

Also, every employer who pays remuneration for services performed by an employee, including noncash payments, must furnish a Form W-2 to each employee.

### Corrections

Use **Form W-2c**, Corrected Wage and Tax Statement, to correct errors (such as incorrect name, SSN or amount) on a previously filed Form W-2. Send **Form W-3c**, Transmittal of Corrected Wage and Tax Statements, with Forms W-2c unless you are only correcting a name or SSN. See **Employee's incorrect address on Form W-2** below for information on correcting an employee's address. Obtain Forms W-2c and W-3c from the Division of Social Security. State agency instructions can be found on the DOSS web page at <http://www.state.ky.us/agencies/finance/depts/ss/w2c-99i.htm>

### Employee's incorrect address on Form W-2

If a previously transmitted Form W-2 is filed with the SSA showing an incorrect address for the employee but all other information on the Form W-2 is correct, **do not** file Form W-2c with the Division of Social Security merely to correct the address.

However, if the address was incorrect on the Form W-2 furnished to the employee, **you must do one of the following:**

- Issue a new Form W-2 containing all correct information, including the new address. Indicate REISSUED STATEMENT" on the new copies. **Do not** send Copy A to the SSA.
- Issue a Form W-2c to the employee showing the correct address in box b. **Do not** send Copy A to the DOSS.
- Reissue Form W-2 with the incorrect address to the employee in an envelope showing the correct address.

### Deceased employee's wages

If an employee dies during the year, you must report the accrued wages, vacation pay, and other compensation paid after the date of death.

If you made the **payment in the same year the employee died**, you must withhold social security and Medicare taxes on the payment and report the payment on the employee's Form W-2 only as social security and

Medicare wages to ensure proper social security and Medicare credit is received.

On the employee's Form W-2, show the payment as social security wages (box 3) and Medicare wages and tips (box 5) and the social security and Medicare taxes withheld in boxes 4 and 6. **Do not show the payment in box 1.**

If you made the **payment after the year of death**, do not report it on Form W-2, and do not withhold social security and Medicare taxes.

Whether the payment is made in the year of death or after the year of death, you also must report it in box 3 of **Form 1099-MISC**, Miscellaneous Income, for the payment to the estate or beneficiary. Use the name and taxpayer identification number (TIN) of the payment recipient on Form 1099-MISC.

**Example** (This example assumes the employee is covered for social and medicare. Contact the Division of Social Security for reporting requirements of Medicare-only or non-covered employees.) Before Fred's death on June 15, 1999, he was employed by the county and received \$10,000 in wages on which federal income tax of \$1,500 was withheld. When Fred died, the county owed him \$2,000 in wages and \$1,000 in accrued vacation pay. The total of \$3,000 (less the social security and Medicare taxes withheld) was paid to Fred's estate on July 20, 1999. Because the county made the payment during the year of death, the county must withhold social security and Medicare taxes on the \$3,000 payment and must complete **Form W-2** as follows:

- **Box d** – Fred's SSN
- **Box e** – Fred's full name
- **Box f** – Fred's address
- **Box 1** – 10000.00 (does not include the \$3,000 accrued wages and vacation pay)
- **Box 2** – 1500.00
- **Box 3** – 13000.00 (includes the \$3,000 accrued wages and vacation pay)
- **Box 4** – 806.00 (6.2% of the amount in box 3)
- **Box 5** – 13000.00 (includes the \$3,000 accrued wages and vacation pay)
- **Box 6** – 188.50 (1.45% of the amount in box 5)
- **Box 15** – Mark the "Deceased" box

The county also must complete **Form 1099-MISC** as follows:

- **Boxes for:** The recipient's name, address and TIN — The estate's or beneficiary's name, address and TIN
- **Box 3** – 3000.00 (Even though amounts were withheld for social security and Medicare taxes, the gross amount is reported here.)

If the county made the payment after the year of death, the \$3,000 would **not** be subject to social security and Medicare taxes and would **not** be shown on Form W-2. The county would still file Form 1099-MISC, however.

### Government employers

State and local agencies have two options for reporting their employees' wages that are subject only to Medicare taxes for part of the year and full social security and Medicare taxes for part of the year.

The term "MQGE" refers to a special type of employment for some government employees in which wages and tips are subject to withholding only for Medicare. Use the code "Q" in the Type of Employment (TOE) field of the CODE E record to identify MQGE. A CODE E record with a "Q" Type of Employment should only be followed by Code W records containing MQGE-related wage and tax data. DO NOT group MQGE CODE W records and non-MQGE CODE W records together after a single Code E record.

Report MQGE wages and tips in the Medicare Wages and Tips field and report MQGE tax withheld in the Medicare Tax Withheld field. All CODE W records containing data solely from MQGE, i.e., containing no wages or tips subject to the full Social Security tax, should be grouped to follow a CODE E record with a "Q" Type of Employment. All other CODE W records should be grouped to follow a CODE E record with a "R" Type of Employment.

### Lost Form W-2—reissued statement

If an employee loses a Form W-2, write "REISSUED STATEMENT" on the new copy, **but do not send Copy A of the reissued Form W-2 to the SSA.** You may give a reissued Form W-2 to an employee on the official IRS form or on an acceptable substitute form.

### Repayments

If an employee repays you for wages received in error, do not offset the repayments against current year wages unless the repayments are for amounts received in error in the current year. Repayments made in the current year, but related to a prior year or years, require special tax treatment by employees in some cases. You may advise the employee of the total repayments made during the current year and the amount (if any) related to prior years. This information will help the employee account for such repayments on his or her federal income tax return.

If the repayment was for a prior year, you must file Form W-2c with the SSA to correct social security and Medicare wages and taxes. Do not correct wages in box 1 on Form W-2c for the amount paid in error. The DOSS will report an adjustment on Form 941 for the quarter during which the repayment was made to recover the social security and Medicare taxes. You may not make an adjustment for income tax withholding because the wages were paid in a prior year.

**Note:** *Please tell your employee that the wages paid in error in a prior year remain taxable to the employee for that year. This is because the employee received and*

*had use of those funds during that year. The employee is not entitled to file an amended return (Form 1040X) to recover the income tax on these wages. Instead, the employee is entitled to a deduction (or a credit, in some cases) for the repaid wages on his or her Form 1040 for the year of repayment.*

## Changes to 1999 Form W-2

### Election workers

Kentucky counties, generally, do not issue a Form W-2 to any election worker who is paid less than \$600 per year. Do not withhold FICA unless the election worker is paid \$1,000 or more per year. Do not report payments to elections workers on Form 1099-MISC.

### Extended due date for electronic filers

If you file your 1999 Forms W-2 with the SSA electronically (not by magnetic media), the due date is extended to March 31, 2000. For information on how to file electronically, call the SSA at 1-800-772-6270.

### Separate fringe benefit reporting optional

You no longer need to separately report taxable fringe benefits that are shown in box 1 of Form W-2, except for the annual lease value of a vehicle provided to an employee. You must, however, report the lease value of a vehicle in box 12 or on a separate statement to the employee.

### Incorrect address on employee's Form W-2

You may reissue a Form W-2 to an employee by placing the Form W-2 with an incorrect employee address in an envelope with the correct address for mailing to the employee.

## SS Statement Is Coming to All Your Employees

In October 1999, the Social Security Administration will begin mailing earnings and benefit estimate statements each year to all workers age 25 and older (about 125 million) who are not already receiving monthly Social Security benefits and for whom a current address is available.

Employees can expect to receive their statement each year about three months before their birth month. The statement provides a year-by-year display of an individual's wages based on information their employers have provided to the Social Security Administration each year on Forms W-2 or self-employment income. It also provides an estimate of retirement, survivors and disability benefits for which employees and their families may be eligible now and in the future.

The Division of Social Security suggests you distribute the following explanation concerning the employee Social Security Statement to each and every employee of your agency so they may have a greater understanding of what it is about. A copy of this is available on the DOSS website at <http://www.state.ky.us/agencies/finance/depts/ss/statement.pdf>. You must use Adobe Acrobat Reader (which is available on the webpage) to access the explanation.

### Your Social Security Statement: The future is in your hands.

Contact your local federal Social Security office for more information.

In October 1999, the Social Security Administration will begin mailing earnings and benefit estimate statements each year to all workers age 25 and older who are not already receiving monthly Social Security benefits.

You can expect to receive your statement each year about three months before your birth month.

The four-page *Social Security Statement* is intended to help you plan your financial future by providing estimates of the monthly Social Security retirement, disability and survivor's benefits you and your family could be eligible to receive now and in the future.

The information in the statement will also provide you with an easy way to determine whether your earnings are accurately reported and recorded on your Social Security record. Making sure the name and Social Security number your employer has on record matches your Social Security card is the best way to ensure earnings will be accurately recorded. That's important because the amount of your future benefits will be based on your Social Security earnings records. The statement will tell you how to correct inaccurately posted earnings.

In addition to helping plan your retirement, there are other ways to use your *Social Security Statement*.

\* Plan your financial security for today and tomorrow by knowing the amounts of Social Security benefits that could be available to you and your family if you become disabled.

\* Determine whether you have sufficient insurance to protect your survivors if you die.

\* See how your potential Social Security benefits fit in with you investments and savings.

Please note—Some state employees will receive a pension based on work not covered by Social Security. This may cause the actual amount of Social Security benefits to be lower than shown on the *Social Security Statement*. If this applies to you, be sure to ask the Social Security Administration for the free copies of "A Pension From Work Not Covered by Social Security" and "Government Pension Offset."

For more information about Social Security benefits, call or visit your local federal Social Security office, call this toll-free number 1-800-772-1213 or visit the Social Security Administration website: [www.ssa.gov](http://www.ssa.gov)

### FREQUENTLY ASKED QUESTIONS AND ANSWERS

#### **Q. What is the Social Security Statement?**

A. The Social Security Statement is a four-page statement intended to help you plan for your financial future. It provides estimates of the Social Security retirement, disability and survivors benefits you and your family could be eligible to receive now and in the future.

#### **Q. When can you expect to receive your Social Security Statement?**

A. Statements will be automatically mailed each year about three months before your birthday. For example, someone born in February can expect to receive a statement in November.

#### **Q. Is there any reason why you would not receive and automatically mailed Social Security Statement?**

A. Yes, if—

\* You are under the age of 25

\* The Social Security Administration does not have your current address

\* You are already receiving Social Security benefits

\* You have requested a Statement from the Social Security Administration within the past 12 months.

#### **Q. How can I request a Social Security Statement?**

A. Statements can be requested on-line at [www.ssa.gov](http://www.ssa.gov) or by calling 1-800-772-1213.

#### **Q. What should you do if you believe there is an error on your Social Security Statement?**

A. Immediately contact your local federal Social Security office or call 1-800-772-1213. For a list of Social Security District Offices in Kentucky go to:

[www.ssa.gov/atlanta/ky/index.htm](http://www.ssa.gov/atlanta/ky/index.htm)