

The Kentucky Division of Social Security *...leading the way*



State Government Edition

<http://sssa.state.ky.us>

IRS Plans to Assess Penalties for Name and SSN Mismatches

The Internal Revenue Service is planning to assess penalties against employers whose Forms W-2 have mismatched employee names and social security numbers. The penalties are targeted to begin for those Forms W-2 filed for the tax year 2002. The first notices are expected to be mailed in mid-2004. The IRS said that the starting target date was not firm, however.

The implementation of the penalties is provided for under IRC Sec. 6721. A de minimis exception will apply to employers with 10 or fewer mismatches or mismatches on one-half of one percent of all Forms W-2 filed by an employer.

The penalty for Forms W-2 with incorrect information and that are not corrected on or before August 1 of the year of the filing deadline is \$50 per Form W-2, with a maximum penalty of \$250,000 per calendar year.

It is estimated that one in nine US employers received a “no-match letter” from the Social Security Administration for the Forms W-2 filed for tax year 2001. A no-match letter indicates the employer filed a Form W-2 for which the name and SSN are not a match in SSA records. The letter does not levy a penalty, but SSA will share the information with the IRS, which may assess the penalty.

State Agency Payroll Seminar Set for November 14

The 2002 state agency payroll seminar has been scheduled for Thursday Nov. 14 at Room 125 of the Capitol Annex. The seminar will run from 1 p.m. until 4 p.m. Agenda items will be fringe benefits, new SSN procedures, Form W-2 penalties, on-line forms, year-end processing, among others. All state payroll personnel are urged to attend.

IN MEMORIAM

Patrick L. Doyle

1941-2002

Director of the Division of Social Security

1988-2002

Personal Service Contracts with Individuals Must Go Through DOSS

Last autumn, a letter from Finance Secretary Kevin T. Flanery to all agency heads directed them to route all personal service contracts with individuals (not companies or corporations) through the Division of Social Security. This step was taken to ensure that DOSS has an opportunity to review the employment relationship and the FICA withholding status of these contracts with individuals.

State agencies, boards and commissions must be consistent in the treatment of withholding and reporting of FICA from remuneration paid via personal service contracts between the public entities and individuals. The Internal Revenue Service requires federal employment tax withholding and reporting on any worker considered an “employee,” no matter if remuneration is provided via a contract, master agreement, petty cash or a standard payroll system. Whether an individual is an “employee” is based on the degree of control that the agency may have the right to exercise over the contract holder. This is not an optional program. Individuals performing service in an employment relationship with an agency do not have a choice of being treated not as an employee and, therefore not paying FICA taxes.

In order to assist agencies in ensuring the proper FICA taxes are being paid on applicable personal service contracts, Flanery requested that all personal service contracts with individuals be routed through the on-line Procurement Desktop system to DOSS for that division’s review. Specifically, all personal service contracts with an individual must be routed in PD to Jim Clarke (FINSS5) who will, in turn, route them to Darla Hoagland in the Finance and Administration Cabinet.

New Documentation Required for Noncitizens

The most recent instructions, beginning September 1, 2002, require the Social Security Administration to verify with the Immigration and Naturalization Service the status of all noncitizens. Applying for an original or replacement social security card. SSA, in some cases, is able to verify such status through the INS computer system. often, however, the SSA must verify the noncitizen status by sending copies of immigration documents to the INS. This may add anywhere from several weeks

to several months to the processing of the SSN application. SSA said it is working closely with the INS to minimize the delays in the verification process.

Also, new social security Documentation requirements for students with the INS designated visa status “F-1” have been mandated. Local social security offices have been instructed to notify educational institutions in their service areas about the new documentation requirements for foreign students.

The Kentucky Division of Social Security Newsletter is published by:

**The Division of Social Security
403 Wapping St. Suite 340
Frankfort, KY 40601-2638
Telephone: 502/564-3952
Fax: 502/564-2124**

Paul E. Patton, Governor
Kevin T. Flanery, Finance Secretary
Edgar C. Ross, Controller
Daryl Dunagan, Director

Printed with state funds



The Commonwealth of Kentucky does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the providing of services and will provide, upon request, reasonable accommodation including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.