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Division of Social Security

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State Government Edition

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DOSS Seminars Set for Frankfort and Louisville

Two seminars designed to help state payroll officials and finance officers with social security coverage and reporting issues and Form 1099 reporting have been scheduled by the Division of Social Security. The half-day seminars will be held at Frankfort (Nov. 10) and Louisville (Nov. 11).

Representatives from the Internal Revenue Service, the state Personnel Cabinet and the Division of Accounts from the Finance and Administration Cabinet will join DOSS Personnel at the meetings. Additional agenda items will include avoiding mistakes, year-end close out and the revised factors used by the IRS in determining employee/employer relationships.

The Monday, Nov. 10, meeting will run from 8:30 a.m. until noon and will be held at:

The State Office Building
1st Floor Auditorium
High Street
Frankfort

The Nov. 11 seminar, primarily for agencies in Greater Louisville area, will last from 9 a.m. until noon on Tuesday and will be at:

The Correction Training and Conference Center
312 Whittington Parkway
Louisville

Additional information and maps are available. There are no fees required to attend and reservations should be directed to Betty Oberlin--at 502/564-3952--no later than Friday, Oct. 31.

PLEASE NOTE--This publication is for general information only. The material provided within should not be used or cited as authority for employment tax obligations and requirements. The Social Security Act, the KRS and the IRC, along with regulations and revenue rulings and case law, are the only valid citations of authority.

Year-end Reminders

Form DOA-27 and Request for refund on Payroll (ROP)

The DOSS requires certain fields on the DOA-27 and ROP to be completed. See the special instructions for the ROP on pages 3 and 4 of this newsletter and special instructions for the DOA-27 on pages three and four of our Summer 1997 newsletter. Special note should be given to the following fields: Company Number/Department Name, Payment Type, Social Security Number, Social Security Taxable Wages and Medicare Taxable wages. It is our experience that some agencies do not complete these required fields. Agencies should insure that all personnel involved in ROP preparation adhere to these instructions and complete all required fields as the fields are essential to the internal processing of your documents.

Manual Pay Reconciliation

The Division of Social Security reconciles social security and medicare wages and taxes that are processed throughout the year to the wage and tax amounts on Forms W-2 for each state agency. Each agency is required to insure that all manual pay transactions, especially for Form DOA-27 and Request for Refund on Payroll, are properly reflected on your employee's tax master file. Check your Quarterly Earnings History and verify that each manual pay transaction completed this year is shown as a correct adjustment to the employee's wages and taxes. On going reconciliation of these items during the year prevents costly reconciliation searches and corrective W-2 filings at years' end. Contact the UPPS payroll branch or the DOSS if you require additional assistance.

Workers' Compensation

The Kentucky Retirement System has instructed agencies, when an employee buys back leave with workers' compensation, to request back retirement contributions and adjust the retirement wages and contributions on the Request for Refund on Payroll (ROP). The social security, medicare, federal income and state income taxable wages entered on the ROP should be for the amount of the worker's compensation check minus the employer pickup of retirement contributions. See pages 7.38-7.43.B of the UPPS Payroll Manual for additional instructions.

Social Security/Medicare Taxable Wages

State agencies calculate social security and/or medicare taxable wages by the following: gross wage minus retirement pickup; minus flexible spending account; minus cafeteria plan contributions. Do not, when calculating social security and/or medicare wages, reduce these wages by the amount of any deferred compensation (section 401k or 457 plans) contributions.

However, state agencies do calculate federal income and state income taxable wages by the following: gross wage minus retirement pickup; minus flexible spending account; minus cafeteria plan contributions; minus deferred compensation contributions.

Helpful Hints for the 1997 Form W-2

The Internal Revenue Service asks for the information on Forms W-2 to carry out the revenue laws of the United States. Employers are required to provide the information as it is needed to ensure compliance with these laws, to allow the IRS to figure and collect the right amount of tax and to report FICA wages for employee benefit purposes.

Changes To Note

Educational Expenses--A retroactive extension for employer-provided educational assistance has been passed by Congress. The extension allows \$5,250 annually in tax-free assistance for undergraduate courses beginning prior to June 1, 2000. Amounts paid to or on behalf of an employee are excludable from income for tax years beginning in 1997. The exclusion does not apply to graduate courses that started after June 30, 1996. A course is generally considered to start on the first regular day of class.

Social Security Wage Base Increase--The 1997 wage base for social security is \$65,400. There is no limit on the amount of wages that are subject to medicare tax. For social security, the tax rate is 6.2 percent each for employers and employees. For medicare, the rate is 1.45 percent each for employers and employees.

Filing Form W-2

Who Must File--State agencies must file a Form W-2 for each employee from whom income, social security or medicare taxes have been withheld. The agency must also file the form for each employee from whom 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 engaged in a trade or business who pays remuneration for services performed by an employee, including the cash value of such remuneration paid in any medium other than cash, must furnish a Form W-2 to each employee. Elected and appointed officials are considered by the IRS to be employees of the state and should receive a Form W-2 for any remuneration. This also includes any state board or commission member. See DOSS fact sheet "Who is a Governmental Employee."

General Instructions

Calendar Year Basis--The entries on Form W-2 must be based on a calendar year. Use Form W-2 for the correct tax year.

Taxpayer Identification Numbers--The IRS uses these numbers to check the payments reported against the amounts shown on the employees' tax returns. These numbers are also used to record employee earnings for future social security and medicare benefits. When preparing Forms W-2, employer's must be sure to use the correct social security number (SSN) on the form and on magnetic media.

Employers use an employer identification number (EIN) (00-0000000). Employees use a social security number (000-00-0000). When either number is used in printing, please separate the nine digits properly to indicate the kind of number.

Reissued Statement--If an employee loses a statement, write "Reissued Statement" on the new copy, but do not send Copy A of the reissued statement to the SSA.

Multiple Forms--If necessary, more than one Form W-2 can be issued to an employee. For example, more than three coded items in box 13 may need to be reported or it may be desirable to report other compensation on a second form. If a second Form W-2 is issued, complete boxes b, c, d and e with the same information as on the first Form W-2. Show any additional items that were not included on the first Form W-2 in the appropriate boxes. Do not report the same federal wage and tax data to the SSA on more than one Copy A.

Special Reporting Situations

Deceased Employee's Wages--If an employee dies during the year, the accrued wages, annual leave pay and compensatory time paid after the date of death must be reported. If the payment is made in the same year the employee, who was covered for social security, died, only social security and medicare taxes on the payment must be withheld and reported on the employee's Form W-2 since no federal income tax is to be withheld. On 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 the payment is made 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, it must also be reported to the estate or beneficiary in box 3 of Form 1099-MISC, Miscellaneous Income. Use the name and TIN of the estate or beneficiary on Form 1099-MISC. If the TIN of the estate or beneficiary is unknown, leave the TIN entry box blank. A state agency must submit Form DOA-57 to the Division of Accounts (Finance and Administration Cabinet) for reporting on Form 1099. Contact the Division of Accounts at 502/564-6690 for additional information on Form 1099 reporting.

Note: The same rules apply to medicare only withholding and reporting when making after death payments on behalf of employees covered for medicare only.

Example--Before Employee A's death on June 15, 1997, A was employed by the Tourism Cabinet and received \$10,000 in wages on which federal income tax of \$1,500 was withheld. When A died, the cabinet owed \$2,000 in wages and \$1,000 in accrued annual leave pay. The total of \$3,000 was paid to A's estate on July 20, 1997. Because the cabinet made the payment during the year of death and the employee was covered for social security, the cabinet must withhold social security and medicare taxes on the \$3,000 payment and must complete Form W-2 as follows:

Box d	Employee A's social security number
Box e	Employee A's name
Box f	Employee A'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
Box 5	13000.00 (includes the \$3,000 accrued wages and vacation pay)
Box 6	188.50

Box 15 Mark the "Deceased" box

The Division of Accounts, after receiving information from the Tourism Cabinet, will complete Form 1099-MISC as follows:

Boxes for the state's name, address and TIN, and the estate's or beneficiary's name, address and TIN.

Box 3 3000.00

If the cabinet 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 Division of Accounts would, however, still file Form 1099-MISC.

Employee Business Expense Reimbursements—Reimbursements for employee business expenses must be reported as follows:

* Payments made under a nonaccountable plan are reportable as wages on Form W-2 and are subject to income tax withholding, and social security and medicare taxes.

* Payments made under an accountable plan are, generally, excluded from the employee's gross income and are not required to be reported on Form W-2. If, however, a per diem or mileage allowance is paid, and the amount paid exceeds the amount treated as substantiated under IRS rules, the amount in excess of the amount treated as substantiated must be reported as wages on Form W-2. The excess amount is subject to income tax withholding, and, possibly, social security and medicare taxes.

Sick Pay—If there are employees who received sick pay in 1997 from an insurance company or other third-party payer, and the third party notified the state agency of the amount of sick pay involved, the agency is required to report the information on the employees' Forms W-2.

Scholarship and Fellowship Grants—Give a Form W-2 to each recipient of a scholarship or fellowship grant only if amounts includible in income under section 117(c) are reported (relating to payments for teaching, research, or other services required as a condition for receiving the qualified scholarship). Such amounts are subject to income tax withholding. Their taxability for social security and medicare taxes depends, however, on the nature of the employment and the social security coverage status of the position .

Fringe Benefits—Include all taxable fringe benefits in box 1 as wages, tips and other compensation and, if applicable, in boxes 3 and 5 as social security and medicare wages. Show the total value of the fringe benefits in box 12 of Form W-2. When a state agency provides a vehicle to an employee any personal use of that vehicle must be treated as a taxable fringe benefit. Use the DOSS fact sheet "Employer Provided Vehicles" to determine the value of this fringe benefit.

Government Employers—State agencies have two options for reporting their employees' wages that are subject to only medicare taxes for part of the year and full social security and medicare taxes for part of the year. The first option is to file two Forms W-2. File one Form W-2 with wages subject only to medicare tax. File the second Form W-2 for wages subject to both social security and medicare taxes.

The second option (which SSA prefers) is to file a single Form W-2 with the medicare only wages and the social security and medicare wages combined.

Careful Completion of ROP is Critical

The Request for Refund on Payroll (ROP) is completed by an agency to request a refund on money either withheld in error or when an original paycheck is redeposited. A refund can be obtained for federal income tax withheld, employee and/or employer social security taxes, employee and/or employer medicare taxes, retirement contributions, etc.

On the following page, a sample ROP is shown with only the fields completed that involve social security and medicare wages and taxes. See the UPPS Payroll Manual for instructions on completing any other fields. A ROP that involves only social security and/or medicare can be sent directly to the Division of Social Security (DOSS). Forms W-2c, W-3c and SS-1 must be completed, attached to the ROP and sent to the DOSS for any refund that involves a previous calendar year.

The DOSS requires the identified fields on the sample ROP to be completed. Special note should be given to the following fields: Company Number/ Department Name, Payment Type and Social Security Number. Agencies should insure that all personnel involved in ROP preparation adhere to these instructions and complete all required fields.

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New Features to be Found on DOSS Web Site

In our continuing effort to better serve Kentucky's governmental employers, the DOSS web site has received a number of new items. First of all, an electronic version of this newsletter (Autumn, 1997) is available at the site.

A new page containing copies of the most commonly used forms and publications from the SSA and the IRS has been added. This means one-stop service for any payroll officials needing a copy of Forms W-2, W-2c, W-3, W3c, 941 and 941c. The forms are in PDF format which means you must have an Adobe Acrobat Reader and they must be printed on paper to be used. The forms cannot be filled on the monitor's screen. Also available on the new page is 1997 magnetic media specifications, IRS material on determining employee status and new publications such as Pub. 957 (Special Wage Payments). This new page will be updated to include the new Federal/State Reference Guide and Form 131, both due out this fall, any other appropriate publications or forms that may be developed.

An SSA Fact Sheet is new to the DOSS web site. It contains general information on social security coverage relevant to governmental employers and employees. The DOSS web site is an excellent conduit to other FICA-related sites covering such topics as state and federal legislation, IRS forms, EFTPS and Social Security Administration district offices. The DOSS internet web site address is:

<http://www.state.ky.us/agencies/finance/depts/ss/divss.htm>

Rev. 8/1/93

DEPARTMENT OF TREASURY **FORMS REFLECTS ONLY SOCIAL SECURITY DATA**
REQUEST FOR REFUND ON PAYROLL

COMPANY NUMBER / DEPARTMENT NAME 39-758 Office of the Controller
 DIVISION NAME Division of Social Security

PAYMENT TYPE(X) <input checked="" type="checkbox"/> P-1 EMPLOYEE <input type="checkbox"/> NON-P-1 EMPLOYEE IN UPPS <input type="checkbox"/> NON-P-1 EMPLOYEE	CHECKS MADE PAYABLE TO(X) <input checked="" type="checkbox"/> KY STATE TREASURER <input type="checkbox"/> EMPLOYEE AND KY STATE TREASURER <input type="checkbox"/> EMPLOYEE	MANUAL PAY TRANSACTION(X) <input type="checkbox"/> ATTACHED <input checked="" type="checkbox"/> ENTERED ON CICS
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LAST NAME AND INITIALS Employee, I.M.		SOCIAL SECURITY NUMBER 123-45-6789		PERIOD FROM: 06/01/97	TO: 06/15/97
AGENCY INFORMATION					
CHECK #: 98765432	AMOUNT	STATE PAY	MEMO		
Gross					
Social Security	62.00	62.00	Social Security Taxable =	1,000.00	
Medicare	14.50	14.50	Medicare Taxable =	1,000.00	
Federal Tax					
State Tax					
Local Tax Code:			Local Taxable =		
Local Tax Code:			Local Taxable =		
Local Tax Code:			Local Taxable =		
Retirement			Name =	Wages Subject	
Health Insurance					
Bond					
State Paid Life Ins.					
Misc.					
Misc.					
Misc.					
Misc.					
Misc.					
Net Pay					
TOTALS THIS PAGE	EMPLOYEE SOC SEC 62.00	EMPLOYER SOC SEC 62.00	EMPLOYEE MEDICARE 14.50	EMPLOYER MEDICARE 14.50	FEDERAL TAX

LAST NAME AND INITIALS		SOCIAL SECURITY NUMBER		PERIOD FROM:	TO:
AGENCY INFORMATION					
CHECK #:	AMOUNT	STATE PAY	MEMO		
Gross					
Social Security			Social Security Taxable =		
Medicare			Medicare Taxable =		
Federal Tax					
State Tax					
Local Tax Code:			Local Taxable =		
Local Tax Code:			Local Taxable =		
Local Tax Code:			Local Taxable =		
Retirement			Name =	Wages Subject	
Health Insurance					
Bond					
State Paid Life Ins.					
Misc.					
Misc.					
Misc.					
Misc.					
Misc.					
Net Pay					
TOTALS THIS PAGE	EMPLOYEE SOC SEC	EMPLOYER SOC SEC	EMPLOYEE MEDICARE	EMPLOYER MEDICARE	FEDERAL TAX

Treasurer's Copy - White
 Personnel's - Blue
 Finance's Copy - Green

State Office for Social Security Copy - Yellow
 Retirement's Copy - Pink
 Return with Check (Treasurer's Copy) - Gold

Signed _____ Date _____

Request for Refund on Payroll

All fields listed are required to be completed by the Division of Social Security.

- | | |
|-------------------------------------|---|
| FieldName | Instructions |
| Company Number/
Department Name: | Enter company number (cabinet and department numbers) and the name of department completing form. |
| Division Name: | Enter name of division completing form. |
| Payment Type: | |
| P-1 Employee: | Check if P-1 employee paid on UPPS. |
| Non P-1 Employee in UPPS: | Check if non P-1 employee paid on UPPS. |
| Non P-1 Employee: | Check if employee is not paid on UPPS. |
| Checks Made Payable to: | * KY State Treasurer: Check this box if the refund is for a redeposit of the original paycheck or if the refund is for only the employer portion of social security and/or medicare taxes.
* Employee and KY State Treasurer: Check this box if the refund is for both the employee and employer portion of social security and/or medicare taxes. Two checks will be returned made payable to the state and the employee.
* Employee: Check this box if the refund is for only the employee portion of social security and/or medicare taxes. One check will be returned made payable to the employee. |
| Manual Pay Transaction: | Check the box to indicate whether the manual pay transaction was entered on CICS or attached to the refund. |
| Last Name and Initials: | Enter employee's name. |
| Social Security Number: | Enter employee's social security number. |
| Period: | Enter time period covered by refund. |
| Check #: | Enter the check number of the original check that is being redeposited. |
| Soc Sec Employee: | Enter employee's share of social security (6.2 percent of taxable wages). |
| Soc Sec Employer: | Enter employer's share of social security (6.2 percent of taxable wages). |
| Soc Sec Taxable: | Enter wages subject to social security (Gross wage minus retirement pickup; minus flexible spending account; minus cafeteria plan contributions). |
| Medicare Employee: | Enter employee's share of medicare (1.45 percent of taxable wages). |
| Medicare Employer: | Enter employer's share of medicare (1.45 percent of taxable wages). |
| Medicare Taxable: | Enter wages subject to medicare (Gross wage minus retirement pickup; minus flexible spending account; minus cafeteria plan contributions). |
| Totals This Page: | |
| Employee Soc Sec: | Enter total amount of employee social security on this form. |
| Employer Soc Sec: | Enter total amount of employer social security on this form. |
| Employee Medicare: | Enter total amount of employee medicare on this form. |
| Employer Medicare: | Enter total amount of employer medicare on this form. |