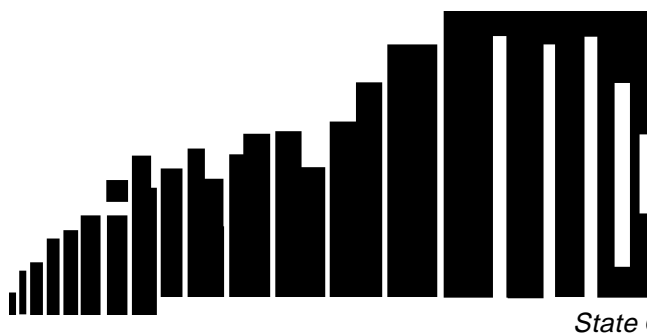


Please distribute this informational release to all appropriate payroll or finance officials within your organization.



Paul E. Patton, Governor
John P. McCarty, Secretary

Edgar C. Ross, Controller
Patrick L. Doyle, Division Director

Division of Social Security

Finance & Administration Cabinet
Division of Social Security
P.O. Box 557
Frankfort, KY 40601
502/564-3952

State Government Edition Autumn 1998

Public Payroll 1998 is bringing the DOSS, SSA and IRS to a site near you!

Coverage and Reporting Seminars Set for State Government Agencies

The Internal Revenue Service, the Social Security Administration and the Commonwealth of Kentucky will soon be conducting seminars across Kentucky 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, Division of Accounts, Personnel Cabinet and Treasurer's Office will host seminars during November. State agencies are the targets of these seminars aimed at improving compliance of federal reporting and withholding mandates and Social Security coverage requirements.

The topics to be covered include:

- Who is an employee and who is a contractor
- Which employees are covered for Social Security and Medicare
- Form W-2 update and reporting
- 1998 year end reconciliation
- Form 1099
- Using the Personal Earnings and Benefit Estimate Statement
- Social Security benefits
- Taxable fringe benefits

The schedule and locations of the seminars are on page 2 and are also listed on a calendar on the Division of Social Security's web site at:

<http://www.state.ky.us/agencies/finance/depts/ss/fall98cs.htm>

Staff of the Division of Social Security will be contacting you regarding your attendance at a seminar.

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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.

Public Payroll 1998

Payroll seminars for state agencies will be conducted by the Social Security Administration, Internal Revenue Service and several state agencies. DOSS will notify you of the seminar most convenient to you. Due to space considerations, please try to attend this seminar. If you are unable to attend the closest, you may, of course, select another seminar date and location.

Frankfort

Monday, November 9, 1998

9 a.m.

Farnham Dudgeon Civic Center-Rooms A, B & C
405 Mero Street

State agencies located in downtown Frankfort, Capital Plaza Tower, State Office Building, Fair Oaks, Bush Building

Monday November 9, 1998

1 p.m.

Berry Hill Mansion
Music Room

State agencies located in west Frankfort, Capitol and Capitol Annex

Tuesday, November 10, 1998

9 a.m.

Department for Local Government
Conference Rooms A & B
1024 Capital Center Drive

State agencies located in east Frankfort

Tuesday, November 10, 1998

1 p.m.

Health Services Building
Board Room--2nd Floor
275 East Main St.

Cabinet for Health Services and
Cabinet for Families and Children

Lexington

Wednesday, November 18, 1998

9 a.m.

Kentucky Education Television
600 Cooper Drive

State agencies located in Fayette Co.

Louisville

Thursday, November 19, 1998

9 a.m.

Office of Corrections Training Facility
312 Whittington Parkway, Suite 111

State agencies located in Jefferson Co.

You may contact the Division of Social Security for additional information at 502/564-3952 or by e-mail at boberlin@mail.state.ky.us.

Special 1998 Form W-2 Reporting Situations

Misplaced Form W-2. If an employee loses a Form W-2, type "Reissued Statement" at the top of the replacement Form W-2, give the employee Copies B, C and 2--but do **not** send Copy A of the reissued Form W-2 to the SSA.

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 them account for such repayments on their federal income tax returns.

If the repayment was for a prior year, you must file Forms W-2c, W-3c and Refund on Payroll with the Division of Social Security to correct social security and Medicare wages and taxes. Do not correct wages, tips and other compensation (box 1) on Form W-2c for the amount paid in error. You may not make an adjustment for income tax withholding because the wages were paid during 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.

Employee business expense reimbursements. Reimbursements to employees for business expenses must be reported as follows:

* 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, you pay a per diem or mileage allowance, and the amount paid exceeds the amount treated as substantiated under IRS rules, you must report the excess as wages on Form W-2. The excess amount is subject to the applicable employment taxes.

* Payments made under a nonaccountable plan are reportable as wages on Form W-2 and are subject to the applicable employment taxes. For more information on accountable plans and nonaccountable plans contact the Division of Social Security or see **Pub. 463**, Travel, Entertainment, Gift and Car Expenses.

Group-term life insurance. If you paid for group-term life insurance in excess of \$50,000 for an employee or a former employee, you must report the amount determined by using the table in Pub. 15-A in boxes 1, 3 and 5 of Form W-2. Also, show the amount in box 13 with code **C**. For covered employees, you must withhold social security and Medicare taxes, but not income tax. Former covered employees must pay the employee part of social security and Medicare taxes on premiums for group-term life insurance over \$50,000 on Form 1040. You are not required to collect those taxes. However, you must report the uncollected social security tax with code **M** and the uncollected Medicare tax with code **N** in box 13 of Form W-2.

Sick Pay. If a state agency has employees who received sick or disability pay in 1998 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 sick pay on the employees' Forms W-2. In these situations, please contact the Division of Social Security for reporting requirements. Do **not** file the Form W-2 directly to the SSA, as this would result in a \$50 per Form W-2 penalty.

Fringe Benefits. Include all taxable fringe benefits in box 1 as wages, tips and other compensation and, if the employee is covered for social security purposes, 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. State agencies are encouraged to enter the taxable value of any state provided vehicle into the UPPS system prior to the last pay date for the year.

Paid for with state funds

Social Security "Fixes" Abound in Washington

Social security is the second most discussed topic in the nation's capitol today. It seems everyone has a plan that will "save" social security and/or "cut taxes". Here are some ideas from President Clinton and members of Congress.

President Clinton has indicated in recent statements that he is willing to consider proposals to invest a portion of the social security payroll tax in private investment accounts but, at the same time, he wants any reform of the current system to provide a guaranteed benefit that is, at minimum, "a dependable foundation of retirement security." Speaking in Albuquerque, New Mexico, at a Social Security forum on July 27 and later to the National Senior Citizens Council on July 28, Clinton stressed that any acceptable reform measure must meet five objectives.

It must be:

- comprehensive and address the program's long-term solvency problem;
- fair and universal;
- dependable, regardless of the ups and downs of the economy or the financial markets;
- protective of the low-income and disabled; and
- fiscally responsible.

Clinton stressed that he has made no final decision on how to reform social security but reaffirmed his position that Congress should not consider using projected budget surpluses for tax cuts or additional spending until social security is fixed. Without committing to any specific proposal to establish individual investment accounts, Clinton noted the advantages and disadvantages of individual accounts that are run privately or by the federal government.

Privately Run Accounts

In the case of the privately run individual account, in which, for example, some percentage of the payroll tax is put into mandatory savings accounts for workers so they can invest the money in the stock market, Clinton mentioned two downsides: 1) the investment could lose money and, combined with the guaranteed portion of the social security fund, final returns could be smaller than under the existing system; and 2) administrative costs for managing a private account could be high, offsetting the higher rate of return from the individual investment.

Government Invested Accounts

Clinton singled out two advantages to government run accounts. Such Accounts would have lower administrative costs and provide at least an average rate of return. Government invested accounts also would provide greater protection for people who retire in bad economic years since their benefits would be averaged over the work life of the recipient, Clinton noted.

Solvency Issue Must Be Resolved

In pressing for the need to resolve the social security solvency issue, Clinton noted that even though the program is sound now, "a demographic crisis is looming." By 2030, there will be twice as many elderly as the 44 million Americans dependent on social security today, Clinton observed. After 2032, contributions from payroll taxes will cover only 75 cents on the dollar of current benefits. Action is needed in a "prudent, disciplined way" to avoid making "dramatic and distasteful decisions down the road," Clinton said.

"If we act now it will be easier and less painful than if we wait until later. I don't think any of you want to see America in a situation where we have to cut benefits 25 percent, or raise inherently regressive payroll taxes 25 percent, to deal with the challenge of the future and our obligations to our seniors," Clinton said.

Senators Working on Plan for Social Security Fix, Tax Cuts

With the support of Senate Majority Leader Trent Lott (R., Miss), two groups of senators have announced plans to dedicate the estimated \$1.6 trillion budget surplus for the years 1999-2008 towards social security and tax cuts. Senate Finance Committee Chairman William V. Roth, Jr. (R., Del) presented his proposal, and Senate Budget Committee Chairman Pete V. Domenici (R., NM) joined Phil Gramm (R., Tex) in announcing they were also working on a plan. Meanwhile, however, Congress has yet to produce a budget surplus, and more maneuvering continued.

The Roth Plan

Roth envisions using part of the budget surplus over the next five years to create personal retirement accounts, modeled after the Thrift Savings Plan available to federal employees. He explained workers would be able to deposit some of their earnings in an account that the government would match with money from the surplus. Workers would have three fund options, which would be overseen by an "Independent Retirement Board." Roth said his plan should appeal to those members who want to "save social security first" and those who want to "provide tax cuts."

The Gramm-Domenici Plan

The Gramm-Domenici proposal is to change the current budget rules--which do not anticipate a surplus--to make sure the estimated \$64 billion in this year's surplus "is not lost," to quote Gramm. He explained that if a "reserve fund" is not set up to channel this money either towards social security or tax cuts, "it will be absorbed by the baseline" and essentially lost.

Gramm said that their goals are three fold:

- * Make sure the surplus is not spent,
- * Guarantee every penny is available to save Social Security, and
- * Dedicate the remainder for tax cuts.

Their purpose, he said, is not carve out a huge tax cut this year. Instead, "we want to set this money aside until we know how much we will need to save Social Security and then we know how much we will have left for tax cuts."