



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

State Government Edition

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

Name and SSN Must Match on Form W-2

Each year the Commonwealth of Kentucky submits to the Social Security Administration hundreds of Forms W-2 on which the names and the social security numbers do not match. When such a mismatch is submitted, the SSA is unable to record the earnings information in the employee's lifelong earnings history. Please share the following information with the appropriate personnel administrators in your agency.

The SSA uses the earnings history to determine an employee's future eligibility and benefit amounts in the SSA's retirement, disability and survivors programs. That is why it is so important that each employee's name and SSN (as shown on their social security card) match your payroll records and year-end Forms W-2.

In addition, the Internal Revenue Service can apply penalties to the employer to the tune of \$50 for each mismatched Form W-2 presented to an employee PLUS \$50 per mismatched Form W-2 submitted to the SSA.

The IRS *Publication 15, Circular E, Employer's Tax Guide* contains instructions for recording employee's names and SSNs. According to the tax guide, after an employee is hired, you should ask to see their social security card. Record the name and number exactly as they are shown on the card. (You may, but are not required to, photocopy the card.)

If the name is not correct as shown on the card or if an employee requests a name change on your payroll records because of marriage, divorce, etc., the employee must request a new social security card from the SSA. You should continue to use the employee's old name on your payroll records until they show you a new social security card with the new name.

A correct social security card can be obtained by completing Form SS-5 (Application for a Social Security Card). The Form SS-5 can be obtained at any SSA office, by calling 1-800-772-1213 or from the SSA web site at www.ssa.gov. The Form SS-5 must be completed, signed and filed by the employee (not the employer).

The SSA can verify a social security number by calling their toll-free number for employers - 1-800-772-6270 - weekdays from 7:00 a.m. to 7:00 p.m. EST. You will inform them that the call pertains to the state of Kentucky and provide it's EIN. Then you will be asked to provide the following information for each name/SSN you want to verify (up to five).

1. SSN,
2. last name,
3. first name,
4. middle initial (if applicable),
5. date of birth, and
6. gender.

Committee Offers Suggestions to the IRS

The Division of Social Security, and therefore the Commonwealth of Kentucky, has been represented in Washington D.C. on an Internal Revenue Service Advisory Committee by Daryl Dunagan, director of DOSS. Dunagan recently completed his multi-year tenure on the IRS Advisory Committee on Tax Exempt and Government Entities (ACT) as the second report of recommendations of the ACT was issued.

The report can be viewed in its entirety at http://www.irs.gov/pub/irs-tege/tege_act_rpt2.pdf.

The 17 members of the ACT presented their report to the IRS during a public meeting in Washington, DC in May. Dunagan said the ACT welcomes comments on this report from the public that may be submitted via e-mail to tege.act@irs.gov.

State and local governments should be interested in the section of the report titled *Gateway Opportunities between FSLG and its Customers*. FSLG refers to the Federal, State and Local Government component of the IRS.

The committee report recommends several items for FSLG when dealing with the nation's governmental employers. Included in the report were recommendations that FSLG should:

- Provide a "point of entry" to the IRS for governmental employers to access issue-specific guidance.
- Enhance the facilitation skills and knowledge of governmental employer issues of FSLG employees.
- Build a comprehensive federal, state and local government inventory so the thousands of state and local agencies can be identified and their differences recognized to ensure an efficient assistance program.

This portion of the report is available separately at http://www.irs.gov/pub/irs-tege/act_rpt2_part4.pdf.

Of particular interest to retirement plan professionals and governmental employers is the chapter of the report addressing the *TE/GE Abusive Tax Shelters Project*. This portion of the report is available separately at http://www.irs.gov/pub/irs-tege/act_rpt2_part2.pdf.

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The following items for summer 2003 are now available:

- Form W-4--Changes the amount of federal income tax withholding from wages
 - Form W-5--Earned Income Credit advance payment certificate
 - Latest IRS Federal, State, and Local newsletter http://www.irs.gov/pub/irs-tege/spr03_fslg.pdf
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How to Report Deceased Employees

If an employee dies during the year, you must report any wages, vacation pay, compensatory pay and other compensation paid after the date of death. If you make these payment in the same year the employee died, you usually must withhold social security and medicare taxes on the payment and report them on the employee's Form W-2. This will ensure the deceased employee's survivors receive the benefit of proper social security and medicare credits. On the 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; wages, tips and other compensation. If you make 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, as a payment to the estate or beneficiary. Use the name and TIN of the estate or beneficiary on Form 1099-MISC. Contact the Division of Statewide Accounting in the Finance Cabinet at 502/564-6690 for additional information on 1099 reporting.

Example: Before Employee A's death on June 15, 2003, A was employed by a state agency and received \$10,000 in wages on which federal income tax of \$1,500 was withheld. When A died, the state agency owed A \$2,000 in wages and \$1,000 in accrued vacation pay. The total of \$3,000 was paid to A's estate on July 20, 2003. Because the agency made the payment during the year of death and the agency's employees are covered for social security under a section 218 agreement, the agency 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 accrued wages and vacation pay)

Box 2 1500.00

Box 3 13000.00 (includes accrued wages and vacation pay)

Box 4 806.00

Box 5 13000.00 (includes accrued wages and vacation pay)

Box 6 188.50

The state also must complete Form 1099-MISC as follows:

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

Box 3 — 3000.00.

If the agency 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. However, the state would still file Form 1099-MISC.

Checks issued to a deceased employee, whether for the final pay period, annual leave, and/or compensatory time, are to be made out to the estate of the deceased. If the payments are made via the UPPS, the "A" screen may be used to change the name of the payee to "the estate of ...". **It is very important that after these checks are generated, however, to replace "the estate of ..." with the name of the deceased employee** on the "A" screen to ensure the Form W-2 will be generated in the name of the deceased employee.

For further inquiries on this subject, contact Connie Eggen at 502/564-3952.

New Federal Tax Tables on UPPS

The Internal Revenue Service has posted to its web site new tables for employers to use in calculating federal income tax to withhold from workers' wages.

The new tables contain the percentage method formulas and the wage bracket method tables. The IRS expects to mail printed copies of Publication 15-T, containing all the tables, to employers nationwide by the third week of June.

The withholding tables in UPPS have been updated to reflect the new amounts. The tables incorporate tax rate changes for most taxpayers and the higher standard deduction for married couples.

In making tax rate changes retroactive to the beginning of 2003, Congress recognized that tax withholding has already occurred at the higher rates required under the prior law. The new law's Conference Report states that taxpayers who have been over withheld as a consequence of this can obtain a refund through the normal process of filing an income tax return, and **not** through the payor. Therefore, employers and others that withhold taxes should not attempt to correct amounts withheld at the rates required under the law before they could implement the new withholding rates.

Employees may adjust their withholding to bring the tax paid closer to the tax owed, but they may not claim more allowances than they are entitled to, based on their expected exemptions, deductions and credits. To avoid an estimated tax penalty for not paying enough during the year, they may want to see how much their withholding drops before making further adjustments.

Effective for wages paid after May 28, 2003 (or as soon as possible thereafter), the supplemental flat withholding rate is decreased to 25 percent and the back up withholding rate is decreased to 28 percent.

Access the advance copy of the tax tables on the IRS web site at <http://www.irs.gov/pub/irs-pdf/n1036.pdf>.

The Latest IRS Rulings Now Available

The Internal Revenue Service issued two revenue rulings and a public notice last month of interest to state and local employers.

Revenue Ruling 2003-46 provides guidance concerning the applicability of Medicare coverage and withholding for employees under "mandatory" social security coverage (employees not participating in an employer-provided, qualified retirement system). For detailed information, see page 878 in IRB 2003-19 on the IRS web site at <http://www.irs.gov/pub/irs-irbs/irb03-19.pdf>.

Revenue Ruling 2003-47 offers guidance on the tax treatment of several aspects of service awards for volunteer fire fighters. The ruling addresses a length of service award plan described in IRC Section 457(e)(11)(A)(ii), when benefits under such a plan are included in gross income and when benefits paid under the service award plan are wages for FICA withholding. The ruling in its entirety may be viewed at <http://www.irs.gov/pub/irs-drop/rr-03-47.pdf>.

The IRS has issued Notice 2003-20 that details withholding and reporting requirements for deferred compensation plans that cover state and local government employees. The notice addresses income tax and FICA withholding/reporting concerns. The notice is available on the IRS web site at <http://www.irs.gov/pub/irs-drop/n-03-20.pdf>

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.