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Finance & Administration Cabinet
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Employers Have More Time to Begin Electronic Payments

The Internal Revenue Service announced in IRS news release 97-32 that it will not impose penalties through December 31, 1997, on employers that make timely deposits using paper federal tax deposit coupons while converting to the new electronic payment system. Under the law, employers with more than \$50,000 of federal employment tax deposits in 1995 are required to enroll in the Electronic Federal Tax Payment System (EFTPS) and to deposit electronically by July 1, 1997.

Acting Commissioner of Internal Revenue Michael P. Dolan said, "We understand that many employers who have not enrolled in EFTPS may need more time to learn about making electronic tax payments. So, we have decided to take yet another step to help them make the switch comfortably and confidently."

The additional 10 percent penalty for not depositing electronically will be waived through December 31, 1997. Deposits must still be made on time, however, even when paper coupons are used, in order to avoid a late deposit penalty.

The IRS encourages employers to use this additional time to get acquainted with EFTPS. Making EFTPS payments successfully will show employers that they are correctly enrolled and that their payments can be processed without error. "If employers encounter any problems, they will have time to get help and make adjustments,

rather than face a penalty. They will also obtain a better understanding of the advantages of EFTPS," said Dolan.

EFTPS eliminates most of the paperwork in the old federal tax deposit (FTD) coupon system. With EFTPS, deposits may be made by telephone or personal computer. This means no more trips to the bank to deliver FTD coupons and checks.

Over 1.1 million of the almost 1.2 million employers that are required to begin using the EFTPS system by July 1 have already enrolled in the system. Another 400,000 employers, not included in the 1.2 million employers required to use EFTPS, have enrolled in the system voluntarily. Through last week, more than \$100 billion has been collected through EFTPS.

"We owe a lot of gratitude to the two Treasury Financial Agents--First National Bank of Chicago and NationsBank--as well as the banking and payroll community, professional tax preparer associations, employer associations and many others for their assistance. The fact that so many employers have already enrolled in EFTPS is a tribute to their efforts," said Dolan.

In conjunction with the announcement, the IRS addressed some common misunderstandings about EFTPS. Use of EFTPS does not give the IRS access to the employer's bank account. In fact, the employer controls the amount of money transferred and when those funds are transferred.

Second, EFTPS does not change the tax due date. Although the employer must notify the bank or the Treasury's Financial Agent to make the transfer a day before the payment due date, the funds do not move until the due date.

Third, EFTPS is easy to use and does not require special electronic equipment. It can be as simple as making a phone call. There is no equipment required other than a telephone--a rotary dial telephone is fine. Also, for employers who want to use a computer to transfer the funds, the Financial Agents will even supply the software.

Fourth, EFTPS reduces the complexity of making tax payments. A simple phone call transfers the funds. It takes far less time than writing out a check, filling out a coupon and walking or driving to the bank to make the deposit.

For information on EFTPS or to get an enrollment form, call EFTPS Customer Service at (800) 555-4477. Employers can begin using EFTPS as soon as they receive their payment instruction packet and personal identification number.



Inside This Issue--

New SSA Benefit Payment Schedule

File 941s by Telephone

DOSS Web Site Update

Education Assistance Expires

Memo from the SSA

Help for Accurate W-2 Reporting

Get this Newsletter via E-mail

SSA Begins New Benefit Payment Schedule in June

The Social Security Administration has implemented a new initiative called "payment cycling".

Millions of Americans count on receiving their social security checks on or about the 3rd of each month. And this will still be the case for current beneficiaries and people who apply before May 1. It affects only those people who apply for social security benefits on or after May 1.

Why payment cycling? A major demographic challenge faces SSA as the beneficiary population grows from the current 50 million to a projected 76 million in the next 25 years. Payment cycling will help prepare for the retirement of the baby boomers. The current payment date of the 3rd of each month results in a large and growing surge of work for SSA in calls to its toll-free 800 number and visits to local social security offices the first week of each month. Distributing the payment work load more evenly throughout the month will improve customer service.

Under payment cycling, new applicants will be paid according to the following schedule each month beginning with checks payable for June, 1997:

Date of Birth of person on whose record benefits are payable	Payment Date
1-10 of month	2nd Wednesday
11-20 of month	3rd Wednesday
21-31 of month	4th Wednesday

Supplemental Security Income (SSI) recipients are not affected by SSA's payment cycling.

941 TeleFile: File Form 941 by Phone

Small employers that meet certain qualifications are invited to participate in a pilot program that will allow Form 941 returns to be filed over the telephone using a toll-free number. A

New Features for DOSS Web Site

Following a number of suggestions from users of the DOSS web site, the web site has a totally new look and it is much simpler to use.

A new chart has been added that includes such information as wage bases and tax rates for social security and medicare (both current and previous years), earning limits and benefit information.

Also, the covered entities section has been updated and additional statutes have been added. Information on the definitions of "wages" and "employment", mandatory social security and medicare regulations (including Revenue Rulings 86-88 and 88-36) are now available.

The DOSS web site is also a better conduit to other FICA-related sites now that links have been added to 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/divss.htm>*

Any suggestions for additions to the DOSS web site and comments on its current contents are certainly welcome. You may contact Daryl Dunagan at:

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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.

MEMORANDUM

TO: All Kentucky Boards of Education

FROM: Charles Schuler, District Manager
Social Security District Office Frankfort

IN RE: Substitute and part-time teacher coverage

voice processing system prompts users to make the necessary entries and repeats each entry so that mistakes can be corrected immediately. TeleFile, as its called, provides a confirmation number to the caller as verification of filing.

The TeleFile system has been available to individual filers since 1992 and is now being offered to eligible small employers in the IRS' Southeast Region (including Kentucky) so that they can take advantage of the ease and convenience of filing by phone. The pilot began April 1, 1997, and run through February 10, 1998.

If your Form 941 tax package includes the 941 TeleFile instructions and tax record, the IRS encourages you to use this quick, easy and convenient way to file. There is nothing to mail and the call is free. You can use the TeleFile system to file your return from any Touch-Tone phone, 24 hours a day, seven days a week.

Do not confuse 941 TeleFile with the Electronic Federal Tax Payment System. Employers who have been notified to pay their federal employment tax deposits electronically are required to use the EFTPS. They may also participate in the 941 TeleFile program. Participation in the 941 TeleFile program is voluntary and not dependent on being required to use EFTPS.

Ed Assistance Exclusion Expires -- Again

The exclusion for employer-provided educational assistance (up to \$5,250 per individual), which had previously expired for tax years beginning after December 31, 1994, was retroactively extended by the 1996 Small Business Act. The exclusion has expired for tax years beginning after May 31, 1997.

For tax years beginning in 1997, only expenses paid for courses beginning before July 1, 1997, are excludable. The exclusion has not been available for expenses related to graduate-level courses that began after June 30, 1996. An extension, if there is one, could possibly affect graduate-level courses.

The cutoff is determined by the course starting date (ordinarily, the first regular day of class). Thus, a summer program beginning as late as June 30, 1997, would still qualify. Prepaying educational expenses for courses beginning after June 30, 1997, would not salvage the exclusion.

The chief benefit of the exclusion is that it applies even if the education is not job-related. In addition, employer-provided educational assistance may be excludable as a working condition fringe benefit under Code Sec. 132, if the Code Sec. 127 exclusion is not extended.

Generally, services performed at a Kentucky board of education in a KTRS position are excluded from social security under the Commonwealth's Section 218 agreement. Substitute and part-time teacher employees must, however, contribute to social security and medicare for services performed after July 1, 1991, if they are not qualified participants of a board of education-sponsored, qualified retirement system.

An exception to the above rule is teachers who are KTRS retirees, receiving KTRS retirement benefits, and performing services as a substitute or part-time teacher. These employees are exempt from the social security portion of the FICA tax. (Substitute and part-time teachers are considered qualified participants of KTRS and excluded from the social security portion of the FICA tax when they are receiving KTRS retirement benefits and meet the IRS definition of a "rehired annuitant".) These substitute teachers are, however, covered for the medicare portion of the FICA tax because the service is not "regular" as it is performed on an "as needed" basis.

The DOSS offers the following checklist that can be used to determine most employees' withholding status under FICA:

1. Is the employee's position covered under an employer's Section 218 Agreement?

If the position is not covered by a Section 218 Agreement, proceed to Item 2. If the position is covered by a Section 218 Agreement, both social security and medicare must be withheld, and you can ignore the next two steps as they do not apply to this employee.

2. Is the employee a participating member of a qualified retirement system as defined in IRC Section 3121(b)7 and associated regulations?

If the employee is not a participating member of a qualified retirement system, both social security and medicare must be withheld. If the employee is such a member, the employee is exempt from only the social security portion of FICA. Proceed to Item 3 to determine the employee's status for medicare withholding.

3a. Was the employee:

- a) hired after April 1, 1986, or
- b) not performing regular and substantial service before April 1, 1986, or
- c) not a bona fide employee on March 31, 1986, or
- d) employment relationship terminated after March 1, 1986?

3b. Has the employer voluntarily elected medicare-only coverage under the Section 218 Agreement?

If the answer is "yes" to either condition, medicare must be withheld.

Critical Links Insure Accurate Reporting

Use correct names and social security numbers, in the correct format, on W-2s to ensure employees get credit for their earnings.

The name and social security number are critical links connecting W-2 data to each employee's lifelong earnings record. The name and number must match SSA's records and be entered on the W-2 in the correct format.

Payroll Records

Update payroll records by asking employees to verify their name and SSN before W-2 preparation. If a name has changed, continue to use the old name until the employee has obtained a new social security card with the new name. Using a new name without updating SSA's records may prevent posting of earnings.

Employees should report name changes to SSA by calling toll free, 1-800-772-1213. Notifying the company is not enough. The employee must notify SSA to update the permanent record.

Social Security Numbers

A wise payroll person will ensure that an employee's SSN is valid. The following SSNs are impossible:

* any SSN having 000, or 729 through 999 as the first three left-most digits,

* any SSN with all ones (111-11-1111) or all threes (333-33-3333),

* the number 123-45-6789.

W-2 Name Format

Enter the name and SSN as they are shown on the employee's social security card. The name shown on the card will match the employee's permanent record.

Use names only. Use the first name, middle initial (unless there is no middle name) and last name. Don't use titles--Mr., Ms., Dr., Capt. Don't add suffixes--RN, MD, PhD, CLU, Jr., Sr.

Compound names require a hyphen. Parts of compound names must be connected with a hyphen. Don't separate them with a blank space or join them into a single word.

Here are some examples:

Susan B. Smith Johnson should be entered on the W-2 as:

Susan B Smith-Johnson

Maria Mercedes Sancho Davila should be entered on the W-2 as:

Maria M Sancho-Davila

Jose Ramon Lopez Gonzales should be entered on the W-2 as:

Jose R Lopez-Gonzales

Ivan Ramirez Arellano (no middle name) should be entered on the W-2 as:

Ivan Ramirez-Arellano

Juana Garcia y Vega (no middle name) should be entered on the W-2 as:

Juana Garcia-y-Vega

Single-letter prefixes

Single-letter prefixes such as O or D must not be separated from the rest of the surname by a blank, but should be connected by an apostrophe or joined to the rest of the surname.

Grace H. O'Malley should be entered on the W-2 as:

Grace H O'Malley or

Grace H OMalley

Anthony D'Angelo (no middle name) may be entered on the W-2 as:

Anthony D'Angelo or

Anthony DAngelo

Common name prefix exception

The following common name prefixes do not require a hyphen to link them

to a name. SSA's computer software recognizes the prefixes and expects to find a name attached to them.

DA DE DI DO DU EL LA LE LF LI LO MC MT ST BON DEL DER LAS LOS MAC MTE SAN STA STE VAN VER VON DELA VANDE VONDE VONDER VANDER

The above prefixes do not require a hyphen but if one is used it will not hinder processing the W-2 nor posting wages to the person's earnings record.

For example: Majed S. El Alami may be entered on the W-2 as:

Majed S El Alami or

Majed S El-Alami

Susan R. Di Bello may be entered on the W-2 as:

Susan R Di Bello or

Susan R Di-Bello

Compound names incorporating the above prefixes must use a hyphen for all parts of the compound surname.

Catherine L. Smith Le May should be entered on the W-2 as:

Catherine L Smith-Le-May

Gloria M. Rodriguez de Perez should be entered on the W-2 as:

Gloria M Rodriguez-de-Perez

*DOSS...
leading
the way!*



This newsletter will soon be available via e-mail.

No longer will you have to wait for the snail mail. Your DOSS newsletter will not be sent to the wrong person, will not be damaged in route to you and will always be on time.

All you will need is internet e-mail capabilities and something called "Acrobat Reader" which can be downloaded from our web site at:

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

If you want to receive the next Doss news letter as soon as possible, please give us your e-mail address, agency name and telephone number. (Your internet e-mail address will be similar that listed below.)

We plan on testing your e-mail address in August and delivering the autumn newsletter in September via e-mail

Contact Jim Clarke by e-mail at jclarke@mail.state.ky or by telephone at 502/564-3952 no later than July 31, 1997.