



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

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# Proper Use of Forms 1099 & W-2 Essential for Accurate Reporting

The Form 1099-MISC is an Internal Revenue Service information return used by employers to report such diverse items non-employee compensation, rents, services, prizes and awards, etc. State agencies should ensure that all payments through STARS (state government's accounting system) are properly coded for Forms 1099 processing. Also, state agencies should ensure that the proper employee/contractor status is accorded to individuals with personal service contracts.

The issue of whether an employment relationship exists with a contractor turns on the question of whether the state agency for which services are performed has the right to control the contract holder performing the services as to the manner and means by which the services are performed to a degree sufficient to establish the relationship of employer and employee under common law rules. State agencies should review each contract and apply the IRS common-law control test (available from the DOSS) to determine whether an individual holding a personal service contract in an employee or an independent contractor.

State agencies should also take care in their manner of reporting appointed officials, such as board or commission members, who are considered employees.

The definition of employee under the Social Security Act includes "an individual who, under the usual common-law rules applicable in determining an employer-employee relationship, has the

status of an employee." The act also defines an officer of a state as an employee.

The Internal Revenue Code defines employee as "an officer, employee or elected official of the United States, a state or any political subdivision thereof, or any agency or instrumentality of any one or more of the foregoing."

The Kentucky Revised Statutes state that an employee is "any person in the service of the Commonwealth, a political subdivision or an interstate instrumentality of which the Commonwealth is a principal and shall include all persons designated officers, including those which are elected and those which are appointed."

The DOSS has prepared an fact sheet on determining employment status titled "Who is a Governmental Employee". A copy of the fact sheet can be obtained by calling the DOSS at 502/564-3952 or by downloading from our web site at <http://www.state.ky.us/agencies/finance/divss.htm>.

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# Non-Resident Aliens and FICA Withholding

FICA taxes generally apply to wages for employment services in the U.S., regardless of the citizenship or residency of the employee. However, bilateral "totalization" agreements that the Social Security Administration has negotiated with various foreign governments may exempt from FICA coverage nonresident aliens who temporarily transfer to the United States from a "treaty country," provided they continue to contribute to their home country's social security system.

Wages paid to a nonresident alien for services performed as a state employee is subject to FICA if the services are performed in covered employment. FICA taxes apply to the very first dollar of compensation paid to such a nonresident alien since there are no exemptions in the case of "de minimus" amounts of compensation. Moreover, nonresident aliens exempt from federal income tax under provisions of an income-tax treaty or section of the federal tax code usually are subject to FICA taxes.

Nonresident aliens admitted temporarily to the U.S. as foreign students and exchange visitors under an F, J, M, or Q visa are not subject to FICA taxes **if the work performed conforms to the purpose for which they were admitted.** Normally, nonresident alien students are not permitted to work for wages or conduct a business while in the U.S. In those instances where the Immigration and Naturalization Service has granted permission for a F, J, M or Q nonresident alien student to work in the U.S., FICA taxes are not withheld.

## 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.

## 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

## New Features on DOSS Web Site

*Following a number of suggestions from users of the DOSS web site, the web site has a totally new look and 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:*

*The Division of Social Security*

*P.O. Box 557*

*Frankfort, KY 40602-0557*

*502/564-3952 (telephone)*

*ddunagan @mail.state.ky.us (e-mail)*

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 may be entered on the W-2 as:

**Grace H O'Malley** or

**Grace H OMalley**

**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 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 name, agency and telephone number. (Your e-mail address should be on the state's global mailing list.) We plan on testing in August and delivering the autumn newsletter in September via e-mail*

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

## **DOA-27 Assistance (see page 4)**

The DOA-27 payroll voucher is completed by a requesting agency and submitted to the Division of Accounts of the Finance and Administration Cabinet, through the Personnel Cabinet. The voucher is used to process immediate salary payments such as payments when an employee did not appear on the regular UPPS payroll, termination of employment payments, back pay for prior years and payment to non UPPS state employees who are subject to employment taxes, for example --some personal service contractors.

On the following page a sample Form DOA-27 is shown with only the fields completed that involve withholding of social security and medicare taxes. See the UPPS Payroll Manual for instructions on completing of any other fields.

The DOSS requires the identified fields on the sample to be completed. Special note should be given to the following fields; Company Payroll Number, Payment Type and Social Security Number. Agencies should insure that all personnel involved in Form DOA-27 preparation adhere to these requirements.

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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.*

Form DOA-27  
Rev. 10-1-91

COMMONWEALTH OF KENTUCKY  
FINANCE AND ADMINISTRATION CABINET  
PAYROLL VOUCHER

FORM REFLECTS ONLY SOCIAL SECURITY DATA

DEPARTMENT NAME Office of the Controller DATE 06/16/97  
DIVISION NAME Division of Social Security PAGE 1 OF 1 PA 005126

TRAN CODE	FUND	CAB	DEPT	PRG PROJ	OBJECT CODE	DIV	BR	SECT	UNIT	FUNCTION CODE	LOCATION	VENDOR NUMBER	FUNDING SOURCE	BUDGET UNIT	AGENCY OBJECT CODE	AGENCY DATE (MM/DD/YY)	ORG. INDEX
215	13	39	758	AD00	E111							** FNPAYRL					
GRANT NO	GR FY	SUB GR	PERIOD FROM	TO			TOTAL DISBURSEMENT AMOUNT		PAYMENT TYPE (X)		FOR DIVISION OF ACCOUNTS USE ONLY		FMO	FY	AUDIT REFERENCE	VOUCHER NUMBER	
			June 1, 1997	June 15, 1997			39-758		<input checked="" type="checkbox"/> P-1 EMPLOYEE <input type="checkbox"/> NON P-1 EMPLOYEE IN UPPS <input type="checkbox"/> NON P-1 EMPLOYEE OTHER								

LAST NAME AND INITIALS	AMOUNT	STATE PAY	MEMO
<b>Employee, A B</b> SOCIAL SECURITY NUMBER <b>231-45-6789</b>			
Gross			
Social Security @ 6.20%	(1) <b>62.00</b>	(1) <b>62.00</b>	Social Security Taxable = <b>1,000.00</b>
Medicare @ 1.45%	(1) <b>14.50</b>	(1) <b>14.50</b>	Medicare Taxable = <b>1,000.00</b>
Federal Tax			
State Tax			
Local Tax			Local Taxable = Name
Local Tax			Local Taxable = Name
Retirement		*	Name Wages Subject =
Health Insurance		*	
Bond			
State Paid Life Ins.		*	
Misc			
Misc			
Misc			
Misc			
Misc			
Net Pay	*		

LAST NAME AND INITIALS	AMOUNT	STATE PAY	MEMO
SOCIAL SECURITY NUMBER			
Gross			
Social Security @ 6.20%	(1)	(1)	Social Security Taxable =
Medicare @ 1.45%	(1)	(1)	Medicare Taxable =
Federal Tax			
State Tax			
Local Tax			Local Taxable = Name
Local Tax			Local Taxable = Name
Retirement		*	Name Wages Subject =
Health Insurance		*	
Bond			
State Paid Life Ins.		*	
Misc			
Misc			
Misc			
Misc			
Misc			
Net Pay	*		

TOTALS THIS PAGE	GROSS PAY	TOTAL FICA <b>SS 124.00</b> <b>(1) HI 29.00</b>	FEDERAL TAX	STATE TAX	LOCAL TAX	EMPLOYEE RETIREMENT	SAVING BONDS	HEALTH INSURANCE	MISCELLANEOUS	*TOTAL NET PAY
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GRAND TOTALS										
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WHITE -- Division of Accounts    GREEN -- Treasurer    CANARY -- Social Security    PINK -- Personnel    GOLDENROD -- Agency (Pending)

## Form DOA-27

The Division of Social Security requires all fields listed below to be completed.

- | Field Name             | Instructions   |
|------------------------|--|
| Department Name        | Enter name of department completing form.  |
| Division Name          | Enter name of division completing form.  |
| Account Number         | Enter fund, cabinet, department, program/project code, object code (required fields) and any additional account elements needed.   |
| Period                 | Enter time period covered by voucher.  |
| Company Payroll No     | Enter two digit cabinet and three digit department numbers.  |
| Payment Type           | P-1 Employee: Check if P-1 employee paid on UPPS.<br>Non P-1 Employee in UPPS: Check if non P-1 employee paid on UPPS.<br>Non P-1 Employee Other: Check if employee is not paid on UPPS. |
| Last Name and Initials | Enter employee's name.   |
| Social Security Number | Enter employee's social security number.   |
| Soc Sec Employee       | Enter employee's share of social security (6.2% of taxable wages).   |
| Soc Sec Employer       | Enter employer's share of social security (6.2% 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% of taxable wages).   |
| Medicare Employer      | Enter employer's share of medicare (1.45% of taxable wages).   |
| Medicare Taxable       | Enter wages subject to medicare (Gross wage minus retirement pickup; minus flexible spending account; minus cafeteria plan contributions).   |
| Total FICA             | Enter total of employee and employer social security.<br>Enter total of employee and employer medicare.  |