

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

Local Government Edition

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

IRS Introduces Newsletter for Government Employers

Hailed as an example of the new era of public service for the Internal Revenue Service, a national newsletter specifically developed with government entities in mind has debuted. The newsletter is available on the IRS web site at http://www.irs.gov/pub/irs-tege/fall02_fslg.pdf. No paper version of the newsletter is to be produced.

The newsletter is published by the Office of Federal, State and Local Governments (FSLG) which is in the Division of Tax Exempt and Government Entities (TE/GE). According to the IRS, the mission of FSLG is to provide the necessary information and assistance to government employers so that a better understanding of and a better compliance with federal tax laws may be attained.

The primary expertise of the FSLG is employment tax law and information return reporting. The office does, however, have full responsibility for assisting government employers in addressing any federal tax issue.

The initial newsletter includes a list of FSLG contacts and phone numbers from across the nation and an article on Social Security coverage among other items.

The FSLG is encouraging government employers to make use of their services. More information about FSLG is available from its local contact person for Kentucky, Ray McLennan at 270/442-2607, ext 127.

Get Your Forms W-2c and W-3c On-Line



The Divisions of Printing and Social Security have joined forces to provide you with on-line copies of the 2002 Forms W-2c and W-3c. These electronic forms can

be downloaded, completed on-line, printed and/or e-mailed to other users, such your employees, the SSA and the Revenue Cabinet.

Go to the Forms Management Library at <http://www.state.ky.us/agencies/finance/depts/printing/oneforms/eformlibrary.htm>

or to the DOSS web site at <http://sssa.state.ky.us> and click on the appropriate link there.

Download the free software and install it on your PC. Then return to the library and download the appropriate forms.

The SSA/IRS Employer Earnings Reconciliation Process

The SSA/IRS Earnings Reconciliation Process compares an employee's wage and tax data submitted to the IRS against employer wage and tax data submitted to the SSA. This data is submitted to both agencies by employers, their representatives, third parties and agents.

When more wages were reported to the IRS than to the SSA, the SSA is concerned that the employee's earnings are not credited correctly to the SSA's records. The SSA examines these cases and makes an effort to resolve the difference without contacting the employer.

When an effort to resolve the discrepancy is unsuccessful, the SSA sends a notice and questionnaire to the employer requesting the earnings data needed to resolve the case. If the SSA does not receive a response after 45 days, the employer is sent a second notice. When no response is received after the second notice, the IRS is responsible for contacting the employer and may impose penalties, if necessary.

Any employer contacted by the IRS or the SSA about an earnings reconciliation issue should go to the web page titled: What Employers Need to Know about the SSA/IRS Employer Earnings Reconciliation Process on the SSA web site.

An employer should reconcile their wage records each year. Every January or February, the information of the prior year's Forms 941 should be compared to payroll records. Compare the amounts to be reported to the SSA on Form W-3 to the sum of the amounts reported to the IRS on Forms 941 for the tax year. The following amounts on the IRS and the SSA forms should match:

ITEM	W-3 Block	941 Line
Social Security Wages	3	6a
Social Security Tips	7	6b
Medicare Wages/Tips	5	7
Federal Income Tax Withheld	2	3
Adv. Earned Income Credit	9	12

When the amounts shown above do not match the IRS and the SSA reports, the employer should consult the wage reporting instructions and double check wage reports.

When filing reports electronically, on magnetic tape, diskette or cartridge, the total of all employee wage ("RW") records should agree with the amount entered in the "RT" record.

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Paul E. Patton, Governor
T. Kevin Flanery, Finance Secretary
Daryl Dunagan, Director



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On the Division of Social Security Web Site

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

The following items for the year 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
- Publications 15, 15A and 15B

NEWS DIRECT FROM THE SSA--

Small Employers can use W-2 ON-LINE

If you are an employer who will report 20 or less W-2 forms for tax year 2002 then On-line W-2 is the reporting method for you! You can complete up to 20 Forms W-2 right on your computer, electronically submit them to Social Security Administration and print copies suitable for distribution to your employees.

Just follow two simple steps:

1. Go to www.ssa.gov/employer and click *Employer Services On-line*. Select *Registration* and follow the prompts. You'll be issued a Personal Identification Number (PIN) immediately. They'll mail you a temporary password within 10 to 14 days. You must change the password right away to one you personally select. Or, if you registered last year, proceed to the on-line wage reporting system.
2. Then, anytime between January 6, 2003 and March 31, 2003, go back to *Employer Services On-line*, click *On-line Wage Reporting Service*, and select *Use W-2 On-line*. Type in the employee information on the W-2 and totals on the W-3 screens. A link will be provided for sending your forms electronically to SSA and allow you to print copies of the W-2's and W-3.

Everything you need to know about filing Forms W-2 electronically with the SSA can be found in the **Employer Services On-line Handbook**. To view and print the Handbook, go to www.ssa.gov/employer and click *How to File*, or if you have further questions call 800-772-6270, for general electronic filing questions, and 888-772-2970, for technical connection and transmission questions.

Electronic Filing of Forms W-2 is Quick and Easy

Instead of sending the Social Security Administration your W-2 diskette, tape or cartridge for tax year 2002, send the file electronically via the internet. Why risk having your file damaged or lost while mailing, when it can be sent electronically. You've already got the W-2 file on your computer, so save yourself some time and trouble by sending it over the Internet (The State of Kentucky sent over 60,000 W-2's electronically last year and the wage information was posted to their employees' records within two weeks)

Here are the advantages:

- It is **free, fast and secure**.
- It saves time and **reduces filing burden**.
- It offers a **later filing deadline** (the due date for electronically filed W-2's is March 31, 2003 versus February 28, 2002 for all other filing methods).
- It provides an **electronic receipt for proof of filing**.
- You can **track the status** of your W-2 report as it's processed within Social Security.
- It is completely **paperless** process (no Forms 6559 needed), and more.
- **Free software** (called Accuwage) is available to test your report accuracy before submitting your file.
- Social Security provides **free technical support** using a toll-free number (1-888-772-2970).

How to Start: Everything you need to know about filing Forms W-2 Electronically with Social Security can be found in the **Employer Services On-line Handbook**. To view and print the Handbook, go to www.ssa.gov/employer and click *How to File*.

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.

2003 Social Security Facts and Figures

The wage base for social security for 2003 is \$87,000. The full amount of an employee's wages is taxable for Medicare purposes. (The estimate for 2004 is currently \$91,500.)

The social security tax rate is 6.2 percent on the employee's taxable wages up to the maximum amount \$87,000. The Medicare tax rate is 1.45 percent on the employee's taxable wages. The total taxable wages are subject to the 1.45 percent medicare withholding.

The election worker FICA exclusion is adjusted each year to reflect changes in the economy. The 2003 threshold amount is \$1,200 a year.

Social Security Tax	1999	2000	2001	2002	2003
Employee rate	6.20%	6.20%	6.20%	6.20%	6.20%
Employer rate	6.20%	6.20%	6.20%	6.20%	6.20%
Maximum wages	\$72,600	\$76,200	\$80,400	\$84,900	\$87,000

Medicare Tax					
Employee rate	1.45%	1.45%	1.45%	1.45%	1.45%
Employer rate	1.45%	1.45%	1.45%	1.45%	1.45%

Other Wage Information					
Earnings required for one quarter coverage	\$740	\$780	\$830	\$870	\$890
Annual increase in benefits	1.30%	2.40%	3.50%	2.60%	1.40%
Government Control Employee	\$110,700	\$114,500	\$117,600	\$121,600	not available
Expiration of statute of limitations	4/15/03	4/15/04	4/15/05	4/15/06	4/15/07
Election worker exclusion	\$1000/yr	\$1,100/yr	\$1,100/yr	\$1,200/yr	\$1,200/yr

Miscellaneous Information					
Standard Mileage Rate	32.5 ¢	32.5¢:	34.5¢	36.5¢	36¢
	Jan 1-Mar 31				
	31¢:				
	Apr 1-Dec 31				
Cents Per Mile Rule—Maximum car value	\$15,500	\$15,400	\$15,400	\$15,300	not available
Relocation and Medical Rate	10¢	10¢	12¢	13¢	12¢

Taxability of Cafeteria Plans

Kentucky governmental employers began implementing cafeteria plans in the early 1980s. Social security withholding requirements and definitions, until January 1, 1987, were based on Social Security Administration laws and interpretations. The SSA held, for any wages paid prior to January 1, 1987, that amounts contributed under cafeteria plans were taxable for social security and medicare, but were exempt from federal income tax withholding.

On January 1, 1987, the withholding requirements for government employers were brought under Internal Revenue Service jurisdiction. IRS rules require uniform treatment for contributions to cafeteria plans in regards to both FICA and income tax withholding. Therefore, benefits under cafeteria plans or flexible spending accounts paid after January 1, 1987, are **not taxable** for social security, medicare or federal income tax.