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According to Doyle...

Nothing is ever as simple as it first appears. Take employer-provided vehicles for example. When a government agency provides a vehicle for an employee who derives personal use from that vehicle, the value of such personal use is treated as a taxable fringe benefit. An employee's personal use of the vehicle (other than de minimus use) must be treated as taxable wages, have applicable employment taxes withheld and be reported on Form W-2.

The taxable wages due to personal use is determined by the fair market value of its availability. The following four methods are used to determine the value of personal use:

- 1) The general fair market value
- 2) The annual lease value method
- 3) The cents per mile method
- 4) The commute method

The Division of Social Security has also prepared an informational paper outlining a state agency's employment tax responsibilities concerning employer provided vehicles. Please contact the division (502/564-3952) to acquire copies of the paper or to address any questions concerning employer provided vehicles.

As we near Christmas, the New Year and the 1996 tax year, the Division of Social Security wants everyone to have a happy holiday season and a reconciled payroll.

Sincerely,

Patrick L. Doyle

Patrick L. Doyle, Director
Division of Social Security

DOSS Manual and IRS Reference Guide Offer Help for State & Local Employers

A comprehensive reference guide that state and local government employers can use to understand federal social security, medicare and employer withholding issues has been published by the Internal Revenue Service. The *Federal-State Reference Guide* outlines laws, regulations and other information necessary to determine worker status and government responsibilities. Officials from the IRS, the SSA and the National Conference of State Social Security Administrators worked on the guide.

The loose leaf guide contains chapters on determining worker status (employee vs. independent contractor), social security coverage, medicare/hospital insurance, public employers and retirement systems, the role of the state social security administrator and the responsibilities of the IRS and the SSA. The guide includes various forms, sources for additional information, a glossary and maps of SSA and IRS regions.

For information about obtaining a copy of the guide, call the IRS at 1-800-829-3676 and ask for Publication 0963.

A great supplement to the *Federal-State Reference Guide* is the Division of Social Security's manual titled *Social Security/Medicare Coverage and Reporting for Kentucky Governmental Employers*. This free manual offers more information directly applicable to smaller entities, is Kentucky-specific and is periodically updated.

The Kentucky manual is available from the Division of Social Security (502/564-3952) P.O. Box 557, Frankfort, KY 40602-0557.

DOSS Offers Mag Media Service

The Division of Social Security once again offers its magnetic media reporting services to local government employers unable to comply with the IRS requirement that more than 250 W-2s be transmitted on mag media. The service is available upon approval by the division for a nominal fee of 50 cent per W-2. Contact Daryl Dunagan at (502) 564-3952 for more information.

Electronic Filing of '95 W-2s Available for Small Employers

Employers with fewer than 250 employees and planning to use paper to file their 1995 Forms W-2 with the Social Security Administration may be able to file the forms electronically under SSA's pilot electronic W-2 filing program. Employers may request to register by first calling Ms. Pat McCarron, (404/331-2587) the magnetic media coordinator at the Atlanta Regional SSA Office. McCarron will then give the employer the special electronic bulletin board telephone number which can be used to register on-line with SSA.

The SSA TIB-4 magnetic media formats for diskettes only (not tape) will be acceptable for computer modem transfer.

While the scope of the project is widening dramatically from the previous two years, the number of employers participating may be limited by the magnetic media coordinator if the demand becomes overwhelming.

Once registered, the system is "self-serve" with instructions for filing W-2s on the system. SSA will validate the registration overnight before a transfer is conducted, and encourages accepted users to register as early as possible. Test transfer files will be accepted if the purpose is only to test the modem and not for file validation.

The bulletin board transfer system will offer baud rates as high as 28,800, with a variety of transfer protocols available. The magnetic media coordinators will be available for questions during the process and will follow up with project participants. A brochure on the pilot project will become available shortly for 1995 W-2 filers.

Mandatory Medicare Not In First Budget Compromise

Back in September the proposed federal budget included sections establishing mandatory medicare for all non-covered employees. As you know, employees not covered for full social security and hired after March 31, 1986, must pay the 1.45 percent medicare tax. The budget proposal would have required medicare coverage for any employee regardless of the hire date.

After the conference committee met to work out an agreed budget between the House and Senate, it appears that mandatory medicare was deleted. Even though the mandatory medicare provision was removed from the latest budget reconciliation act adopted by Congress, the budget act itself was vetoed by President Clinton.

A number of issues, including mandatory medicare will possibly be reexamined during the budget process. One can expect mandatory medicare to be reconsidered.

The exclusion for educational assistance had survived the Congressional budget conference committee.

The House provision retroactively extended the exclusion from January 1, 1995, through December 1997, and the exclusion would not have been available for graduate-level education beginning in 1996. The Senate provision retroactively extended the exclusion from January 1, 1995, to March 1, 1997.

The conference committee agreement followed the House bill, except that the exclusion was retroactively extended through December 1996, and did not apply to graduate-level education after 1995.

With the veto of the budget reconciliation act, however, the future of the educational assistance exclusion is also unclear.

PEBES Employer Info Package Now Available

Individuals can request a Personal Earnings and Benefit Statement (PEBES) from the SSA at any time. Beginning in October, 1995, and each year thereafter, however, SSA began mailing a PEBES to people who reached age 60. This is aimed at helping those near retirement become better informed about what they can expect to receive in social security benefits. By the year 2000, eligible individuals age 25 and older will automatically receive a PEBES each year.

PEBES displays an individual's earnings each year from the SSA earnings record and provides an estimate of retirement, survivors and disability insurance benefits for which an individual (and family) may be eligible.

Employers may request SSA Publication No. 20-003, Employer Information Package, Personal Earnings and Benefit Estimate Statement, which is designed to help employers inform employees about PEBES, respond to many generic questions that may arise and correct any erroneous information that may have been reported to the SSA. Employers should contact Ms. Pat McCarron, the magnetic media coordinator for the SSA's Atlanta Regional Office (404/331-2587) to request the Employer Information Package.

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 W-4 Info

Employers are required to deduct and withhold federal income tax from most employee paychecks. Therefore, employees complete a Form W-4, *Employee's Withholding Allowance Certificate*, when starting a new job.

The W-4 includes three types of information that an employer uses to determine an employee's withholding amount—(1) whether to withhold at the single or married rate, (2) the amount of withholding allowances the employee claims and (3) whether to withhold an additional amount for the employee.

Form W-4 has worksheets to help employees determine the proper amount of withholding allowances to be claimed. A *Personal Allowance Worksheet* is also available to adjust withholding allowances for itemized deductions and adjustments to income, and for two-earner or two-job situations.

A new W-4 may be given to the employer if an event occurs changing an employee's withholding status. Some reasons an employee may need to change the W-4 for the coming year are marriage, divorce, the birth or adoption of a child, the death of a spouse or dependent or a dependent reaching the age that he/she no longer qualifies as a dependent.

Any employee claiming exemption from withholding must submit a new W-4 for the coming year. All "exempt" W-4s technically expire on December 31, 1995, but there is a 45-day grace period. An employee may submit a new W-4, again claiming "exempt," if so qualified, but if the employee does not submit a new W-4 by February 15, 1996, the employer is required to change the W-4 status to single with zero withholding allowances.

As a service to employees, IRS publication 91, *Is My Withholding Correct?*, could be made available.

Valid and Invalid W-4s

Employers have a responsibility to accept only valid Forms W-4 from their employees. That is, an employer having knowledge that any information on a W-4 is incorrect must refuse to accept it from the employee. False information on a W-4 renders it invalid, as does altering a W-4. A common alteration employees make is scratching out the word "Additional" on line 6, writing in the word "Fixed" or "Flat," and then placing a dollar figure in the box. The employee is requesting that the employer withhold a fixed amount for federal taxes from each pay check. This should not be accepted.

Electronic Filing of W-4s

IRS now allows employers to accept electronically submitted W-4 information from employees. There are, however, some limitations. Employees may not be required to use an electronic system. New employees must file a paper W-4 when they begin employment, so that there is a handwritten signature on file. A paper W-4 is also required for employees claiming more than 10 withholding allowances and for employees who are expected to earn more than \$200 per week and claim exemption from federal withholding. This is because

copies of these W-4s must be sent to the IRS with the Form 941.

The electronic W-4 system selected may vary depending on the employer's software and hardware. It could work through a phone system, through personal computers networked to the payroll system or through live terminals directly linked to the payroll system.

When setting up an electronic W-4 system, confidentiality and integrity of all payroll information must be ensured. An employee should be able to change only his/her own W-4 information and should be able to review and confirm the change. The system should have an edit function that does not allow the entry of more than 10 allowances or the selection of "exempt" for employees earning more than \$200 per week. The system should produce a listing of employee initiated changes so that there is documentation to be reviewed as part of the payroll audit process.

Paper W-2s and W-3s should:

* W-2 data for each employer should be segregated based on type of employer (e.g., regular social security tax employment versus Medicare Qualified Government Employee). There should be one W-2 submission for each type of employment. W-2s for each type of employment should be accompanied by a W-3 indicating the corresponding type of employment (kind of payer). In certain situations, however, state and local government employers have the option of reporting employee wages and tax withheld on either a combined or split-report basis.

* Information should be entered in all appropriation blocks, items or data fields for the type of employment being reported.

* Repetitive information, such as the employer's name, address and employer identification number should be checked for consistency before preparing the forms.

* Where appropriate, only alphabetic or numeric information should be entered. Impossible social security numbers or EINs should be screened.

* Employee tax withholding amounts should be consistent with the taxable wages and rates for social security or medicare.

* Subtotal W-2 amounts should only be produced when there are 42 or more employee W-2 statements. Once the threshold of 42 is met, subtotal statements should be produced for each group of 41 employee W-2 statements and for the remaining statements when less than 41. The corresponding W-3 report should reflect subtotal money amounts (or aggregate W-2 money amounts when no subtotal statements are required.)

* Use W-3 control totals to match and reconcile the annual sum of quarterly line items amounts reported on IRS Form 941 or comparable forms for the same tax year and same EIN. Employers should be alert for adjustments reported on the IRS 941c submissions to ascertain that they belong to the current year.

1996 Social Security Facts and Figures

Social Security Tax Information:	1993	1994	1995	1996	1997	1998	1999
Employee rate	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Employer rate	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Maximum wages	\$57,600	\$60,600	\$61,200	\$62,700			
*Projected maximum					\$65,700	\$68,100	\$71,100
Medicare Tax Information:							
Employee rate	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
Employer rate	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
**Maximum wages	\$135,000	Total	earnings	are	taxable		
Social Security Benefit Information							
Earnings required for one quarter coverage	\$590	\$620	\$630	\$640			
Exempt amounts under annual earnings test:							
Under age 65	\$7,680	\$8,040	\$8,160	\$8,280			
Age 65-69	\$10,560	\$11,160	\$11,280	\$11,520			
70 and older	No limit	No limit	No limit	No limit			
Avg monthly Social Security benefit for individuals	\$657	\$674	\$702	\$720			
Avg monthly Social Security benefit for couples	\$1,111	\$1,140	\$1,184	\$1,215			
Maximum monthly SSI benefit for individuals	\$434	\$446	\$458	\$470			
Maximum monthly SSI benefit for couples	\$652	\$669	\$687	\$705			
Annual increase in benefits	3.00%	2.60%	2.80%	2.60%			
Government Control Employee	\$108,200	\$108,200	\$108,200	\$108,200			
Expiration of statute of limitations	4/15/97	4/15/98	4/15/99	4/15/00	4/15/01		

FICA Tax Rates and Wage Bases

The 1996 wage base for social security withholding is \$62,700. The full wage amount is taxable for Medicare purposes.

The social security tax rate is 6.2 percent on the employee's taxable wages up to a maximum that is established by the Social Security Administration each year. The medicare tax rate is 1.45 percent on the employee's taxable wages. Medicare wages paid prior to January 1, 1994 are subject to a maximum wage base established by the Social Security Administration. The total taxable wages paid on and after January 1, 1994, are subject to the 1.45 percent medicare withholding.

Because the maximums for social security and medicare are different, Forms W-2, W-3 and 941 require employers to report social security wages and taxes separately from medicare taxes and wages. Refer to the chart below for the current and projected wage maximums.

* The maximum wages subject to social security for the next calendar year are calculated and announced by the Social Security Administration each fall.

** Public Law 103-82 repealed the medicare wage base, effective January 1, 1994.