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Division of Social Security

Finance & Administration Cabinet
Division of Social Security
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State Government Edition

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According to Doyle...

Autumn has been a very busy season for the Division of Social Security. We hosted 18 social security coverage and reporting seminars in October across the Commonwealth. I am pleased to report that about 800 of you, representing more than 500 government employers participated in the seminars.

The DOSS staff enjoys traveling the state and, since we talk to many payroll officials and finance officers on the phone, its nice to be able to put a face with a name.

I want to thank each and every one of you who took time from your busy schedule to attend these instructional sessions. We hope the seminars were beneficial and help you in performing your job duties.

I also want to thank the representatives of the Department for Local Government and the Office of the State Auditor for helping conduct these training sessions.

One of the main reasons for the seminars is the IRS's new education and compliance effort aimed at governmental employers. The IRS believes that FICA noncompliance is high among these employers because of their unique and often confusing coverage status. The seminars were a part of the education portion of the program.

The compliance part begins when the IRS begins field audits of selected government employers. During one of the seminars, we were approached by a governmental payroll officer who had already been contacted by the IRS to set up a "visit". Should other government employers receive a similar greeting from the IRS, feel free to contact us. We will be glad to help in anyway possible.

In the meantime, the Division of Social Security hopes everyone has a happy holiday season and an IRS-free 1997.

Sincerely,

Patrick L. Doyle

Patrick L. Doyle, Director
Division of Social Security

Year-end Reminders...

- Any social security or medicare wage or tax adjustments which will be made for 1993 wages MUST be received by the Division of Social Security by January 10, 1997.
- Personal service contract holders who have been determined to be employees for federal employment tax purposes can be paid on the UPPS system. UPPS processing allows agencies to avoid manual processing for Forms DOA-27 and W-2. Agencies are responsible for determining if personal service contract holders are employees for federal tax purposes. The DOSS is available to assist in such determinations.
- Any Request for Refund on Payroll (ROP) or Form DOA-27 for 1996 which is submitted **after** December 20, 1996, must have "1996" written at the top of Form DOA-27 and ROP.
- The cutoff for request for refund of income taxes withheld for 1996 fund must be received in the Treasury by Dec. 30, 1996.
- Remember to submit a DOA-57 for 1099 reporting of deceased employees. The Division of Accounts in the Finance Cabinet can assist in preparation of this form. See related article on pages 2 and 3.
- The last day for submission of a Form DOA-27 to the Department of Personnel Administration for inclusion in 1996 wages is Dec. 23, 1996.

Year-end Reconciliation

Each state agency is responsible for reconciling the wages paid during the year to the Form W-2 printed for each employee. Insure that all manual pay updates, especially for Forms DOA-27 and Requests for Refund on Payroll, are reflected in the wage and tax amounts printed on the Form W-2. Verify that the manual pay update has processed correctly by ensuring the update is reflected on the employee's Quarterly Earnings History.

The Division of Social Security reconciles the amount of social security and medicare wages and taxes that it has received and processed throughout the year to the wage and tax amounts on Forms W-2 for each agency. DOSS will notify each agency which is required to verify and correct any reporting or payment discrepancies.

Form W-2/W-3 Corrections

Once form W-2 information has been filed with the Social Security Administration, any corrections must be made on Form W-2c and Form W-3c. Both forms are available from the Division of Social Security.

If the only correction is to the employee's name or social security number, file only a Form W-2c. If the employee has a name change, the employee must notify the SSA and request a new social security card.

Form W-3c is used to accompany Copy A of a Form W-2c sent to the DOSS. A separate Form W-3c must be used for each type of Form W-2 being corrected and must accompany a single form W-2c, as well as with multiple Forms W-2c.

Forms W-2c and W-3c must be filed with the DOSS. **Disregard any instructions to file the W-2c/W-3c with the Social Security Administration at Wilkes-Barre DOC.** Send Copy A of Form W-2c and the original of Form W-3c to the DOSS.

Wage and Tax Adjustments Income tax withheld from an employee cannot be adjusted after December 30, 1996. Adjustment can, however, still be made to social security and medicare wages and taxes, as explained below.

If less than the correct amount of social security and medicare is withheld, the agency must collect the underpayment from the employee and prepare a Form DOA-27 requesting the employer's share. A Form W-2c must be filed to ensure an adjustment is made to the employee's social security and/or medicare wages. Send the Form W-2c and W-3c, employee's payment and a copy of Form DOA-27 to the DOSS.

If more than the correct amount of social security and medicare is withheld, the excess must be returned to the employee. A receipt (Request for Refund on Payroll) with the date and amount of repayment is required. If the over collection of social security and medicare is for a prior calendar year, the agency must obtain a written statement from the employee stating that the employee has not and will not claim a refund or credit of the over payment. Obtain a copy of this certification statement (Form SS-1) from the DOSS. A Form W-2c must be filed to ensure an adjustment is made to the employee's social security and/or medicare wages. Send the Forms W-2c and W-3c, certification statement and Request for Refund on Payroll to the DOSS.

DOSS will review forms W-2c prior to distribution to employees to ensure proper form preparation. FAX a copy to Darlene Pennington of this office for review.

Employees Reported Over Maximum Employees working for more than one cabinet or department in 1996 may have social security wages reported in excess of the maximum \$62,700. The DOSS will run a report of these employees in mid-January, notify the impacted employees and agency and complete all required adjustment forms and procedures.

Reporting Deceased Employee's Wages

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 made the payment in the same year the employee died, you 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. You must submit a Form DOA-57 for the 1099 reporting. Contact the Division of Accounts in the Finance Cabinet at 502/564-6690 for additional information on 1099 reporting.

Example Before Employee A's death on June 15, 1996, 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, 1996. 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

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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.

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Reporting Wages of Deceased Employees

- 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
- Box 15 Mark the Deceased box

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

- Boxes for recipient's name, address, and TIN The estate or beneficiary'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.

We're on the Web!!

Material from the Division of Social Security is now available on the internet at:

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

•See the division's quarterly information brochures for the latest social security and medicare coverage and reporting information. These brochures are designed for use by governmental payroll, personnel and financial employees.

•View informational publications for the state and local governmental employer:

- Kentucky Governmental Employer Manual.** A guide to social security and medicare coverage and reporting for Kentucky governmental employers.
- Who is an Employee?** Information on how to determine if an individual is an employee or a contractor.
- Employer Provided Vehicles.** Rule to be used in ascertaining the taxable value of a vehicle provided to an employee.
- FICA Taxes and a Cafeteria Plan.** Taxability of benefits under cafeteria plans and flexible spending accounts.
- Third Part Sick Pay Plans.** Coverage and reporting rules for sick or disability payments made to governmental employees.
- Windfall Elimination Provision.** SSA fact sheet explaining how a pension from work not covered by social security may affect social security retirement and disability benefits. This applies only to employees not covered for social security.
- Government Pension Offset (GPO).** SSA fact sheet explaining that the GPO's possible affect social security benefits for a spouse. This applies only to employees not covered for social security.
- Social Security and the Public Employee.** Information on the different benefits social security provides to the governmental employee.
- Medicare and the Public Employee.** Overview of medicare benefits provided to the governmental employee.
- Social Security Administration Offices in Kentucky.** The SSA district offices' addresses and telephone numbers.

•E-mail questions, comments or requests directly to the Division of Social Security. We can help in such areas as:

- *Social security and medicare coverage of governmental employees.
- *Wage and withholding tax reporting.
- *Federal legislation and regulatory changes that impact social security.
- *SSA and IRS rulings concerning social security and medicare.
- *Corrections and adjustments to social security wages and taxes.

1997 Social Security Facts and Figures

Social Security Tax Information:	1993	1994	1995	1996	1997	1998
Employee rate	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%
Maximum wages	\$57,600	\$60,600	\$61,200	\$62,700	\$65,400	
*Projected maximum						\$67,800
Medicare Tax Information:						
Employee rate	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%
**Maximum wages	\$135,000	Total	earnings	are	taxable	
Social Security Benefit Information						
Earnings required for one quarter coverage	\$590	\$620	\$630	\$640	\$670	
Exempt amounts under annual earnings test:						
Under age 65	\$7,680	\$8,040	\$8,160	\$8,280	\$8,640	
Age 65-69	\$10,560	\$11,160	\$11,280	\$12,500	\$13,500	
70 and older	No limit	No limit	No limit	No limit	No Limit	
Avg monthly Social Security benefit for individuals	\$657	\$674	\$702	\$724	\$745	
Avg monthly Social Security benefit for couples	\$1,111	\$1,140	\$1,184	\$1,220	\$1,256	
Maximum monthly SSI benefit for individuals	\$434	\$446	\$458	\$470	\$484	
Maximum monthly SSI benefit for couples	\$652	\$669	\$687	\$705	\$726	
Annual increase in benefits	3.00%	2.60%	2.80%	2.60%	2.90%	
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	4/15/02
Election worker exclusion	\$50/qtr	\$100/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr

FICA Tax Rates and Wage Bases

The 1997 wage base for social security withholding is \$65,400. 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 above 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. These are only estimates and are not official.

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