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According to Doyle...

The Internal Revenue is concerned about the level of employment tax compliance by state and local governmental employers. The IRS believes most compliance problems are because social security and medicare coverage and tax requirements for public employers and their employees is so different than that of for the private sector. Coverage and reporting for government workers is governed by a unique, and sometimes confusing, set of rules.

Consider, for example,

- 1) the way state and local government employers should determine who is an employee and who is a contractor. Because a person is reimbursed through a personal service contract is no reason to automatically assume no federal employment taxes (FICA or FIT) are withheld. There is a set of standards used by the IRS to determine if a local government or a political subdivision and a contractor are in an employer/employee relationship.
- 2) how local governments are responsible for reporting the value of any personal use of an employer-provided vehicle (added to taxable wages).
- 3) the annual question of whether educational assistance under IRC Section 127 still applies. If it doesn't, can educational assistance be excluded under IRC Section 162, instead?

As we have mentioned before, the IRS has launched a comprehensive education and compliance project targeting state, county and city government agencies, as well as school districts, public universities, public hospitals, libraries and special district and others.

The education portion of this effort is a joint federal/state project and includes such things as seminars for local governmental employers (hosted by the DOSS), new publications, participation in association conferences and providing information on worker classification issues. The compliance effort will be centered around checking the records submitted by government employers. The IRS can, for instance, compare social security numbers on Forms 1099 and Forms W-2 to check for duplications which will alert them to a possible employer/employee problem.

On site audits and review of agency payroll records will be an important tool for the IRS. For this reason, it is imperative that local governments and political subdivisions be aware of all the nuances affecting your payroll. You may contact me or Daryl Dunagan, DOSS assistant director, by telephone at 502/564-3952, by FAX at 502/564-2124 or by e-mail at pdoyle@mail.state.ky.us or ddunagan@mail.state.ky.us to discuss any questions you may have about proper withholding and reporting for your employees. We look forward to hearing from you.

We at the Division of Social Security wish everyone a happy and joyful holiday season.

Sincerely,

Patrick L. Doyle

Director, Division of Social Security

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.

PLEASE NOTE--This publication is for general information only. The material provided within should not be used or cited as authority for employment tax obligations and requirements. The Social Security Act, the KRS and the IRC, along with regulations and revenue rulings and case law, are the only valid citations of authority.

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Where to Find Help with Coverage and Reporting Problems

Most questions posed by state and local government employers on annual wage reporting to the federal government can be answered by consulting one of the following Internal Revenue Service or Social Security Administration publications.

Available from the IRS :

- * Federal-State Reference Guide (Publication 963)--The Fed-State Reference Guide examines Social Security and Medicare coverage of governmental employees and FICA reporting by governmental employers.
- * Employers Tax Guide (Publication 15/15A)—This publication explains employer requirements for withholding, depositing, reporting and paying federal employment taxes.
- * Federal Employment Tax Forms (Publication 393)—This provides instructions for preparing annual wage reporting Form W-2 and Form W-3.

Also, information may be obtained from the IRS via two toll-free telephone numbers, (800) 829-1040 for general assistance and (800) 829-3676 for information on forms and publications. Questions related to withholding, reporting and paying federal employment taxes can be directed to the IRS bulletin board (304) 264-7070. The IRS internet address is: <http://www.irs.ustreas.gov/prod/cover.html> The IRS also operates a centralized call site (304/263-8700) to answer questions about reporting of Forms W-2 and 1099.

Available from the SSA:

- * Technical Instruction Bulletin No.4—"TIB-4" contains specifications for preparing wage reports on magnetic tape or diskettes.
- * Software Standards and Edit Criteria for Annual Wage Reporting (Publication 31-011)—This booklet sets out standards and edits that should be met by software that produces wage reports for filing with the SSA.

These publications may be obtained by calling (404) 331-2587. Questions on the preparation and filing of wage reports can be addressed to the SSA bulletin board (410) 965-1133. Access to an SSA regional wage reporting specialist may be gained by contacting the Social Security Administration at 61 Forsyth St., Suite 22T64, Atlanta, Ga. 30323 or by telephone at (404) 562-1314. The SSA's internet address is: <http://www.ssa.gov>

Available from the Division of Social Security:

- * Governmental Employer Manual--The manual is an unofficial guide to Social Security and Medicare coverage and reporting specifically for Kentucky's governmental employers.
- * Who Is an Employee?--Assists in determining if an individual is an employee or an independent contractor for a governmental employer.
- * Employer Provided Vehicles--Helps to ascertain the taxable value of a vehicle provided to an employee.
- * Student Exclusion Overview--Prepared specifically for Kentucky boards of education.
- * Medicare and the Kentucky Governmental Employee--Reviews the two parts of Medicare, who is eligible and benefits.
- * Cafeteria Plans--Covers the taxability of cafeteria plans and flexible spending accounts and the plans themselves.
- * Third Party Sick Pay--Offers a detailed review of one of the most complex issues in FICA withholding and reporting.

DOSS employees will also answer questions from governmental employers regarding Social Security coverage and reporting requirements. The division can be contacted via:

Postal Mail:	P.O. Box 557, Frankfort, KY 40602-0557
Telephone:	(502) 564-3952
FAX:	(502) 564-2124
Internet:	http://www.state.ky.us/agencies/finance/dept/ss/divss.htm
E-mail:	pdoyle@mail.state.ky.us ddunagan@mail.state.ky.us



New Features on DOSS Web Site

In our continuing effort to better serve Kentucky's governmental employers, the DOSS web site has received a number of new items. First of all, an electronic version of this newsletter (Winter, 1997) is available at the site.

The 1998 income tax withholding and advanced earned income credit tables are now available, as is the 1998 Form W-4. We have also added IRS Publication 957 which covers reporting back pay under a statute and special wage payments

Two Doss fact sheets designed specifically for Kentucky boards of education are new to the DOSS web site. One explains student exclusions in detail. The second discusses the federal Windfall Elimination Provision and the Government Pension Offset, both of which can affect retirement benefits.

Regular surfing of the DOSS web site is recommended as we will soon be adding such information at the 1997 Form W-2 instructions and IRS Publication 963.

The DOSS web site is an excellent conduit to other FICA-related sites covering such topics as state and federal legislation, IRS forms, EFTPS and Social Security Administration district offices. The web site address is: <http://www.state.ky.us/agencies/finance/depts/ss/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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Frankfort, KY 40602-0557
502/564-3952 (telephone)
ddunagan@mail.state.ky.us (e-mail)*

Updated Fed-State Guide Released by IRS

The Internal Revenue Service has released an updated version the Federal-State Reference Guide (Pub. 963). The guide provides state and local government employers a comprehensive source for FICA coverage and withholding rules. Pub. 963 is available from the IRS via their toll-free number, 800/829-3676, or the DOSS (502/564-3952) has a limited number for distribution. The IRS plans to eventually make the guide available on its web page.

Because social security coverage and reporting requirements vary from state to state, Kentucky governmental employers should rely first on the Governmental Employers Manual published by DOSS when seeking answers to FICA questions. The IRS guide should be used only if a solution cannot be found in the Kentucky manual.

You can obtain a copy of the Kentucky Governmental Employers Manual at:

Postal	Division of Social Security P.O. Box 557 Frankfort, KY 40602-0557
E-mail	jclarke1@mail.state.ky.us
Telephone	502/564-3952
FAX	502/564-2124
DOSS Web Site	http://www.state.ky.us/agencies/finance/depts/ss/divss.htm

1998 Social Security Facts and Figures

Social Security Tax Information:	1994	1995	1996	1997	1998	1999
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	\$60,600	\$61,200	\$62,700	\$65,400	\$68,400	
*Projected maximum						\$70,500
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%
Social Security Benefit Information						
Earnings required for one quarter coverage	\$620	\$630	\$640	\$670	\$700	
Exempt amounts under annual earnings test:						
Under age 65	\$8,040	\$8,160	\$8,280	\$8,640	\$9,120	
Age 65-69	\$11,160	\$11,280	\$12,500	\$13,500	\$14,500	
70 and older	No limit	No limit	No limit	No Limit	No limit	
Avg monthly Social Security benefit for individuals	\$674	\$702	\$724	\$745	\$765	
Avg monthly Social Security benefit for couples	\$1,140	\$1,184	\$1,220	\$1,256	\$1,288	
Maximum monthly SSI benefit for individuals	\$446	\$458	\$470	\$484	\$494	
Maximum monthly SSI benefit for couples	\$669	\$687	\$705	\$726	\$741	
Annual increase in benefits	2.60%	2.80%	2.60%	2.90%	2.10%	
Government Control Employee	\$108,200	\$108,200	\$108,200	\$108,200		
Expiration of statute of limitations	4/15/98	4/15/99	4/15/00	4/15/01	4/15/02	4/15/03
Election worker exclusion	\$100/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr

FICA Tax Rates and Wage Bases

The 1998 wage base for social security withholding is \$68,400. 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. This is only an estimate and is not official.

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