



Social Security Coverage and Reporting

<http://sssa.ky.gov>

...leading the way

IRS Compliance Activity in Kentucky

As part of the new IRS initiative to increase compliance activities at governmental agencies, we have received feedback on what is generally occurring around the Commonwealth of Kentucky. Ray McLennan, the FSLG Specialist for Kentucky, outlined what he is noticing in his compliance activities. Although Mr. McLennan can not be specific due to confidentiality, he did provide a pattern that seems to be frequently transpiring.

Mr. McLennan said, "The number one thing that keeps turning up is that agencies do not have accountable plans in place". Specifically, he noticed that there were not accountable plans for uniform expenses, clothing allowance, gun/ammunition, tools, travel, and meals. An agency issues a check but has no accountable plan in place to assure that the money provided to the employee actually went for the intended purposes.

"A check is written for a clothing allowance but no receipts are turned in", added Mr. McLennan. "An accountable plan must be in place or this payout should be considered income to the employee and reported on W-2's". It would be a good practice for any governmental agency to take a look at their policies and make sure an accountable plan is in place.

The definition of an accountable plan is an allowance or reimbursement policy (does not have to be a written plan) where amounts are nontaxable to the recipient if certain requirements are met:

- There must be a business connection to the expenditure.
- There must be "adequate" accounting by the recipient within a reasonable period of time.
- Excess reimbursements or advances must be returned within a reasonable period of time.

For more information you can go to http://www.irs.gov/pub/irs-tege/fringe_bnft_flgsg.pdf.

The IRS Seeks to Increase Examinations of Governmental Agencies

On July 25, 2005, Steve Miller, the IRS Commissioner of the Tax Exempt and Government Entities group, discussed the ever changing role of the Federal, State, and Local Government (FSLG) IRS Agents with the National Conference of State Social Security Administrators. Specifically, Mr. Miller addressed the rebalancing effort by FSLG from outreach to exams. He said the IRS views that there is an estimated \$300 Billion tax gap that needs to be closed.

In an effort to accomplish this rebalancing, twenty six new FSLG Specialists have been hired specifically to increase compliance contacts. There will be more exams and compliance checks. One of the main emphases of the compliance activities will be to check into the Flexible Spending Accounts of governmental agencies.

Mr. Miller went on to say that there are four problem areas that FSLG specialists will be homing in on:

- 1) Worker's Classification
- 2) Fringe Benefits
- 3) Legal Settlements
- 4) Section 218 Social Security Coverage Agreement anomalies

According to Mr. Miller, an FSLG Specialist will spend 80% of the time on compliance

activities such as exams and 20% of the time on outreach.

If you have further questions regarding the four major concerns of the IRS or would simply like more information, you can contact James Driver at james.driver@ky.gov or 502-564-3952 extension 2.

W-2c Correction Forms Available Online

Social Security has expanded its online wage reporting services to include W-2c Online. W-2c Online allows you to create, print, and submit up to five Forms W-2c (Correction Wage and Tax Statement) over the internet. It also prepares the W-3c (Transmittal Form) for you.

After the introduction of W-2 Online in 2002, many employers requested a similar method to enable them to report corrections electronically. The SSA hopes that you will find W-2c Online to be just as user-friendly as other electronic services. Even if you file your wage reports using methods other than electronic filing, you may still use W-2c Online to make corrections to those wage reports.

For more information about W-2c Online visit www.socialsecurity.gov/employer/how.htm#ele or call 1-800-772-6270.

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.

Now Available: Verify Social Security Numbers Online

The Social Security Number Verification Service (SSNVS) is now available. This feature allows employers to use the Internet to match their record of employee names and Social Security numbers with Social Security records before preparing and submitting Forms W-2. Making sure names and Social Security numbers on the W-2 match SSA records is important because unmatched records can result in additional processing costs for you and uncredited earnings for your employees. Uncredited earnings can affect future eligibility to (and amounts paid under) Social Security's retirement, disability and survivors program.

You have two options for using SSNVS:

- 1) Direct keying of up to 10 names/Social Security numbers at a time onto Social Security's website with immediate results, and;
- 2) Upload a file with up to 250,000 names/Social Security numbers with next business day results.

Employers can verify the names and Social Security numbers of employees only after they are hired. **It can not be used as part of the pre-hiring process.** If you are a tax preparer, accountant, payroll agent, payroll service or you process Forms W-2 on another company's Employer Identification Number, you can verify names and Social Security numbers on behalf of your client(s), but only for wage reporting purposes.

You only need one PIN (even if you represent more than one employer). An

activation code will be mailed to your employer at the address in IRS's Business Master File, i.e., where your agency's 941 returns are mailed. Your employer must give the activation code to you, and then you must enter the code to activate SSNVS.

For more information about SSNVS, including registration and step-by-step instructions visit <http://www.socialsecurity.gov/employer/ssnv.htm>.

Magnetic Media Phased Out

The 2004 tax year was the last year for submitting W-2 files on tape and cartridges and the 2005 tax year will be the last year 3.5" diskettes will be accepted. Diskette filers will have one more year before they are phased out, but why wait to file electronically with the Social Security? You are just one click away from e-filing right now! Simply go to <http://www.ssa.gov/employer> to get started.

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Edgar C. Ross, Controller

Daryl Dunagan, Director



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Daryl Dunagan Set to Retire on December 31, 2005

Daryl Dunagan has announced his retirement from Kentucky State Government effective December 31, 2005. Daryl has worked for the Commonwealth since 1973. He has served as the Director for the Division of Local Government Services (formerly the Division of Social Security) in the Office of the Controller within the Finance Cabinet. Daryl actively reached out to Kentucky's political subdivisions helping serve as the liaison between the IRS/SSA and the State entities all around Kentucky.

Daryl has been active with the National Conference of State Social Security Administrators and even served as the President of the organization in 1993-1994. Daryl's knowledge and expertise will be obviously missed, not only for the State but on the national level as well.

Daryl has served with integrity and a proactive demeanor that has had Kentucky "leading the way". Thank you Daryl for all your hard work and leadership.

