

Welcome to our Sixteenth Edition of Pay-Net's E-Newsletter. Previous editions of our E-Newsletter are available on our web site, www.pay-net.net, under the "Downloads" section. We want to welcome all of our new clients that started processing with us this month. Our E-Newsletter is published 10 times per year. If any other people in your organization would like a copy of our E-Newsletter, please send an email request to: enews@pay-net.net

Keep Your E-Mail Addresses Current When you have personnel changes, remember to send us any e-mail address changes. You can send these to email@pay-net.net. This way our list will remain current.

Pay-Net E-Mail Addresses: If you need to communicate with us, we recommend that you send us an email. This practice will provide you, and us, a hard copy of the communication. Here are Pay-Net's current email accounts.

Don Fallon (Owner):	don@pay-net.net
Wayne Lee (Owner):	wayne@pay-net.net
Hollis (Operations):	hlee@pay-net.net
Gloria (Operations):	gbal@pay-net.net
Joshua (Operations):	jsutton@pay-net.net
Christina (Operations):	cjackson@pay-net.net
Anna (Taxes):	atudor@pay-net.net
Philip (Technical):	psloss@pay-net.net
General Communication:	operations@pay-net.net (this will be forwarded to the appropriate person)
Debbie (Sales):	dwillett@pay-net.net
Shari (Sales)	stwilegar@pay-net.net

Of course, if you need to talk with us immediately, we do answer the phones with *live* people, not voice mail. If you happen to get into our voice mail system, be assured that all of us are on the phone when you called.

Pay-Net web site: Have you visited our web site lately at www.pay-net.net? The web site has a lot of useful information for companies. We have added a new section called "Employer Forms", which include downloaded versions of the most requested forms such as current year W-4 forms, I-9 forms, Employee Direct Deposit Authorization forms, etc.

"Challenging" Payroll Dates: Please take notice of the following dates as you prepare your payroll information:

- ▶ January 31st is on Monday. If you normally date your checks on the 31st and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, January 27th.
- ▶ February 1st is on Tuesday. If you normally date your checks on the 1st and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, January 28th.

- ▶ February 5th is on Saturday. If you normally date your checks on the 5th, your check date will roll back to Friday the 4th. If you normally date your checks on the 5th and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, February 2nd.
- ▶ February 15th is on a Tuesday this year. If you normally date your checks on the 15th and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, February 11th.
- ▶ February 20th is on Sunday. If you normally date your checks on the 20th, your check date has rolled back to Friday, the 18th. If you normally date your checks on the 20th and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, February 16th.
- ▶ Monday, February 21st, is the President's Day Holiday. This is a banking holiday but Pay-Net will be open this day. Please take this holiday into account as you prepare your payroll information.
- ▶ Monday, February 28th is the last day of February. If you normally date your checks on the last day of a month and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, February 24th.
- ▶ March 1st is on Tuesday. If you normally date your checks on the first and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, February 25th.

2005 Rates:

- ▶ Social Security rate of 6.2% for employees and employers will remain the same, but the wage base will increase to \$90,000. Maximum amount to withhold from employees is \$5,580.00
- ▶ Medicare rate will remain at 1.45% for all subject wages
- ▶ Net FUTA rate will remain at 0.8% and the wage base of \$7,000 will remain the same
- ▶ California SUI rate will remain based on Schedule F+ which includes the 15% emergency surcharge that was implemented for 2004. The rates will range from 1.5% to 6.2% based on a company's experience rate.
- ▶ California ETT rate will remain a 0.1%
- ▶ California SDI rate will lower to 1.08% but the wage base increases to \$79,418. The 1.08% figure includes the 0.08% for Paid Family Leave. The maximum amount to withhold is \$857.71
- ▶ Federal and State Withholdings will be indexed for the cost of living.
- ▶ The optional standard mileage rate to be used in computing the deductible costs of operating an automobile for business purposes increases in 2005 to 40.5 cents per mile

2004 Year End: You have probably already received copies of your Fourth Quarter and 2004 Year End payroll tax returns. If you have not received them by Monday, January 24th, please call our office.

Holiday Schedule for 2005:

This is Pay-Net's 2005 Holiday Schedule - please note that the official bank holidays are marked with an "*". Please keep these days in mind as you prepare your payroll information.

- ▶ * Monday, January 17, 2005 - Martin Luther King Day - Pay-Net will be open
- ▶ * Monday, February 21, 2005 - President's Day - Pay-Net will be open
- ▶ * Monday, May 30, 2005 - Memorial Day - Pay-Net will be closed

- ▶ * Monday, July 4, 2005 - Independence Day - Pay-Net will be closed
- ▶ * Monday, September 5, 2005 - Labor Day - Pay-Net will be closed
- ▶ * Monday, October 10, 2005 - Columbus Day - Pay-Net will be open
- ▶ * Friday, November 11, 2005 - Veterans' Day - Pay-Net will be open
- ▶ * Thursday, November 24, 2005 - Thanksgiving Day - Pay-Net will be closed
- ▶ Friday, November 25, 2004 - Day After Thanksgiving - Pay-Net will be closed
- ▶ Monday, December 26, 2005 - Christmas Day (observed) - Pay-Net will be closed
- ▶ Monday, January 2, 2006 - New Years Day (observed) - Pay-Net will be closed

I.R.S. Announcement Regarding Retirement Plans: The IRS has announced the following limit changes for 2005:

Elective deferral (401k, 403b, etc.) limits increased from \$13,000 to \$14,000. “Catch Up” contributions increased from \$3,000 to \$4,000 for employees over 50 years of age. Simple IRA plans increased from \$9,000 to \$10,000.

New I.R.S. Ruling Regarding Mandatory Flat Rates: A new IRS regulation, IRC Code Section 3402, distinguishes between payroll or regular wages and supplemental wages for purposes of income tax withholding and establishes general supplemental wage withholding rules. Also, the American Jobs Creation Act, signed into law in October, established a withholding rate of 25% on supplemental wages for payments of less than \$1 million that are made after December 31, 2004. Any supplemental wages exceeding \$1 million are subject to the maximum withholding percentage, currently set at 35%.

The IRS goes on to describe supplemental wages as “any wages not classified as regular wages, which are amounts paid by an employer for a payroll period either at a regular rate or in a predetermined fixed amount.”

The IRS goes on to classify the following as examples of supplemental wages:

- Bonuses
- Overtime Pay
- Back Pay
- Reported Tips
- Commissions
- Wages paid under reimbursement or other expense allowances
- Wages paid as noncash fringe benefits
- Sick pay paid by a third party as an agent of the employer

But, the IRS goes on to state that “if an employee receives only one type of compensation from an employer, that type of compensation will be regular wages even if the type of compensation is something that would normally be classified as supplemental wages.” In other words, if you have a “commission only” paid salesperson, their commission would be considered “regular wages” and not subject to the IRS definition of supplemental pay.

This ruling is obviously very “messy” to both understand and enforce. The new rules are rife with opportunities for employers to make mistakes and get penalized. For example, it would appear that the payment of overtime would fit the IRS definition of “regular wages” because overtime is paid at a regular rate (1.5 times regular rate per hour); however, the IRS specifically lists overtime as a supplemental wage! Another example, a waitperson at a restaurant is paid both an hourly rate and tips. It would appear that the tips are classified as part of the person’s regular pay, but, again, the IRS specifically lists tips as supplemental wages!

Pay-Net will continue to monitor this situation and will keep you up to date on any additional rulings and/or regulations that may come out of this situation. For example, the APA (American Payroll Association) is lobbying Congress for changes in these codes.

At this point, Pay-Net is unclear on how to exactly apply these new rules and regulations. It is possible for a company to issue separate checks to an employee, but there is a real problem with putting tips onto a separate check, since no taxes would be calculated at all! If you have concerns about an immediate application of these rules before any more guidelines are published, we would suggest that you contact your CPA for advice and guidance.

California News:

- (1) A bill was recently passed by the California Legislature requiring employers to only show the last four digits of an employee's social security number on their check stub effective January 1, 2008. We have submitted a programming change request to our software company and we will keep you advised of the progress.
- (2) The administrative fee that employers may withhold from child support payments will increase from \$1.00 to \$1.50 effective January 1, 2005.
- (3) Effective January 1, 2005, if an employer has been mandated by the state to make their SIT, SDI, SUI and ETT deposits electronically, the employer must also remit Child Support payments electronically.

News from Other States:

- (1) Oregon's minimum wage increased to \$7.25 per hour effective January 1, 2005
- (2) Washington DC's minimum wage increased to \$6.60 effective January 1, 2005
- (3) Washington's minimum wage increased to \$7.35 per hour effective January 1, 2005
- (4) New York's minimum wage increased to \$6.00 per hour effective January 1, 2005
- (5) Vermont's minimum wage increased to \$7.00 per hour effective January 1, 2005
- (6) Illinois' minimum wage increased to \$6.50 per hour effective January 1, 2005

Living Wage Law Survives Bid for Supreme Court Challenge: The US Supreme Court has let stand a federal appeals court's ruling that a "living wage" does not violate a company's rights, nor is a "living wage" law in contravention of any minimum wage law. In recent years, many cities or localities have passed "living wage" laws that supercede minimum wage laws. Here are some examples of localities with "living wage" laws:

Berkeley, CA	\$ 9.75 / hour
San Francisco, CA	\$ 7.75 / hour
Sacramento, CA	\$ 10.87 without health benefits, \$ 9.33 with health benefits
Cook County, IL	\$ 11.78 without health benefits, \$ 9.43 with health benefits
Dane County, WI	\$ 9.07 / hour
Madison, WI	\$ 5.70 / hour