

Welcome to our Seventeenth 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 about 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. We regret that Joshua is no longer with us, but at the same time, we want to welcome back Agnes!

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
Christina (Operations):	cjackson@pay-net.net
Anna (Taxes):	atudor@pay-net.net
Agnes (Taxes):	ayoung@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.

Important Notice – Change in Cutoff Times:

Effective immediately, the following rules will be added to Pay-Net's cutoff times. The reason for this change is the dramatic increase in the number of bounced (NSF) tax drafts from our clients:

- (1) If your check date is on a Friday, and your company is a semi-weekly filer under IRS rules, and your company does not have direct deposit, we must have your payroll information before 2:00 pm on Thursday. If Friday is a non-banking day, we must have your payroll information before 2:00 pm on Wednesday.
- (2) If your check date is on a Tuesday, and your company is a semi-weekly filer under IRS rules, and your company does not have direct deposit, we must have your payroll

information before 2:00 pm on Monday. If Tuesday is a non-banking day, we must have your payroll information before 2:00 pm on Friday.

Our cutoff times remain unchanged for clients with direct deposit (2:00 pm two days before check date). Occasional business circumstances will arise such that your company may not be able to adhere to these new cutoff rules. If this happens, please give us a call so we can discuss the alternatives with you.

While we understand that business conditions may mean that your company does not have funds to cover your tax obligations, Pay-Net cannot be expected to function as a banking entity and advance funds to your company. These cutoff times are necessary to ensure that we receive good funds for your tax obligations under the existing NACHA rules and regulations, and with enough time to deposit these funds with the appropriate taxing authorities.

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

▶ March 15th is on Tuesday. If you normally date your checks on the fifteenth and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, March 11th.

▶ March 20th is on Sunday so your payroll date will most likely roll back to Friday, March 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, March 16th.

▶ April 5th is on Tuesday. 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 Friday, April 1st – and this is not a “Fools Day” trick!

▶ April 30th is on Saturday, so your check date will roll back to Friday, April 29th. If you normally date your checks for the end of the month and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, April 27th.

▶ May 1st is on Sunday, so your check date will roll back to Friday, April 29th. If you normally date your checks on the 1st of a month and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, April 27th.

▶ May 15th is on Sunday, so your check date will roll back to Friday, May 13th. 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 Wednesday, May 11th.

▶ Monday, May 30th is the ***Memorial Day Holiday***. Pay-Net will be closed that day. 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, May 26th.

▶ June 1st is on Wednesday this year. With the Memorial Day Holiday, 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, May 27th.

First Quarter End, 2005: March 31st marks the end of the First Quarter of 2005. March 30th is the last day that you can report First Quarter information to be included in your quarterly payroll tax returns. If First Quarter information is reported after March 30th, this may result in an additional charge to your company plus a delay in receiving your quarterly reports. You can expect to receive your First Quarter tax returns on, or before, April 20th.

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.

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

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.

Notes on Social Security: Treasury Secretary John Snow warned House lawmakers on February 9, 2005, that if Congress does not act to shore up Social Security, a 50% increase in payroll taxes would be required. Snow went on to say that raising the payroll tax by that much would “almost surely wreck the American economy.”