

Welcome to our Nineteenth 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 "Employer Resources – Newsletter" 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.

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
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

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: We have completely changed our web site: www.pay-net.net. If you have the opportunity, please visit the site and let us know what you think about it. Send your responses to website@pay-net.net. The information is identical as before, we have just placed it in different categories and had a professional design team help with the development. Now, we have a special section for our clients called "Employer Resources" that contain all the information you need to assist your company.

Processing Cutoff Times:

Effective in March, the following rules were 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.

Our 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:

▶ June 20th is on Monday. 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 Thursday, June 16th.

▶ **Monday, July 4th is Independence Day, a banking and Pay-Net holiday. Please take this day into account as you prepare your payroll information. 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 Thursday, June 30th! If you want to roll your check date ahead to the 6th, please contact us to adjust your payroll calendar.**

▶ July 31st is on Sunday. 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, July 27th.

▶ August 1st is on Monday. If you normally date your checks for the 1st and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, July 28th.

▶ August 15th is on Monday. If you normally date your checks for the 15th and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, August 11th.

▶ August 20th is on Saturday. If you normally date your checks for the 20th, your check date will be rolled back to Friday, August 19th. If you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, August 17th.

▶ **Monday, September 5th is Labor Day, a banking and Pay-Net holiday. Please take this day into account as you prepare your payroll information. If you normally date your checks on the 5th and you have direct deposit, your check date will roll back to Friday, September 2nd, and we will need your payroll information by 2:00 pm on Wednesday, August 31st! If you want to roll your check date ahead to the 6th, please contact us to adjust your payroll calendar. If you want your checks dated the 6th and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, September 1st.**

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 Holiday Schedule for the remainder of 2005 - please note that the official bank holidays are marked with an "*". Please keep these days in mind as you prepare your payroll information.

- ▶ * 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

Second Quarter End, 2005: The second quarter will be ending on Thursday, June 30, 2005. The cutoff date for sending any payroll adjustments for the Second Quarter is Wednesday, June 29, 2005. You can expect delivery of your quarterly tax returns on, or before, Wednesday, June 22, 2005.

Important Quarter End Reports: On your last payroll of a quarter, in your payroll package, you will receive several important reports:

- (1) Quarterly Taxable Wages – a wage listing by employee showing the taxable wages for each type of payroll tax.
- (2) Payroll Processing Schedule – a listing of your payroll processing schedule
- (3) W-2 Edit Report – a report of all active and terminated employees listing their Social Security Number, name, address, etc. You should review this report each quarter to ensure that the correct information is listed for each employee.

Latest News on the Tax Rate for Supplemental Pay: As you may recall, in our March edition of our E-Newsletter, we posted the new IRS regulations regarding changes in withholding taxes for “Supplemental Pay”, where the definition of “Supplemental Pay” included bonuses, overtime pay, back (retro) pay, tips, and commissions. (If you are unfamiliar with this topic, we suggest you download the March, 2005, edition of our E-Newsletter from our web site at www.pay-net.net).

This issue has caused a lot of problems with employers and payroll providers alike, especially in the definition of “regular” versus “supplemental” pay. Various groups, including the American Payroll Association and the national Chamber of Commerce, have expressed displeasure over the provisions of the rules.

A hearing will be held June 9 on Internal Revenue Service proposed rules on flat rate supplemental wage withholding (REG-152945-04), according to a notice in the April 25 Federal Register. The proposal has generated a number of comments, including requests for modification

from the National Association of Tax Reporting and Payroll Management and the American Payroll Association.

The rules are designed to conform employers' optional flat rate of withholding on supplemental wages with provisions of the American Jobs Creation Act (Pub. L. No. 108-357). The act increased the rate for supplemental wages to 25 percent and increased the rate for supplemental wages that exceed \$1 million annually to 35 percent. The proposed IRS rules clarify the definition of supplemental wages and contain provisions to ensure that employees not receiving regular wages as part of their remuneration package are not negatively affected by the rule proposal, according to IRS.

Handling of Questionable W-4's: Employers are no longer required to include questionable W-4's with their quarterly Form 941 submissions, beginning with the First Quarter, 2005. Questionable W-4's generally are those forms on which an employee claims more than 10 withholding allowances or complete exemption from Federal income tax withholding. Instead, employers will be required to submit a copy of any Form W-4 **only** if specifically directed in writing by the IRS to do so.

Department of Justice Issues New I-9 Form: The Department of Justice, Immigration and Naturalization Service (INS) has issued a revised I-9 Form with an effective date of 05/31/2005 and an expiration date of 03/31/2007. Previous I-9 Forms with a date of 1991 can be used until 12/31/2005. You can download a copy of the new I-9 Form from our web site under Employer Resources, Employer Forms.