

Welcome to our Twentieth Edition of Pay-Net's E-Newsletter. Previous editions of our E-Newsletter are available on our web site, [www.pay-net.net](http://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](mailto: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](mailto: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):	<a href="mailto:don@pay-net.net">don@pay-net.net</a>
Wayne Lee (Owner):	<a href="mailto:wayne@pay-net.net">wayne@pay-net.net</a>
Hollis (Operations):	<a href="mailto:hlee@pay-net.net">hlee@pay-net.net</a>
Gloria (Operations):	<a href="mailto:gbal@pay-net.net">gbal@pay-net.net</a>
Christina (Operations):	<a href="mailto:cjackson@pay-net.net">cjackson@pay-net.net</a>
Anna (Taxes):	<a href="mailto:atudor@pay-net.net">atudor@pay-net.net</a>
Philip (Technical):	<a href="mailto:psloss@pay-net.net">psloss@pay-net.net</a>
General Communication:	<a href="mailto:operations@pay-net.net">operations@pay-net.net</a> (this will be forwarded to the appropriate person)
Debbie (Sales):	<a href="mailto:dwillett@pay-net.net">dwillett@pay-net.net</a>

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](http://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](mailto: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:

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

▶ **Monday, September 5<sup>th</sup> 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 5<sup>th</sup> and you have direct deposit, your check date will roll back to Friday, September 2<sup>nd</sup>, and we will need your payroll information by 2:00 pm on Wednesday, August 31<sup>st</sup>! If you want to roll your check date ahead to the 6<sup>th</sup>, please contact us to adjust your payroll calendar. If you want your checks dated the 6<sup>th</sup> and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, September 1<sup>st</sup>.**

▶ September 20<sup>th</sup> is on a Tuesday. If you normally date your checks on the 20<sup>th</sup> and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, September 16<sup>th</sup>.

▶ October 1<sup>st</sup> is on a Saturday. If you normally date your checks on the 1<sup>st</sup>, your check date will roll back to Friday, September 30<sup>th</sup>. If you normally date your checks on the 1<sup>st</sup> and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, September 28<sup>th</sup>. If you want to roll your check date forward to October 3<sup>rd</sup>, please contact us to adjust your payroll calendar. If you want your checks dated on the 3<sup>rd</sup> and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, September 29<sup>th</sup>.

▶ **Monday, October 10<sup>th</sup> is Columbus Day, a banking holiday and the banks will be closed. Although Pay-Net will be open on this date, please take this day into account when planning your payroll cycle.**

▶ October 15<sup>th</sup> is on Saturday. If you normally date your checks on the 15<sup>th</sup>, your check date will roll back to Friday, October 14<sup>th</sup>. If you normally date your checks on the 15<sup>th</sup> and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, October 12<sup>th</sup>.

▶ October 31<sup>st</sup> is on Monday. If you normally date your checks on the last day of the month and you have direct deposit, we will need your payroll information by 2:00 pm on Thursday, October 27<sup>th</sup>.

▶ November 1<sup>st</sup> is on Tuesday. If you normally date your checks on the 1<sup>st</sup> and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, October 28<sup>th</sup>.

▶ **Friday, November 11<sup>th</sup> is Veteran's Day, a banking holiday and the banks will be closed. Although Pay-Net will be open on this date, please take this day into account when planning your payroll cycle. If you normally date your checks on November 11<sup>th</sup> and you have direct deposit, your check date will roll back to November 10<sup>th</sup> and we will need your payroll information by 2:00 pm on Tuesday, November 8<sup>th</sup>.**

**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, 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

**Beware of how you use bonuses:** According to a recent report by Ray Cordelli, a former official with the Department of Labor's Wage and Hour Division, many bonuses paid by employers should be included in the "regular rate of pay" but are not. There is potential liability in miscategorizing a bonus payment.

According to Mr. Cordelli, if the bonus plan is designed to achieve certain goals, objectives, or levels of performance, then the bonus payment must be included in the regular rate of pay. The liability is that if a bonus payment is included in the regular rate of pay, then the payment must be added into an employee's overtime rate of pay, increasing the amount of overtime pay.

If the payment is discretionary, or nonincentive, then the bonus would not be added to the regular rate of pay.

For example, say that a company rewards an employee for good attendance after the fact, then that bonus is considered discretionary and not included in the regular rate of pay. However, if the company announces up front that good attendance over a period of time would result in a bonus, then that bonus payment would be considered nondiscretionary and, therefore, added to the regular rate of pay.

Shift differentials are another incentive bonus that are, in many cases, miscategorized as discretionary. Any extra money employees see from shift differential must be included in the regular rate of pay.

**When is a workweek not a calendar week?** According to the Department of Labor, in a recent ruling, the definition of a "workweek" is a fixed and regular occurring period of 168 hours, or seven consecutive 24 hour periods. The employer can fix the beginning and ending days of a workweek, and it must remain fixed unless a permanent change is announced. Why is this important? The reason is that the workweek definition rules when overtime is effective based on the 40 hours per week designator. Of course, the California rule of over 8 hours per day OR 40 hours per week still applies.

**Possible FUTA Tax Credit Reduction States:** States that have borrowed monies from the US Government FUTA fund (Federal Unemployment Tax Act) and are in danger of defaulting on their "loan payments" due in November, 2005, include Illinois, Massachusetts, Minnesota, Missouri, North Carolina and New York. If a state defaults in their loan payments to the US Government, then the employers in that state shoulder an additional FUTA tax burden at year end. Last year, only New York ended up defaulting, and New York employers had a large additional FUTA tax burden for 2004.

While we are on the subject of FUTA, do you know the *precise* tax rate for FUTA? By definition, the gross FUTA tax is 6.2% on an employee's first \$7000 in subject wages. However, employers are allowed up to a 5.4% credit based upon timely and properly made SUI deposits to the employers' state governments. The *net* FUTA tax is 0.8% (6.2% minus 5.4%). So, that is why the government calls the additional FUTA payments for certain states, a *tax credit reduction*, because they reduce the employers 5.4% credit down to some other percentage!

**Withholding Compliance Questions & Answers Available from the IRS's Web Site:**

Now that employers are no longer required to submit potentially questionable Forms W-4 with their quarterly Form 941 submissions to the Internal Revenue Service, a number of compliance-related questions have surfaced that the IRS now addresses on its Web site.

Among the 12 questions about questionable W-4s addressed by IRS are the following:

- ▶ If the IRS determines that an employee does not have enough federal income tax withheld, what will an employer be asked to do? What happens if the employer does not comply with the IRS directive?
- ▶ If an employer no longer has to submit Forms W-4 claiming complete exemption from withholding or claiming more than 10 allowances, how does the IRS determine adequate withholding?
- ▶ I have been directed to lock in an employee's withholding. What happens if I do not lock in the employee's withholding as directed? What should I do if an employee fills in a new W-4 form after I received the IRS directive?

The 12 questions and answers can be found at:

<http://www.irs.gov/individuals/article/0,,id=139412,00.html>

**Daylight Savings Time:** The period of the year when clocks "spring" forward and later "fall back," daylight-saving time, will get longer, beginning in March 2007, as a result of legislation

recently signed by the president. Daylight-saving time will begin the second Sunday of March and end the first Sunday of November, according to a provision contained in the Energy Policy Act of 2005, H.R. 6.