

Welcome to our Twenty First 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

Tenth Anniversary

On September 5, 2005, Pay-Net celebrated its Tenth Anniversary! We would like to thank all of our valued clients for making Pay-Net a success. From our humble beginnings, Pay-Net now services over 700 clients! Thank you for being a part of our success story.

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. In case you were not aware, Kevin has joined our company in the Payroll Operations Department. It is with great regret that we announce that Philip, our Technical Director, has decided to move to Georgia. We wish him well in his future endeavors.

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
Kevin (Operations):	kberry@pay-net.net
Anna (Taxes):	atudor@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, especially since we are fast approaching months with several banking holidays:

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

▶ **Monday, October 10th 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 15th is on Saturday. If you normally date your checks on the 15th, your check date will roll back to Friday, October 14th. 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, October 12th.

▶ October 31st 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 27th.

▶ November 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, October 28th.

▶ **Friday, November 11th 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 11th and you have direct deposit, your check date will roll back to November 10th and we will need your payroll information by 2:00 pm on Tuesday, November 8th.**

▶ November 15th falls on a Tuesday. 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 Thursday, November 10th. Why Thursday instead of Friday? Because Friday, November 11th is a banking holiday – Veteran’s Day!

▶ November 20th falls on a Sunday. If you normally date your checks on the 20th, the system will probably roll back your check date to Friday, the 18th. So, 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, November 16th.

▶ **Thursday, November 24th is Thanksgiving Day, a banking holiday. Please take this holiday into account as you plan your payroll cycle. If you normally date your checks on Friday, November 25th and you have direct deposit, we will need your payroll information before 2:00 pm on Tuesday, November 22nd.**

▶ **Friday, November 25th is a holiday for Pay-Net. Our offices will be closed that day! Please keep this in mind as you plan your payroll cycle. Any payrolls processed on Wednesday, November 23rd will be delivered on Friday, the 25th.**

Remaining 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, 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

Pay-Net's EVS Service: Again this year, Pay-Net will be offering our EVS, Electronic Verification Service, to our clients. As some of our clients are painfully aware, the Social Security Administration in conjunction with the I.R.S. now requires that an employee's name on their W-2 ***must exactly match*** the name on the Social Security Administration records. The IRS continually threatens to impose fines on clients where their employees' names do not match the SSA records. As most of you are aware, this has been an ongoing subject for several years now. If you want to review the subject, you can download our E-Newsletters from our web site at www.pay-net.net under the "ENewsletter" section. We do not know what the position of the IRS and SSA will be this year. The important thing is to ensure that your employees will pass the name/Social Security Number check by the SSA.

You, as an employer, have several options available. First, you can contact the SSA directly. There is no charge to you for this option. Contact your nearest SSA office for details. Your second option is to use Pay-Net's EVS Service. For a nominal fee of \$0.35 per employee, we will electronically transmit your employees' information to the SSA. When we receive the file back from the SSA, we will automatically update your employees' files and notify you of any discrepancies that you need to address and correct before W-2's are generated. We will do this once per year, in November.

To minimize any problems, when you hire an employee, make sure that their "payroll" name matches the name on the Social Security card. One frequent problem occurs when a female gets married and then forgets to change their record with the SSA. Also, please note that the SSA and IRS do not accept an employer's excuse that the employee has been terminated and cannot be reached for information correction - their position is that the employer should have gotten the information correct at the time of employment.

IF YOU DO NOT WANT TO USE PAY-NET'S EVS SERVICE, YOU MUST NOTIFY PAY-NET BEFORE NOVEMBER 1, 2005. OTHERWISE, WE WILL ASSUME THAT YOU WANT TO PARTICIPATE IN THIS PROGRAM AND YOU WILL BE BILLED ACCORDINGLY.

You may e-mail your decision to: evs@pay-net.net

Quarterly Tax Returns: September 29th is the cutoff date for any adjustments that you want to appear on your Third Quarter payroll tax returns. Please ensure that all adjustments have been processed on, or before, this date.

Also, please be aware that on your last payroll of a quarter, any quarter, there are several special payroll reports sent with your payroll information. These reports include:

- (1) Quarter Taxable Wage Report – a report by employee showing their taxable wages by tax category.
- (2) Calendar / Schedule – a report showing the scheduled future payroll dates.
- (3) W2 Edit Report – a report by employee showing name, Social Security Number, address, etc. You should check this report for accuracy making adjustments as necessary.

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!

IRS Proposal Includes Penalty for Uneven FSA Contributions: If your company has an F.S.A. or H.S.A. (Flexible Spending Account, or Health Spending Account), the IRS has a new proposed rule that can affect you. According to the proposed rule:

“If an employer fails to make comparable contributions to the HSAs of its employees during a calendar year, an excise tax equal to 35 percent of the aggregate amount contributed by the employer to the HSAs of its employees during that calendar year is imposed on the employer”

In other words, if an employer makes contributions to any employee's F.S.A. or H.S.A. account, the employer must make equal contribution to the H.S.A.s of all participating employees!

IRS Increases Efforts to Stop Tax Underreporting: The IRS believes that 1/3 of all payroll goes unreported on Form 941's, amounting to an estimated \$15 billion per year in unreported employment taxes (Social Security, Medicare, and Federal Withholding). As a result, Kevin M. Brown, the commissioner for the IRS Small Business/Self Employed division, has announced increased scrutiny of Form 941 in an effort to combat the underreporting of employment taxes.