

Welcome to our Twenty Second 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. Also, we want to welcome Bruce to our organization. Bruce is our new IT person and will supervise our internal computer network plus assist clients with technical problems.

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
Bruce (Technical):	bsims@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:

▶ **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.**

▶ December 5th falls on a Monday this year. 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, December 1st.

▶ December 20th is on a Tuesday. 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 Friday, December 16th.

- ▶ **Watch out for the Holiday season! Christmas Day falls on Sunday this year. We assume that banks and our clients will be taking Monday, December 26th, as a holiday. Pay-Net will be closed that day.**
- ▶ **The year end dates are different this year. If you normally date your checks on the last day of a month, your check date will roll backwards to Friday, December 30th. In a similar fashion, if you normally date your checks on the 1st, the system will roll your check date back to Friday, December 30th. If you keep the 30th as your check date and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, December 28th.**
- ▶ **If you date your checks on the 1st and you do not want to have the check date roll backwards, please contact us to change your check date from December 30th to January 3rd.**
- ▶ **Similar to Christmas, we expect banks and our clients will be taking Monday, January 2nd as a holiday. Pay-Net will be closed that day. Please take this into account as you prepare your payroll information.**
- ▶ **The last day to enter 2005 payroll information will be Thursday, December 29th. If you need an "extra" day added to your processing calendar in order to handle "year end adjustments", please contact us.**

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.

- ▶ * 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

Year End Stuff: As we rapidly approach the Holiday Season and Year End, please make not of the following:

- ▶ **IRS Letter:** Each year the I.R.S. sends a letter stating the company's depository requirements for the coming year. Please FAX or mail us a copy of this letter as soon as you receive it. This is the only notification from the IRS regarding depository requirements. If you fail to send the letter to us, we will not be responsible for any problems resulting from your failure to send us the letter. You should receive this letter in November or early December.
- ▶ **SUI Letters:** Each year, most of the states send companies letters stating the company's SUI rate for the coming year. Please FAX or mail us a copy of this letter as soon as your receive it.
- ▶ **Misc Payroll Related Stuff:** If your company will have any unusual payroll transactions at the end of the year, please contact us in advance. These transactions can include:
 - (1) Allocated Tip Reporting
 - (2) Personal Use of Company Car (PUCC)
 - (3) Third Party Sick Pay

- (4) Group Term Life Insurance premiums over \$50,000
- (5) Health Insurance Premiums for Officers of a Sub-Chapter S Corporations

News from Other States:

- ▶ Oregon: The Oregon Bureau of Labor and Industries announced that the state's minimum wage will increase from \$7.25 per hour to \$7.50 per hour effective January 1, 2006. Currently, Oregon's minimum wage is the second highest in the nation, behind Washington state at \$7.35 per hour. Washington is expected to make its annual adjustment at the end of September.

- ▶ New York: the state has extended the minimum New York City tax rate of 2.85% through 2008. The rate had been scheduled to decrease to 3.5% effective 2006.

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.

2006 Tax Changes Announced: As the various Federal and State agencies release information for 2006, we will post them in this E-Newsletter. So far, we have received:

- ▶ 2006 Social Security: The wage limit for Social Security will be increased from \$90,000 to \$94,200. The employee rate of 6.2% will remain unchanged. The maximum Social Security tax withheld from employees will be \$ 5,840.40.
- ▶ 2006 Medicare: There will be no change in Medicare tax withheld for next year. The employee rate of 1.45% of all wages will remain in effect.
- ▶ 401(k) Limit: The 2006 limit for employee 401(k) deductions will raise from \$14,000 per year to \$15,000.
- ▶ 401(k) Catch-up Limit: The 2006 limit will be raised to \$5,000 from the \$4,000 limit in 2005.
- ▶ SIMPLE IRA deductions: The \$10,000 limit will remain unchanged from 2005.

IRS Announces Changes to Personal Income Tax for 2006:

Personal exemptions and standard deductions will rise, tax brackets will widen and individuals will be able to make larger tax-free gifts in 2006, thanks to inflation adjustments announced by the Internal Revenue Service.

By law, a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being modified for 2006. Key changes affecting 2006 returns, filed by most taxpayers in early 2007, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, will be \$3,300, up \$100 from 2005.
- The new standard deduction will be \$10,300 for married couples filing a joint return, \$5,150 for singles and \$7,550 for heads of household. Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.
- Tax-bracket thresholds will increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15% bracket from the 25% bracket will be \$61,300, up from \$59,400 in 2005.
- The annual gift tax exemption will be \$12,000, up from \$11,000 in 2005.

Revenue Procedure 2005-70, containing a complete rundown of these and other inflation adjustments, is posted on the IRS Web site.