

Welcome to our Twenty Third 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

Please 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.

Important News Regarding Direct Deposit in California

According to a new law that takes effect on January 1, 2006, an employer cannot provide direct deposit of an employee's wages into a financial institution that is not located in the State of California! A "branch" of a financial institution qualifies for this requirement.

Because of the continued concern for the movement of funds from state to state for terrorist activities, California has mandated that direct deposit for your employees must be made to an account in any bank, savings and loan association or credit union of the employee's choice in the state of California. The text of this ruling is contained in the Labor Code, Section 213, Sub Section d. Pay-Net's suggestion is that you examine each employee's direct deposit account and ensure that their account(s) conforms to the new law.

Processing Cutoff Times:

Effective in March, 2005, 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 entering months with several banking holidays:

- ▶ 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. Monday, December 26th is a banking holiday in observance of Christmas. Pay-Net will be closed that day. Please take this date into account as you prepare your payroll information.**
- ▶ **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. Remember that Monday, January 2nd is a holiday!

▶ 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.

▶ January 5, 2006, falls on Thursday. If you normally date your checks on the 5th, remember that Monday, January 2nd is a holiday and Pay-Net will not be open. If you have direct deposit, we will need your payroll information by 2:00 pm on Tuesday, January 3rd.

▶ January 15th occurs on a Sunday. As a result, your check date probably rolled back to Friday, January 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, January 11th.

▶ As you prepare your payroll information, keep in mind that Monday, January 16th is a banking holiday – Martin Luther King Day. Although the banks will be closed on that day, Pay-Net will be open.

▶ January 31st is on a Tuesday. If you normally date your checks for the end of a month and you have direct deposit, we will need your payroll information by 2:00 pm on Friday, January 27th.

▶ February 5th is on a Sunday. If you normally date your checks for the 5th, your check date probably rolled back to Friday, February 3rd. If you normally date your checks for the 5th and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, February 1st.

▶ Monday, February 20th is a banking holiday – President's Day. If you normally date your checks for the 20th, your check date probably rolled back to Friday, February 17th. If you normally date your checks for the 20th and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, February 15th. If you want to change your check date to February 21st, please contact Pay-Net.

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, 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 Christmas 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

▶ **Quarter End Reports:** Remember that certain quarter-end reports will be sent with your last payroll in December. These reports include a Taxable Wage Report for the 4th quarter, a Payroll Processing Schedule, and a W2 Edit Report. Please review the W2 Edit Report for any employees with missing Social Security Numbers, address changes, etc.

▶ **Year End Returns:** We expect to have everyone's year end reports, including W2's, ready and shipped out by Tuesday, January 21, 2006.

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 increase to 3.5% effective 2006.

FUTA Tax Credit Reduction: In previous editions of our ENewsletter, we listed several states that were in danger of defaulting on their "loan payments" to the US Government's FUTA fund (Federal Unemployment Tax Act). Presently, all the states, except one (New York) have made their payments due in November, 2005. Thus, New York employers will continue to pay an extra surcharge in FUTA contributions for 2005, as was required in 2004.

The amount of New York credit reduction for 2005 will be 0.6 percent off the normal 5.4 percent employers can use as a credit against the overall 6.2 percent federal liability. For 2004, New York employers were only able to take a 5.1 percent credit. For 2005, it will be a 4.8 percent credit. After we prepare your annual FUTA return (Form 940), we will advise clients of the additional draft of tax monies necessary to make up this credit reduction.

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.
- ▶ The qualified transportation fringe benefit amount for parking in 2006 increases to \$205 per month, up from \$200 per month in 2005, while the transit pass exclusion will remain at \$105 per month.
- ▶ California's SDI rate will rise to 0.8% but the taxable wage base will stay the same as 2005 at \$79,418.00, for a total employee deduction of \$635.34.
- ▶ California's SUI wage base will remain at \$7,000 for 2006.
- ▶ The following states have increased their SUI wage base for 2006: Alaska (\$28,700), Illinois (\$11,000), Iowa (\$21,300), Idaho (\$29,200), Minnesota (\$24,000), Montana (\$21,600), Nebraska (\$8,000), Nevada (\$24,000), New Jersey (\$25,800), New Mexico (\$17,900), North Carolina (\$17,300), North Dakota (\$20,300), Oregon (\$28,000), Utah (\$24,000), Washington (\$30,900) and Wyoming (\$17,100).
- ▶ Standard Business Mileage Rate will *reduce* to 44.5 cents per mile effective 01/01/2006, down from the 48.5 cents per mile for 2005. The mileage rate for medical or moving purposes

will be 18 cents per mile for 2006. And, the charitable organization mileage rate will be 14 cents.

California Overtime Rules: In other California State news, the Department of Industrial Relations made the following rulings: To be exempt from overtime, computer software employees must earn at least \$47.81 per hour effective 01/01/2006. Also, licensed physicians and surgeons must earn at least \$61.65 per hour effective 01/01/2006 to be considered exempt from overtime pay.

I.R.S. 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.
- The adoption expense exclusion from employee income in employer-provided qualified adoption programs increases to \$10,960, up from \$10,630.
- The adoption tax credit for qualified adoption expenses increases to \$10,960, up from \$10,630 in 2005.

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

2006 Holiday Schedule: The following holidays are in effect for 2006. The official “bank holidays” are marked with an “*”

- ▶ * Monday, January 2, 2006 – New Year’s Day (Observed) – Pay-Net will be closed.
- ▶ * Monday, January 16, 2006 – Martin Luther King Day
- ▶ * Monday, February 20, 2006 – President’s Day
- ▶ * Monday, May 29, 2006 – Memorial Day – Pay-Net will be closed
- ▶ * Tuesday, July 4, 2006 – Independence Day – Pay-Net will be closed
- ▶ * Monday, September 4, 2006 – Labor Day – Pay-Net will be closed
- ▶ * Monday, October 9, 2006 – Columbus Day
- ▶ * Thursday, November 23, 2006 – Thanksgiving Day – Pay-Net will be closed
- ▶ Friday, November 24, 2006 – Day after Thanksgiving – Pay-Net will be closed
- ▶ * Monday, December 25, 2006 – Christmas Day – Pay-Net will be closed
- ▶ * Monday, January 1, 2006 – New Year’s Day – Pay-Net will be closed

Please make a note of these days as you are preparing your payroll information.



On behalf of Pay-Net, I want to wish you a very Merry Christmas and a prosperous and happy New Years. As we celebrated Pay-Net's Tenth Anniversary this past year, we again realized that we could not have done it without a group of loyal and wonderful clients such as you. Thank you again. We are looking forward to a continuing business relationship with you in 2006 and we hope that you and your family will have a wonderful Holiday Season.

Merry Christmas and Happy New Years

H. Payne Jr., Jr.