

Welcome to our Twenty Ninth 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: operations@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. We would like to welcome the newest addition to our staff, Amabel. Here are Pay-Net's current email accounts.

Wayne Lee (Owner):	wayne@pay-net.net
Hollis (Operations):	hlee@pay-net.net
Gloria (Operations):	gbal@pay-net.net
Dan (Operations):	danr@pay-net.net
Amabel (Operations):	amabelh@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's 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 operations@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 valuable information you need to assist your company.

"Challenging" Payroll Dates: Please take notice of the following dates as you prepare your payroll information. This summer promises to have a lot of challenging days for payroll people!

► With the last day of September falling on Saturday, and the first day of October falling on Sunday, your check date will revert back to Friday, September 29th. So, if you normally date your checks for the end of the month, or the 1st day of the month, and you have direct deposit, we will need your payroll information by 2:00 pm on Wednesday, September 27th.

▶ **Monday, October 9th, is the Columbus Day Holiday. This is a banking holiday but Pay-Net will be open that day. Please take this day into account as you prepare your payroll information.**

▶ October 15th falls on a Sunday. If you normally date your checks on the 15th, your check date will revert back to Friday, October 13th. If you have direct deposit, we will need your payroll information before 2:00 pm on Wednesday, October 11th.

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

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

▶ November 20th is on a 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, November 16th.

▶ **November 23rd is the Thanksgiving Day Holiday. This is a banking holiday and Pay-Net will be closed that day. Please take this day into account as you prepare your payroll information.**

▶ **Friday, November 24th, the day after Thanksgiving, Pay-Net will be CLOSED, but this day is not a banking holiday. Payrolls processed on Wednesday, November 22nd will be delivered this day and direct deposit will be funded on that day.**

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

- ▶ * 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, 2007 – New Year’s Day – Pay-Net will be closed

Changes in California’s Minimum Wage Rate

Governor Arnold Schwarzenegger signed the minimum wage bill on September 12, 2006, giving California the highest statewide minimum wage in the country. The bill increases the state’s minimum wage rate to \$7.50 per hour on January 1, 2007 and to \$8.00 per hour on January 1, 2008.

Effective 01/01/2007	\$7.50
Effective 01/01/2008	\$8.00

Third Quarter End: The end of the Third Quarter is rapidly approaching. Please note that any payroll-related items that you want reported for Third Quarter must be reported to, and

processed by, Thursday, September 28, 2006, including any and all adjustments. You can expect to receive your Third Quarter payroll tax returns on, or before, October 23rd.

Continued Pressure on Employers Regarding Illegal Immigrants: As I am sure you are all aware, there is continued pressure on employers regarding hiring illegal immigrants. Pay-Net will endeavor to keep you up-to-date on developments and how they might affect your business. One of the latest statements issued by the IRS, says:

A valid Social Security card can be used to determine an individual's employment eligibility. Employers that knowingly hire, or continue to employ, individuals who are not authorized to work in the United States can be fined from \$250 to \$2,000 per unauthorized alien for a first offense; from \$2,000 to \$5,000 per alien for a second offense; and from \$3,000 to \$10,000 per alien for each subsequent offense.

Pay-Net's EVS Service: With all the pressure on employers to ensure that their employee's have a legal right to work in the United States, what can you do? Every year, in November, Pay-Net sends an electronic listing of all clients' employees to the Social Security Administration to determine if your employees' Social Security numbers are valid and match the name on file with the SSA. We call this service our EVS Service – Electronic Verification Service.

Watch your payroll package in October for a special announcement about this service, its cost, and your benefit from participating in this service.

What Employers Should Know About IRS Lock-In Letters: If the IRS identifies what it believes to be serious underwithholding problems, it may request an employer to submit or make available for examination specific original W-4 Forms. If an employer receives a letter requiring this submission, please comply as quickly as possible.

After examining the submitted W-4, the IRS may notify the employer in writing that the employee is not entitled to claim exemption from withholding, or that a claimed number of withholding allowances will not be allowed, in which case the employer must withhold federal income tax based on the effective date and maximum number of withholding allowances specified in the IRS notice, commonly referred to as "lock-in letters".

There are specific procedures an employer must follow, and these can be found on the IRS web site at:

<http://www.irs.gov/gusinneses/small/article/0,id=159856,00.html>

Employers that fail to honor the lock-in requirement can be held liable for the amount of tax that should have been withheld, *in addition to* penalties and/or interest.

On an additional note, are you aware that all employers are required to get new W-4 Forms from their employees each year between January 1st and the last day of February? Current W-4 Forms can be found on Pay-Net's web site at www.pay-net.net.

The Payroll Puzzler: The Question: Last year, Joe quit his job under duress related to difficulty using company computer software. Two months later, he filed and won a claim under the Americans with Disabilities Act. The employer appealed, but the award was ultimately upheld. As part of the settlement, Joe received a back pay award a year later. The payroll department, when processing the award, withheld FIT and FICA. The payroll supervisor, however, had some concerns about the withholding of employment taxes. How would you advise? The answer is on the next page.

Puzzler Answer: Due to the nature of the payment, Joe's award should not be treated as wages and employment taxes are not applicable. Back pay awards under a statute, such as the Americans with Disabilities Act, may be considered compensation for personal injury but not pay for employment. Damages for personal injury, interest, penalties, and legal fees included with back pay awards are not considered wages for Social Security purposes. See "Taxability of Wage and Benefit Payments" in IRS Pub. 957 for more information.



A Note from Wayne

With all the new and continuing pressures on employers to ensure that all employees have a legal right to work in this country, it becomes a big burden on employers. Pay-Net attempts to assist our clients by offering our EVS service, for Electronic Verification Service. With this service, we send an electronic file of our clients' employees with Social Security Numbers to the SSA for verification. The file DOES NOT contain any information that would reveal to the SSA the employer name. Then, the SSA returns to Pay-Net an electronic file containing all the invalid Social Security Numbers or mismatches between Social

Security Numbers and names. Then, Pay-Net will send a letter to any employer that has one of these problems so that you will have time to remedy the problem before W-2's are sent in to the SSA. We strongly recommend that you participate in this voluntary service. For a very reasonable fee, you can determine if you have any problems or not.

A handwritten signature in black ink, appearing to read "Wayne". The signature is stylized and cursive.