

Welcome to our Thirtieth 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 operations@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.

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!

- ▶ **Please make note of the following Holiday schedule:**
Thursday, November 23, 2006 - Thanksgiving Day – Pay-Net will be closed.
Friday, November 24, 2006 – Pay-Net will be *closed*.

If you normally would date your checks for Friday, November 24th, but you want to change the check date to Wednesday, November 22nd, please call us to change your processing calendar!

▶ 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.

▶ December 5th is on a Tuesday. 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 Friday, December 1st.

▶ Thursday, December 28th, is the last day to report any wage adjustments for 2006. You will need to process any and all manual checks or adjustments on, or before, this date. If you need to have this date added to your processing calendar, please call our office.

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

- ▶ * 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

Do you realize that you can begin now to input the new increase to your minimum wage workers. If you are a remote client or use Payentry, you can enter the employee’s new wage amount and put an effective date of 01/01/2007. That way, when January rolls around, the system will automatically pay the employee based on the new hourly rate! If you have any questions on how to set this up, send us an email or give us a call.

Changes for 2007: Various taxing agencies have announced the following changes for 2007:

▶ Social Security Wage Base increases to \$97,500 from \$94,200 in 2006. This makes the maximum a taxpayer can accrue in Social Security taxes for 2007 \$6,045.00, up from \$5,8410.40 in 2006.

▶ The Social Security tax rate will remain at 6.2% and the Medicare tax rate will remain at 1.45% for 2007. Again, as in previous years, there is no wage limit for Medicare.

▶ 401(k) deferral limit has been raised to \$15,500, a \$500 increase from 2006. The dollar limit for catch-up contributions stays at \$5,000, the same as 2006.

▶ SIMPLE retirement account deferrals increases by \$500 to \$10,500.

▶ The standard mileage rate for 2007 will be 48.5 cents per mile for business miles driven. The standard mileage rate for the use of a car for charitable purposes will remain at 14 cents per mile in 2007.

- ▶ The qualified transportation fringe benefit for parking in 2007 increases \$10 to \$215 per month, and the transit pass exclusion increases \$5 to \$110.
- ▶ The adoption expense exclusion for qualified employer plans increases to \$11,390 in 2007, up from \$10,960 this year.
- ▶ The 2007 standard deduction for married couples filing a joint return will be \$10,700, for singles \$5,350, and for heads of households \$7,850.
- ▶ The California SDI rate for 2007 is 0.6 percent; the SDI taxable wage base is \$83,389. The maximum withholding amount for each employee is \$500.33 in 2007.
- ▶ California employer SUI rates in 2007 will remain under Schedule F+, which includes a 15 percent emergency surcharge. The rates range from 1.5 percent to 6.2 percent. The voluntary UI contribution program is not in effect next year. The employment training tax remains 0.1 percent.
- ▶ San Francisco voters Nov. 7 approved what is believed to be the nation's first requirement that employers provide paid sick leave to workers. Starting February 2007, certain employers in San Francisco under the labor-backed Proposition F are required to provide workers with one hour of paid sick leave for every 30 hours worked. New employees have to wait three months before beginning to earn sick leave. The provisions are minimums and employers may provide more generous policies.

Changes In Your Check Stub: If you haven't noticed already, Pay-Net has begun to block Social Security numbers from appearing on check stubs. According to the new California law effective January 1, 2007, the Social Security number, in its entirety, should not appear on check stubs. Instead, the law allows for a unique "identifier" to be on the stub, which is satisfied by the employee number, which is a unique number for each client.

"November" IRS Letter: Each year, in November or December, the IRS sends letters to companies informing them of their depository frequency for the next year. Please watch for these letters, and if you receive one of these letters, please fax it to our office as soon as possible. This is the *only notice* that your company will receive. Pay-Net cannot contact the IRS to determine your company's depository frequency. If you do not send this letter to Pay-Net, we cannot be held responsible for any penalties and/or interest assessed by the IRS or state governments due to depository frequency errors.

State SUI Letters: Each year, in December, the state governments send letters to clients advising them of their SUI rate for the coming year. Please be sure to fax this letter/notification to Pay-Net as quickly as you receive them.

Pay-Net's EVS Service: If you participated in Pay-Net's EVS service, we have received notification back from the SSA. If you have any employees that failed in EVS checking, you will receive a letter in your payroll package. Please ensure to make any and all corrections as quickly as possible.

State Minimum Wage Update: All six states with minimum wage ballot initiatives in the Nov. 7 election have raised their minimum wages. An initiative in Arizona creates a state minimum wage of \$6.75 per hour, effective Jan. 1, 2007. Previously, Arizona did not have a minimum wage law.

Colorado and Ohio will increase their minimum wages to \$6.85 per hour, also effective Jan. 1, 2007. Missouri will increase its minimum wage to \$6.50 per hour, and Montana will increase its minimum to \$6.15 per hour—both also effective Jan. 1, 2007.

Nevada employers will be required to pay \$6.15 per hour, effective Nov. 28, 2006. Employers, however, can continue to pay \$5.15 per hour to employees under age 18 or to any employee for whom they pay health insurance benefits.

California Workers Claim Losses, Penalties for Paychecks Drawn on Out-Of-State Bank: A state law intended to guarantee employees prompt payment of wages requires Dollar Tree Stores Inc. to give its California employees paychecks drawn on an in-state bank, or to make arrangements for employees to cash checks without incurring delays or costs, a federal court in San Francisco ruled Sept. 15 (*Fleming v. Dollar Tree Stores Inc.*, N. D. Cal., No. C06-03409 MJJ, 9/15/06).

Refusing to dismiss a lawsuit seeking damages and penalties on behalf of employees who received checks drawn on Wachovia Bank, Judge Martin J. Jenkins of the U.S. District Court for the Northern District of California found that an exemption in the California Labor Code for some checks where "the drawee is a bank" only applied to employers that are themselves banks.

California Labor Code Section 212(a)(1) prohibits payment of wages by check unless the check is "negotiable and payable in cash, on demand, without discount, at some established place of business in the state, the name and address of which must appear on the instrument." According to papers filed in the lawsuit, Dollar Tree paid California employees with checks drawn on Wachovia Bank N.A., a national bank with branches and facilities in a number of Eastern and Southern states, but not in California.

The Payroll Puzzler: The Question: Jack has participated in his company's incentive stock option plan for the last five years. On Feb. 14, 2006, 50 shares of stock were transferred to Jack. On Aug. 30, Jack sold 30 of the 50 shares. Chloe, who works in the payroll department, wonders whether to withhold employment taxes on the income Jack received from the sale. Must she withhold? The answer is on the next page.

Puzzler Answer: Chloe does not have to withhold employment taxes on Jack's income, since it is not considered wages for federal income tax or FICA purposes. This income, however, should be reported on Form W-2 as "other compensation." Jack will recognize ordinary income in 2006 equal to the difference between the option's exercise price and the stock's fair market value at the time of exercise.



A Note from Wayne

With the holiday season quickly approaching, I would like to thank all of our clients for a very successful year. Thanksgiving is an important time of the year for me because it gives me time to reflect back on all the happenings, changes, and opportunities and excitement I had in the previous year. I am especially thankful to my supportive wife, my children, and all the supportive clients we have at Pay-Net. I hope and pray that you and your family will have a great and safe Thanksgiving season.

Wayne