



Welcome to our Fiftieth 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 6 to 10 times per year. If any other people in your organization would like a copy of our E-Newsletter, please send a request by email to: operations@pay-net.net .

Please Keep Your Email Addresses Current When you have personnel changes, remember to send us any email address changes. You can send these to operations@pay-net.net . By doing this, our list will remain current. When we sent out the last E-Newsletter, we got over 50 bounce-backs because the email addresses were no longer valid.

Pay-Net Email 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. We would like to welcome Paula to Pay-Net. Paula has over 10 years experience working in a payroll service bureau and we look forward to having her as an addition to our staff.

- Wayne Lee (Owner): wayne@pay-net.net
- Hollis (General Manager): hlee@pay-net.net
- Gloria (Operations Mgr): gbal@pay-net.net
- Becky (Operations): rbaker@pay-net.net
- Paula (Operations): pmowry@pay-net.net
- Anna (Tax Manager): atudor@pay-net.net
- Ivan (Technical): idiaz@pay-net.net
- General Communication: operations@pay-net.net (this will be forwarded to the appropriate person)
- Debbie (Sales): dwillett@pay-net.net
- Don (Sales): denck@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: If you have the opportunity, please visit our web site at www.pay-net.net and let us know what you think about it. Send your responses to operations@pay-net.net.

“Challenging” Payroll Dates: Please take notice of the following dates as you prepare your payroll information.

- ▶ August 31st falls on a Tuesday. If you normally date your checks for the end of the month and you have direct deposit, we will need your payroll information before 3:00 pm on Friday, August 27th.

- ▶ September 5th falls on a Sunday. If you normally date your checks for the 5th your check date will roll back to Friday, September 3rd. If this applies to you, and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, September 1st.
- ▶ **Monday, September 6, 2010, is Labor Day, a national holiday. Pay-Net will be closed on that day. Please be sure to take this holiday into account as you prepare your payroll for processing.**
- ▶ September 20th falls on a Monday. If you normally date your checks for the 20th and you have direct deposit, we will need your payroll information before 3:00 pm on Thursday, September 16th.
- ▶ October 5th falls on a Tuesday. If you normally date your checks for the 5th and you have direct deposit, we will need your payroll information before 3:00 pm on Friday, October 1st.
- ▶ **Monday, October 11, 2010, is Columbus Day. This holiday is a banking holiday, and banks, schools and government offices will be closed. Pay-Net will be open on this day. Please be sure to take this holiday into account as your prepare your payroll for processing.**
- ▶ October 31st falls on a Sunday. If you normally date your checks for the “End of the Month”, then your check date will fall back to Friday, October 29th. If this affects your company and you have direct deposit, we will need your payroll information by 3:00 pm on Wednesday, October 27th.
- ▶ November 1st falls on a Monday. If you normally date your checks for the 1st and you have direct deposit, we need your payroll information before 3:00 pm on Thursday, October 28th.
- ▶ **Thursday, November 11th is Veteran’s Day. This holiday is a banking holiday, and banks, schools and government offices will be closed. Pay-Net will be open on this day. Please be sure to take this holiday into account as your prepare your payroll for processing.**

Payroll Puzzler: John, a nonexempt hourly employee, worked through his scheduled 45-minute lunch period for one week to finish an assignment. When his manager asked about his progress, John said he had worked through lunch, but he had not asked permission. When the project was finished, John applied for three hours of overtime. His manager disapproved the payment because John had not asked to work overtime, which was not approved for the project. Does the company owe John overtime?

Find the answer at the end of this ENewsletter.

New HIRE Legislation

On March 18, 2010, President Obama signed the new ***Hiring Incentives to Restore Employment Act*** (HIRE) into law. This federal legislation creates brand-new tax breaks for hiring and retaining unemployed workers, extends the enhanced business equipment deduction that was available last year, and reinforces the "Build America Bond" program. And, YES, Pay-Net’s software has been modified for these new laws regarding the hiring and retention of unemployed workers and we are ready to assist you in getting these employment tax breaks.

Here's a quick rundown on these three key tax breaks:

(1) Employers Get a Payroll Tax Holiday for New Hires -- Plus a Potential Tax Credit Bonus. Normally, an employer is required to pay its share of Social Security taxes on wages earned by employees. For 2010, the portion of the tax is 6.2 percent on the first \$106,800 of wages.

Under the *HIRE Act*, an employer is effectively excused from paying its share of the 6.2 percent tax on wages received by "qualified employees." This exemption applies to wages paid after the date of enactment through the end of 2010. The maximum value for each qualified employee is \$6,621.

Example: If a qualified employee is hired in March and receives \$50,000 in wages in 2010, the employer saves \$3,100 (6.2 percent of \$50,000) in Social Security tax.

The new law defines a "qualified employee" as someone who meets all of these criteria:

- Begins work after February 3, 2010 and before January 1, 2011.
- Has not been employed for more than 40 hours during the previous 60 days (ending on the start date).
- Was not hired to replace another employee unless the former employee separated from employment voluntarily or for cause.
- Is not related to the employer and does not own more than 50 percent of the business, either directly or indirectly.

Notes: A qualified employee may be either a full-time employee or a part-time employee. There is no minimum requirement for the hours worked. The payroll tax forgiveness does not apply to the 1.45 percent Medicare portion of payroll tax. And household employers (for example, hiring nannies) cannot claim the new tax benefit.

The exemption officially begins with wages paid in the second calendar quarter of 2010. Employers entitled to tax relief for the first quarter will be credited against their general Social Security liability for the second quarter.

Another tax credit bonus: In addition to the payroll tax forgiveness, an employer can claim a tax credit if it retains a qualified worker for a minimum of 52 consecutive weeks. The credit is equal to the lesser of: \$1,000 or 6.2 percent of the employee's wages paid during the 52-week period. If the employee quits or is fired before the end of the one-year period, no credit is allowed.

The new law requires that employers get statements from each eligible new hire certifying that he or she was unemployed during the 60 days before beginning work or, alternatively, worked fewer than a total of 40 hours for someone else during the period. The IRS has released a preliminary form that employees can use to make the required statement, the W-11 Form. The preliminary release of the W-11 is found on the link at the end of this section.

Consult with your tax adviser to determine if these tax breaks make it advantageous for your business to hire new employees now and to ensure you comply with the documentation rules to qualify.

(2) The Super Deduction for Purchasing Business Equipment Has Been Extended. Section 179 of the Internal Revenue Code allows an employer to "expense," or currently deduct, qualified business assets placed in service during the year, up to a specified maximum. So instead of depreciating equipment over several years, you can write off the entire cost in one year if you qualify and make this election. The maximum deduction is phased out on a dollar-for-dollar basis for the cost of assets exceeding a threshold amount.

Under an earlier stimulus law, the maximum Section 179 deduction allowed for 2009 was \$250,000, while the phase-out threshold was set at \$800,000. Without an extension, the Section 179 deduction for 2010 had reverted to \$134,000 and the phase-out threshold was \$530,000. Now the new law preserves the higher limits for qualified assets placed in service in tax years beginning in 2010.

Notes: The *HIRE Act* does not extend the "bonus depreciation" tax break that was also available for business equipment purchases in 2009. However, it does continue to allow businesses to currently deduct the cost of off-the-shelf software placed in service in 2010.

(3) Tax Credit Bonds Are Made More Attractive. Under the *American Recovery and Reinvestment Act of 2009*, state and local governments were authorized to issue "Build America Bonds." These bonds have proven to be popular among institutional investors, such as municipal bond funds. To increase participation in this program, the *HIRE Act* allows issuers of qualified tax credit bonds to elect to receive direct payment from the federal government in an amount equal to the allowable tax credit. The tax credit bonds include new renewable energy bonds, qualified energy conservation bonds, qualified zone academy bonds and qualified school construction bonds.

What is NOT Included in the Legislation?

The *HIRE Act* does *not* include a number of tax breaks that people are waiting for and Congress continues to discuss. We are likely to see new legislation this year that covers the extension of several tax breaks that technically expired after 2009, such as the Research Tax Credit, the higher education tuition deduction, the state and local sales tax write-off and a variety of other business and individual tax breaks.

Similarly, the law did not provide alternative minimum tax (AMT) relief or any revision of the estate and gift tax laws. However, these issues are addressed in other legislative proposals that are currently working their way through Congress. Stay tuned. We'll tell you about additional tax changes as soon as they pass.

Whose Going To Pay For the HIRE Act?

The tax benefits in the new *HIRE Act* are mainly offset by a package of foreign tax compliance rules. Among other provisions, the law:

- Imposes 30 percent tax withholding on payments to foreign banks and trusts that fail to identify U.S. accounts and their owners and assets to the IRS; or foreign corporations that do not supply the name, address, and tax identification number of any U.S. individual with at least 10 percent ownership in the firm.
- Imposes penalties of up to \$50,000 on U.S. taxpayers who have at least \$50,000 in offshore accounts or assets, but fail to report the accounts on their annual income tax returns.
- Assesses a 40 percent penalty on the amount of any understatement attributed to undisclosed foreign assets.
- Extends the statute of limitations to six years for "substantial" omissions derived from offshore assets.
- Requires shareholders in passive foreign investment companies to file annual returns.
- Establishes a \$10,000 minimum failure-to-file penalty for certain foreign-trust related information returns.

To further help pay for the new tax breaks, the new law also delays (until 2021) application of the worldwide interest allocation rules and accelerates certain corporate estimated tax payments.

If you believe that your company can take advantage of this new *HIRE* law and you are hiring new employees that meet the eligibility requirements, give our office a call so we can assist you in setting up these employees on the payroll system. Also the final W11 Form, or the statement for employee certification, is available on our web site (see link below).

For more information, here are some valuable links (clickable links):

IRS Notice dated 03/30/2010 regarding *HIRE*:

<http://www.irs.gov/newsroom/article/0,,id=220326,00.html?portlet=7>

IRS Question & Answer page:

<http://www.irs.gov/businesses/small/article/0,,id=220745,00.html?portlet=7>

The complete text of the HIRE Legislation act:

http://www.irs.gov/pub/newsroom/hire_act.pdf?portlet=7

W-11 Form: <http://www.pay-net.net/docs/fw11.pdf> From Pay-Net's web site.

Changes to Health Care Law That Affect Payroll: Key provisions under amendments to the recently signed health care law, including a new starting date for tax-free contribution limits on FSAs, will affect payroll considerations.

The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), signed March 30, made several changes to the underlying Patient Protection and Affordable Care Act (P.L. 111-148), signed March 23.

The \$2,500 limit on tax-free employee contributions to flexible-spending accounts starts in 2013 instead of 2011. New rules that prohibit the use of FSA funds to buy nonprescription drugs still take effect Jan. 1, 2011.

Another amendment added a 3.8 percent Medicare tax on unearned income for employees earning more than \$200,000 a year, which is in addition to the 0.9 percent on the employee's portion of the Medicare (HI) tax when wages are more than \$200,000, effective 2013.

The maximum amount of the income exclusion for employer-provided adoption assistance is \$13,170 for tax years starting in 2010, up from \$12,170. The exemption, which was extended to Dec. 31, 2011, is to be adjusted for inflation annually.

Health Care Tax Credit for Small Employers: Included in the Patient Protection and Affordable Care Act approved by Congress in March and signed into law by President Obama, the credit is one of the first health care reform provisions to go into effect. The credit, which takes effect this year, is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

“We want to make sure small employers across the nation realize that — effective this tax year — they may be eligible for a valuable new tax credit. Our postcard mailing — which is targeted at small employers — is intended to get the attention of small employers and encourage them to find out more,” IRS Commissioner Doug Shulman said. “We urge every small employer to take advantage of this credit if they qualify.”

In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees in 2010. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low- and moderate-income workers.

For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. The maximum credit goes to smaller employers — those with 10 or fewer full-time equivalent (FTE) employees — paying annual average wages of \$25,000 or less. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals. The credit is completely phased out for employers that have 25 FTEs or more or that pay average wages of \$50,000 per year or more.

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. For tax-exempt organizations, the IRS will provide further information on how to claim the credit.

Internet Rumor about Health Care and W2's: There is a rumor being circulated around the internet that Employer Paid Health Insurance premiums will be reported on 2010 W2 Forms and the employee will have to pay taxes on this employer paid benefit because it will be added to the employee's gross wages.

As with all internet rumors, there is some truth to this statement but a lot of falsehoods too.

Yes, the cost of Employer Paid Health Insurance benefits will be included on the W2 Form, but it will be for the 2011 W2's, not the 2010.

No, there will be no increased in gross wages or taxable earnings for the employee. The employee will pay the same amount of taxes.

The purpose of this field is to monitor the employer compliance with the terms of the Health Care Law that was passed earlier this year and also to keep the employee informed over how much their employer is spending on health insurance.

Uncashed Payroll Checks? Clients frequently question us on what to do with old, uncashed payroll checks. Here is an article that may help you. As always, we suggest that you discuss this issue with your CPA for clarification of how the state laws apply to your company.

The Scenario: Your company issues a final paycheck to an employee who is moving out of town and leaves only a forwarding address. A year later, the check still hasn't been cashed despite several letters your company has sent offering to void the original and reissue the check. You know that your bank won't cash the check now and you would like to just void it in your records and return the money to your general account.

The Reality: You can't do that. Uncashed paychecks are a business liability that can be extinguished only they are cashed. The fact that a check remains uncashed over a long period of time does not eliminate your company's liability for the payment. Voiding or writing off the check and putting the money back into the general account understates your company's wages.

In addition, uncashed checks carry property rights. After a specific interval of time that is determined by state laws, unclaimed checks become unclaimed property and are protected by state laws.

To ensure compliance, the American Institute of Certified Public Accountants suggests these steps:

1. Void the check and move the funds into an escrow account that is subject to careful internal control.
2. Pay the applicable employment tax, Social Security tax, and Medicare withholding.
3. Subject all transactions in and out of the escrow account to close scrutiny and supervisory review.
4. Find and retain available data that identifies the property owner.
5. Try to contact the payee at regular intervals, such as every six months.

A company that does not comply with state unclaimed property laws runs the risk of an audit. Interest and penalties could be assessed for not filing unclaimed property reports.

States generally aren't concerned about unclaimed property if your company has a continuing relationship with the owner or if the last known address in your records is the owner's current address. States require holders of unclaimed property to attempt to contact the owner before reporting the property.

Each state, plus some U.S. and Canadian jurisdictions, have statutes that specify dormancy periods. Once the dormancy period has passed, your company generally must file annual reports to the states, and some states require reports even if your company has no new unclaimed property for the current year. For a review of California's rules and regulations, here is a link to a document on the state controller's web pages dated January, 2010: http://sco.ca.gov/Files-UPD/guide_upd_updlaw.pdf

When it comes to which state gets the reports, the U.S. Supreme Court ruled that the holder must report the unclaimed property to the state in which the owner's last known address was located (*Texas vs. New Jersey, 1954*). If the owner's address is missing or incomplete, the top court ruled that the holder should report the asset to its state of incorporation (*Delaware vs. New York, 1992*).

If your company is planning a merger or an acquisition, it's wise to perform due diligence of the other company's operations to identify all reportable unclaimed property.

Unclaimed property is a sensitive issue that requires careful handling. If there is any doubt that you have met the burden of due diligence, consult with your accounting professional.

2010 Remaining Holiday Schedule: The following remaining holidays are scheduled for 2010. The official "bank holidays" are marked with an "*"

- ▶ * Monday, September 6, 2010 – Labor Day – Pay-Net will be closed
- ▶ * Monday, October 11, 2010 – Columbus Day – Pay-Net will be open
- ▶ * Thursday, November 11, 2010 – Veteran's Day – Pay-Net will be open
- ▶ * Thursday, November 25, 2010 – Thanksgiving Day – Pay-Net will be closed
- ▶ Friday, November 26, 2010 – Day After Thanksgiving – Pay-Net will be closed
- ▶ * Saturday, December 25, 2010 – Christmas
- ▶ * Saturday, January 1, 2011 – New Years Day

IRS to Move Employers to Electronic Tax Payments: Beginning in 2011, all businesses will *be required* to make the deposits electronically, the Treasury Department proposed recently. The requirement is part of an initiative to move all taxpayers to electronic transactions. About 98 percent of all business tax dollars are paid electronically through the department's Electronic Federal Tax Payment System.

If you already use Pay-Net's Electronic Tax Filing Service, your deposits are already being made electronically, so there is no need for concern.

If you do not subscribe to our Tax Filing Service and you make your deposits by coupon, you will be required to make your deposits electronically. There are a couple of alternatives available to you. You can directly subscribe to the EFTPS payment system (see <https://www.eftps.com/eftps/>) and make payments online, or you can contact your bank to see if they offer electronic services to do this.

Do You Hire H-1B Employees?: The Labor Department unveiled an online tool to help employers understand how to comply with H-1B visa program requirements. The tool outlines notification requirements, monetary issues, worksite issues, recordkeeping, worker protections, and enforcement issues. H-1B visas are granted to highly skilled, college-educated, temporary foreign workers for a maximum of six years. The H-1B compliance tool is available at the following link: <http://www.dol.gov/elaws/h1b.htm>

Social Security Numbering System: Frequently, many clients have questions regarding their employees' Social Security Numbers. Even though Pay-Net offers our EVS service to clients to check the validity of their employees' SSN's, we find many unresolved errors when Pay-Net submits the W2 Magnetic Media files to the SSA. The biggest number of errors occurs with SSN's that begin with a "7" or an "8" or a "9". Apparently, these are invalid SSN's according to the SSA. And, with today's scrutiny by the Department of Homeland Security, we do not need any more attention than necessary from the government. And, we found a lot of clients having employees with SSN's that begin with an "8" or a "9".

The following link is a page on the SSA web site that lists the valid SSN number sequences and in what state they were issued:

<http://www.socialsecurity.gov/employer/stateweb.htm>

This page will help you in determining if your company has any potential problems with invalid SSN's. Since Pay-Net is unsure if this SSA list is entirely correct, if any client finds an employee with a truly valid SSN beginning with an "8" or a "9", please let us know.

This just in from the Social Security Administration:

The Social Security Administration (SSA) is moving to randomize the issuing of Social Security Numbers (SSN's). Beginning in 2011, the SSA will:

- (1) Stop using SSN series in particular geographic areas, and**
- (2) Will begin issuing SSN's with an 8 or 7 in the first position, and**
- (3) Will NOT issue SSN's with a 9 in the first position, or 000 or 666 in positions 1 to 3.**

Pay-Net's ConfirmFTD Service: We want to remind our clients of our ConfirmFTD service, which allows our Electronic Tax Filing clients to check their Federal tax deposits on the EFTPS Department's web site (a division of the IRS).

To describe the service in a nutshell: For a very minimal one-time fee, Pay-Net will enroll you with the EFTPS unit of the IRS. You will receive a PIN directly from the EFTPS, which will allow you to register and login directly to the EFTPS web site. There, on their web site, you can confirm the date and amount of all Federal 941 and 940 deposits made on your behalf by Pay-Net for the last 16 months.

Additional Services Offered by Pay-Net: Sometimes clients can forget the vast range of services that Pay-Net can offer your company. For example, did you know that we offer four different types of tax services? Or, did you know you could import your payroll information from an Excel® spreadsheet? Since businesses are constantly changing, your payroll and human resource requirements can also change. We encourage you to examine the vast number of services that we offer, from Human Resource tracking to Employee Self Service. To find out about our expanse of services visit our web site, www.pay-net.net, and click on "Pay-Net Solutions".

Puzzler Answer: Because John's activities were done for the company's benefit, his time is compensable under the Fair Labor Standards Act. Employers must pay employees for unauthorized work, even when formally prohibited by company policy, if performed with the knowledge and acquiescence of management.



Note from Wayne

Wow, there has been a lot going on in the world of payroll. Just when you think everything will quiet down, the government brings out something else. The HIRE act is just one of the latest and it came right on the heels of the Health Care legislation. I am sure that the Health Care bill(s) will result in a lot of payroll changes as we go through these introductory years and get ready for full implementation. Rest assured that Pay-Net will ready to implement all these changes into our software once the details are known. It is really exciting to be a part of an organization, such as One Point Solutions, that can quickly react to new rules and regulations where our competition has to wait on corporate directions.

Wayne