



Welcome to our Forty-Eighth 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 When we sent out the last E-Newsletter, we got over 100 bounce-backs because the email addresses were no longer valid.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.

► December 5th is on a Saturday. If you normally date your checks for the 5th and you have direct deposit, your check date will roll back to the 4th and we will need your payroll information by 3:00pm on Wednesday, December 2nd.

- ▶ December 15th is on a Tuesday. If you normally date your checks for the 15th and you have direct deposit, we will need your payroll information by 3:00pm on Friday, December 11th.
- ▶ December 20th is on a Sunday. If you normally date your checks for the 20th and you have direct deposit, your check date will roll back to Friday, the 18th, and we will need your payroll information before 3:00pm on Wednesday, December 16th.
- ▶ **Christmas Processing Schedule:**
 - (1) **Thursday, December 24th, Pay-Net will be closing at 12:00 noon.**
 - (2) **Friday, December 25th, is Christmas Day, a banking holiday, and Pay-Net will be closed.**
- ▶ **The last day to enter payroll information that needs to be on the 2009 W-2 Forms is Wednesday, December 30th. This includes any final manual checks, adjustment runs, etc. If you are a remote, or ePayentry client, and you need to process a final run on the 30th, please call our office so we can adjust your calendar.**
- ▶ **New Years Processing Schedule:**
 - (1) **Thursday, December 31st, Pay-Net will be closing at 2:00 pm.**
 - (2) **Friday, January 1st, is New Years Day, a banking holiday and Pay-Net will be closed.**
- ▶ **January 5, 2010, falls on a Tuesday. If you normally date your checks on the 5th and you have direct deposit, we will need your payroll information BEFORE NOON on Thursday, December 31st!**
- ▶ **Monday, January 18th is Martin Luther King Day, a banking holiday. Please take this date into consideration when preparing your payroll information. Pay-Net will be open on this day.**
- ▶ January 20th falls on a Wednesday. Due to the Martin Luther King holiday, if you normally date your checks for the 20th and you have direct deposit, we will need your payroll information before 3:00pm on Friday, January 15th.
- ▶ January 31st falls on a Sunday. If you normally date your checks for the last day of the month, your check date will roll back to Friday, the 29th. If this affects you, and you have direct deposit, we will need your payroll information before 3:00pm on Wednesday, January 27th.
- ▶ February 1st falls on Monday. If you normally date your checks for the 1st and you have direct deposit, we will need your payroll information before 3:00pm on Thursday, January 28th.
- ▶ **Monday, February 15th is President's Day, a banking holiday. Please take this date into consideration when preparing your payroll information. Pay-Net will be open on this day.**
- ▶ Since Monday, February 15th is a holiday, if you normally date your checks for the 15th of the month, your check date will roll back to Friday, February 12th. If this affects your company and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, February 10th.

- ▶ February 20th falls on a Saturday. If you normally date your checks for the 20th, your check date will roll back to Friday, February 19th. If you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, February 17th.
- ▶ Remember that February is a short month. The last day is the 28th and it is on a Sunday. If you normally date your checks for the end of the month, your check date will roll back to Friday, February 26th. If you have direct deposit, we will need your payroll information by 3:00 pm on Wednesday, February 24th.
- ▶ March 15th falls on a Monday. If you normally date your checks for the 15th and you have direct deposit, we will need your payroll information by 3:00 pm on Thursday, March 11th.
- ▶ March 20th falls on a Saturday. If you normally date your checks for the 20th, your check date will roll back to Friday, the 19th. If this affects you, and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, March 17th.

Year End Is Coming!!! Yikes, it's hard to believe that year-end is quickly approaching! With the holiday season fast approaching, we will quickly move right through Christmas. Before you know it, it's Year End time!

Before things get too hectic, we suggest that you examine your payroll dates for the rest of the year. Look for conflicts with holidays, remembering that for direct deposit, you need to transmit your payroll information to us three days prior to check date.

Also, there are any year-end payroll issues that you can start preparing for. You can start now planning for such things as PUC's (Personal Use of Company Car), or other fringe-type benefits that need to be reported on the W-2 Form.

Also, be alert for the annual **IRS Depository Notices** that are mailed out in November to companies that change depository frequency. The states will start sending out **SUI Rate Change Notices** in November or December. Both of these notices need to be sent or faxed to Pay-Net. **Please note that Pay-Net does not receive a copy of your Depository Change Notice. Therefore, we cannot be held responsible for any IRS or EDD penalties that can result from a change in your depository frequency.**

The cutoff day for entering 2009 payroll adjustments is Wednesday, December 30th. We will begin processing Year End on December 31, 2009. If you are aware of any issues that may cause a re-processing of year-end, please let us know so we can delay your processing and you may avoid any reprocessing fees.

Regarding our EVS Service: We are sending out letters to companies that had employee problems with Social Security name checks. Please try to have all changes reported to Pay-Net before December 30th. However, if you are a remote entry client, or you are on ePayentry, you need to make these changes in the system before December 30th.

Regarding Employee Copies of W2 Forms: If there are any "reporting type" problems on the Employee Copy of the W2, such as name misspelling, wrong Social Security Number, etc., please be advised that the IRS will accept "white out" on Employee Copies. This will save you time and money having to have an employee copy rerun. But, any changes must be entered into the system so they will be reflected on the Filing Copies of W2 forms which Pay-Net will file on,

or before, February 15th. If an employee loses their W2 form, you can simply make a copy from the employer copy and give the employee the copy.

We anticipate being through with Year End by January 21, 2010. If you have not received your Year End package by that date, please call us.

More Changes for ACH Transactions: We have just received word from our bank that all ACH **TAX** transactions that exceed \$300,000 must be wire transferred. This follows the limits that were enacted earlier in 2009 concerning direct deposit transfers. Although this new limit only affects a few of our clients, we need you to be aware of this situation.

Year End / Christmas Bonuses: Just a quick note on bonuses. In December, we normally see many clients giving their employees' bonuses. I don't know if the economy will curtail this practice this year. But, if you do issue bonuses, keep the "new" ACH transaction limits in mind. If you pay bonuses by direct deposit, remember that any company's direct deposit file over \$500,000 or if any individual has a direct deposit over \$100,000, the direct deposit funds **must** be wire transferred. Similarly, if the tax liabilities are over \$300,000, these funds **must** be wire transferred. If you have any questions, please call our office.

Tax Changes for 2010: It looks like there are few changes for 2010 due to the recession and the poor economy. Social Security percentages and limits remain at 6.2% and \$106,800, Medicare percentage remains at 1.45% with an unlimited wage base. 401(k), Simple IRA, and other retirement, or deferred compensation, plans remain the same.

The 2010 standard mileage rates for the use of a car will be 50 cents per mile for business miles driven, 16.5 cents per mile driven for medical or moving purposes, and 14 cents per mile driven in service of charitable organizations.

The only other changes appear to be in wage withholdings and California's SDI, where the percentage remains the same (1.1%), but the wage base increases by \$2,647 to \$ 93,316. The IRS has announced that some individuals may experience a large increase in withholdings due to the reduction of the "Making Work Pay Credit" that was applied for the last 9 months of 2009. As we previously announced, there will be an increase in California withholdings.

IRS Request: The IRS has requested that all payroll service bureaus alert their clients to possible problems with employee income tax withholding in 2010. Most employees will experience increased withholdings per pay period in 2010.

This is due to two factors:

- (1) The "Making Work Pay" credit will now be spread over 12 months instead of the 9 months in 2009.
- (2) The "normal" annual increase in withholding amounts because of the new tables.

The IRS requires employers to remind employees to file an updated Form W-4 by December if withholding allowances have changed in the past year, or if allowances will change for the next year. The new 2010 W-4 Form is now available on our web site under Employer Resources.

2009/2010 Holiday Schedule:

The following remaining holidays are scheduled for 2009, and we have included the holiday schedule for 2010. The official “bank holidays” are marked with an “*”

- ▶ Thursday, December 24, 2009– Christmas Eve – Pay-Net will be closing at 12:00 noon
- ▶ * Friday, December 25, 2009 – Christmas Day – Pay-Net will be closed
- ▶ Thursday, December 31, 2009 – New Years Eve – Pay-Net will be closing at 2:00 pm
- ▶ * Friday, January 1, 2010 – New Year’s Day – Pay-Net will be closed
- ▶ * Monday, January 18, 2010 – Martin Luther King Day – Pay-Net will be open
- ▶ * Monday, February 15, 2010 – President’s Day – Pay-Net will be open
- ▶ * Monday, May 31, 2010 – Memorial Day – Pay-Net will be closed
- ▶ * Sunday, July 4, 2010 – Independence Day – we are unsure if Monday will be a holiday
- ▶ * 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

Possible FUTA Tax Credits:

According to an announcement by the US Labor Department, it looks like only Michigan employers will be saddled with additional FUTA taxes due to their state UI department not paying off their federal UI loans. Here’s the announcement:

The unemployment compensation programs of 50 states and other U.S. jurisdictions have qualified for the federal-state unemployment compensation program, the Labor Department announced. Employers in the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands are therefore eligible for the full state tax credit against their federal unemployment insurance obligations, according to a notice in the Nov. 4 *Federal Register* (74 Fed. Reg. 52700).

States have until Nov. 10 to pay off any outstanding federal loans without facing a FUTA offset credit reduction penalty. Michigan is the only state facing this penalty provision. Since the FUTA tax is due by Jan. 31 for the prior year FUTA tax, Michigan employers will not see an official FUTA tax increase until payments are made in January if the state does not remit the outstanding principal in time.

Bottom line – if you have employees in Michigan, look for an increase in your FUTA tax for 4th Quarter. If you subscribe to our tax filing service, Pay-Net will notify you of the amount of additional tax due, and we will draft your account and make the deposit.

Now, maybe some of you are wondering why a “tax credit” means “increased tax payments”. The reason is as follows: The *real* FUTA tax is 6.2%, but an employer can receive a “tax credit” for making timely and proper UI deposits to their state, up to a 5.4% tax credit. The net result, 0.8% (6.2% minus 5.4%), is what most payroll people take for the “FUTA tax rate”, which it is not. A reduction in a state’s tax credit means that the 5.4% figure is reduced depending on the state’s shortfall with the feds. So, if the IRS announces that Michigan has a tax credit of 4.0%, that means that Michigan employers will pay 2.2% FUTA tax instead of the 0.8% (6.2% minus 2.2%) – or a resulting increase FUTA cost of \$154 per employee for the year!

More on “Forced” Retirement Plans for Employees:

Washington is now considering forcing employees to participate in a Retirement-Type program, Simple IRA or 401(k), including the “roll-over” of unused vacation into a plan. It is called “Helping Americans Save for the Future”. Here is the article:

The Obama administration has issued guidance to the Treasury Department and Internal Revenue Service to promote workplace retirement savings. The rulings and notices clarify steps that employers can take now to expand automatic enrollment in tax-deferred retirement savings plans and contribute unused leave to 401(k) savings accounts.

By amending 401(k) and similar retirement plans, the administration expects that many more small and medium-size businesses will offer automatic enrollment.

Among the guidance and notices is one describing how employers can permit workers to convert the value of their unused leave into additional contributions to tax-qualified 401(k), profit-sharing, or stock bonus plans (Rev. Rulings 2009-31 and 2009-32). Another (Revenue Ruling 2009-30) streamlines the process that would enable employers and workers to gradually and automatically increase contributions to 401(k) plans.

None of the initiatives described in the rulings and notices require any statutory changes, senior administration officials said.

Further information can be found at the IRS website at this link:

<http://www.irs.gov/retirement/article/0,,id=212061,00.html?portlet=6>

Information on Federal Tax Deposits and a New Form:

Internal Revenue Service officials said Sept. 3 that financial institutions increasingly have stopped accepting paper federal tax deposit coupons.

Annette Dean, a tax analyst in wage and investment, said there is no requirement for banks to accept tax remittances via the coupon. It costs banks from \$2 to \$5 to process each coupon, said Dean, who spoke at a scheduled monthly teleconference with payroll industry representatives. The Treasury Department is working with the financial industry to help educate businesses about electronic deposit options.

Separately, a new Schedule M will be added to the 2009 Form 1040, said IRS's John Myett, national account manager for employment tax administration. The schedule will be used by individuals to report information related to the Making Work Pay credit, enacted as part of the American Recovery and Reinvestment Act (Pub. L. No. 111-5) that was signed into law in February.

Assault on FSA's and HSA's: As many of our clients are aware, there are some definite benefits to using Flexible Spending Accounts (FSA's) and Health Savings Accounts (HSA's) when offering fringe benefits to employees. However, these plans are coming under attack.

An \$8 billion revenue-raising provision in the House Democrats' health care bill (HR 3200) would limit the use of pre-tax HSA's and pre-tax FSA's. This has given rise to a lobbying campaign to preserve these benefits, or, at least, to minimize the impact of the proposed changes.

The provision approved by the Ways and Means Committee would exclude over-the-counter medicines from eligibility for reimbursement.

Meanwhile, the Senate Finance Committee issued an “options paper” of potential offsets to the \$1 trillion overhaul of the health care industry. In the paper, the Senate included eliminating or limiting the amount of salary reduction contributions to HSA’s and FSA’s.

The director of the Employers Council on Flexible Compensation estimates that at least 35 million participants would be affected by the proposed changes.

House Bill Introduced to Require Paid Sick Leave for “Contagious” Workers: Rep. George Miller (D-Calif.) has introduced legislation (H.R. 3991) that would guarantee five paid sick days for workers sent home or told to stay home by their employer in relation to a "contagious" illness, such as the H1N1 virus.

Under the Emergency Influenza Containment Act, employees who follow their employer's direction to stay home because of contagious illness could not be fired, disciplined, or made subject to retaliation for following directions. Employers that fail to provide the leave or retaliate against employees would be subject to penalties under the Fair Labor Standards Act. Employees could continue on unpaid leave under the Family and Medical Leave Act or other existing sick leave policies once the paid sick leave ends, according to the bill.

The legislation would cover full- and part-time workers in businesses that have 15 or more workers and do not currently provide at least five days of paid sick leave. H.R. 3991 would take effect 15 days after being signed into law and would sunset two years after enactment. Sen. Chris Dodd (D-Conn.) has announced that he intends to offer similar legislation in the Senate, but his bill would allow for up to seven days of paid sick leave for workers with flu-like symptoms.

DHS Rescinds W-2 ‘No-Match’ Regulation: The Department of Homeland Security is rescinding its W-2 “no-match” regulation targeting employers with undocumented workers, according to a final rule published in the Oct. 7 Federal Register (74 Fed. Reg. 51447). Under the no-match rule, the Social Security Administration would have been required to include with no-match letters information telling employers that they would be required to resolve discrepancies or face liability. DHS has decided to focus its enforcement efforts relating to undocumented aliens on increased compliance.

Potential Problems with New Federal Income Tax Withholding: As you are aware, the income tax withholding tables were changed in March to reflect the new rules under the Stimulus Bill. However, now the IRS has released this announcement:

Employees with multiple jobs or married couples whose combined incomes place them in a higher tax bracket may experience a shortage of federal withholding and they can submit a revised W-4 that tells the employer how much money to withhold each paycheck. To recalculate withholding, filers should use Worksheet 12 in the updated Publication 919.

Publication 919 can be found on the IRS web site, or it can be downloaded from Pay-Net’s web site at: <http://www.pay-net.net/docs/p919.pdf> (clickable link).

Arizona Withholding Rates: We have received several inquiries from clients regarding the rate changes for Arizona Withholding. For many years, the State of Arizona has based employee income tax withholdings as a percentage of Federal Withholding. On May 1, 2009, Arizona

changed their rates. And, in fact, the state changed the future rates. The following chart shows the former, current and future rates:

Arizona Withholding Rates

Up to April 30, 2009	May 1, 2009 to December 31, 2009	Jan 1, 2010 to June 30, 2010
10.0%	11.5%	10.7%
19.0%	21.9%	20.3%
23.0%	26.5%	24.5%
25.0%	28.8%	26.7%
31.0%	35.7%	33.1%
37.0%	42.6%	39.5%
Minimum Percentage for Employees Earning Over \$15,000 Per Year		
19.0%	21.9%	20.3%

By using an AZ-4 Form (similar to the Federal W-4 Form), an employee would indicate to their employer the percentage rate to use for their withholding.

Note: Effective July 1, 2010, the *State of Arizona will stop using the percentage method* and they will adopt a “table system” similar to the table system used by California. As of this date, the state has not released any information on this new calculation method.

Routing & Transit Numbers for Direct Deposit: Or, everything you ever wanted to know about the bank’s Routing and Transit number:

We have observed an increase in rejected employee direct deposit accounts due to an “incorrect account number”. Actually, these rejections are due not to the account number, but an **incorrect routing & transit (R&T) number!**

Some background: R&T numbers are 9 digits in length. These numbers identify the financial institution that holds the actual bank account. The first 2 digits of the R&T number represent the Federal Reserve District where the financial institution is located. A map of the Federal Reserve Districts can be found at this link: <http://www.federalreserve.gov/pubs/frseries/FRSERI3.htm> . Notice that there are 12 Federal Reserve Districts.

For California, we are in the 12th Fed District so all the R&T numbers begin with a “12” right? Well, not really. Since the 12th Fed District is so large, the Federal Reserve ran out of “12” numbers and started using “32” in the R&T number to designate the 12th Fed District. (FYI, the “3” represents the fact that the 12th district was the *third* district to run out of numbers. Bottom line, for any California based banks, the R&T number begins with either a “12” or a “32”.

Some examples:

Bank of America: 122000661 or 121000358
Wells Fargo: 122000247 or 121000248 or 122101191
Union Bank: 122000496
Chase (formerly WaMu): 322271627

Getting back to the “incorrect R&T number” problem. We are seeing most rejected employee accounts have a R&T number that **begins with a “5”**. Sometimes it is a “52”, sometimes a “54”, etc. Looking at the link about, there is no 50th Fed District!! So, there cannot be any R&T numbers that begin with a “5”.

So, where do these fictitious R&T numbers come from? They come from **deposit slips!** Banks use internal R&T numbers that are not valid Federal Reserve R&T numbers, for their use only. In practice, many of the banks in the 12th Fed District decided to use numbers that begin with a “5”. If you look at a deposit slip from your personal account, you will probably see your correct account number but the R & T number may be different than the “normal” bank’s R&T – if it is different, it probably starts with a “5”.

For this reason, Pay-Net ***always*** advises clients to use a voided check from the employee’s checking account. The actual check will contain the correct R&T number. If the employee’s account is a savings account, you may need to have the employee check with their bank for which R&T number you should use.

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.

Exciting New Software Features Are Here: Did you know that our software could now handle complete Human Resource requirements including Applicant Tracking? Did you know by next summer, we will have an “Employee Kiosk” feature with complete Employee Self Service? These are exciting times for us as our software evolves into a complete Payroll and Human Resource package that can handle the complex requirements of both functions.

To read more about our some of the new features in the software, click on the following link and you will be taken to a document on our web site:

<http://www.pay-net.net/docs/newsoftware.pdf>

And yes, if you are reading this ENewsletter on your computer, all of these links and email addresses are “clickable”.

If you would like to have these new features in your company, you will need to become a full remote client of Pay-Net. Call our office for details.

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”.

Note from Wayne



Well, here we are in December and getting ready for Christmas and New Years. While most everybody else gets to enjoy these holidays, Pay-Net will be busy at work getting ready for Year End. This year marks my 29th Year End, and they don't get any easier with the passage of time. But, somehow, year after year, we manage to get all the W2's and Year End reports out to all of our clients. I want to personally thank all of our clients for making Pay-Net one of the best payroll service providers. Your loyalty to our company is really appreciated. Do you know that we still have many clients that started with us in 1996, our our first full year of operation? Here's wishing each and everyone of you a very Merry Christmas and a Happy New Year!

Wayne