



Welcome to our Forty-Ninth Edition of Pay-Net’s E-Newsletter. Previous editions of our E-Newsletter are available on our web site, [www.pay-net.net](http://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 year. 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](mailto: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](mailto: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 When we sent out the last E-Newsletter, we got over 100 bounce-backs because the email addresses were no longer valid.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](mailto:wayne@pay-net.net)
- Hollis (General Manager): [hlee@pay-net.net](mailto:hlee@pay-net.net)
- Gloria (Operations Mgr): [gbal@pay-net.net](mailto:gbal@pay-net.net)
- Becky (Operations): [rbaker@pay-net.net](mailto:rbaker@pay-net.net)
- Paula (Operations): [pmowry@pay-net.net](mailto:pmowry@pay-net.net)
- Anna (Tax Manager): [atudor@pay-net.net](mailto:atudor@pay-net.net)
- Ivan (Technical): [idiaz@pay-net.net](mailto:idiaz@pay-net.net)
- General Communication: [operations@pay-net.net](mailto:operations@pay-net.net) (this will be forwarded to the appropriate person)
- Debbie (Sales): [dwillett@pay-net.net](mailto:dwillett@pay-net.net)
- Don (Sales): [denck@pay-net.net](mailto: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](http://www.pay-net.net) and let us know what you think about it. Send your responses to [operations@pay-net.net](mailto:operations@pay-net.net).

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

- ▶ April 5, 2010, falls on a Monday. If this is your normal check date, and you have direct deposit, we will need your payroll information before 3:00 pm on Thursday, April 2<sup>nd</sup>.
- ▶ April 20<sup>th</sup> is on a Tuesday. If you normally date your checks on this day and you have direct deposit, we need your payroll information before 3:00 pm on Friday, April 16<sup>th</sup>.

- ▶ May 1<sup>st</sup> is on a Saturday. If you normally date your checks for the 1<sup>st</sup>, your check date will roll back to Friday, April 30<sup>th</sup>. If you have direct deposit, we need your payroll information before 3:00 pm on Wednesday, April 28<sup>th</sup>.
- ▶ May 15<sup>th</sup> falls on a Saturday. If you normally date your checks for the 15<sup>th</sup>, your check date will roll back to Friday, May 14<sup>th</sup>. If you have direct deposit, we need your payroll information before 3:00 pm on Wednesday, May 12<sup>th</sup>.
- ▶ ***Monday, May 31, 2010, is the Memorial Day Holiday. Pay-Net will be closed that day so please take it into account when preparing your payroll information.***
- ▶ If you normally date your checks for the last day of the month or date your checks for Mondays, due to the holiday your check date will roll back to Friday, May 28<sup>th</sup>. If this affects your company and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, May 26<sup>th</sup>.
- ▶ If you normally date your checks for the 1<sup>st</sup>, or if you date your checks for Tuesday, and you have direct deposit, due to the holiday we will need your payroll information before 3:00 pm on Thursday, May 27<sup>th</sup>.
- ▶ If you normally date your checks for the 2<sup>nd</sup>, or if you date your checks for Wednesday and you have direct deposit, due to the holiday we will need your payroll information before 3:00 pm on Friday, May 28<sup>th</sup>.
- ▶ June 5<sup>th</sup> falls on a Saturday. If you normally date your checks for the 5<sup>th</sup>, your check date will roll back to Friday, June 4<sup>th</sup>. If you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, June 2<sup>nd</sup>.
- ▶ June 15<sup>th</sup> falls on a Tuesday. If you normally date your checks for the 15<sup>th</sup> and you have direct deposit, we will need your payroll information by 3:00 pm on Friday, June 11<sup>th</sup>.
- ▶ June 20<sup>th</sup> falls on a Sunday. If you normally date your checks for the 20<sup>th</sup> your check date will roll back to Friday, June 18<sup>th</sup>. If this is applicable to you and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, June 16<sup>th</sup>.
- ▶ ***We have been informed that on Monday, July 5, 2010, the Federal Reserve will be closed in recognition of the Independence Day Holiday. As a result, Pay-Net will also be closed on the 5<sup>th</sup>. Please take this into account as you prepare your payroll information.***

### **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. As soon as the IRS prepares the statement for employee certification, we will put it onto our web site.

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

Preliminary W-11 Form: [http://www.pay-net.net/docs/fw11\\_temp.pdf](http://www.pay-net.net/docs/fw11_temp.pdf) From Pay-Net's web site.

**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.

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

- ▶ \* Monday, May 31, 2010 – Memorial Day – Pay-Net will be closed
- ▶ \* Monday, July 5, 2010 – Independence Day – Pay-Net will be closed
- ▶ \* 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

**Social Security Numbering System:** Frequently, at this time of the year, 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 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.

**IRS To Begin Employer Tip-Reporting Compliance Program:** A new compliance program to assess the employer's share of Federal Insurance Contributions Act taxes on tips reported on Form 4137 will be started by the Internal Revenue Service. Employees who receive cash and charge tips of more than \$20 per calendar month and do not report them have to report the tips on Form 4137, Social Security and Medicare Tax on Unreported Tip Income, said John Tuzynski, IRS chief of employment tax operations, Small Business/Self-Employed Division.

Employees also must file the form if they have been allocated tips, but the employers are only liable for their portion of payroll taxes on tips when the employees report the tips to them, Tuzynski said March 12, 2010, at the American Payroll Association's 2010 Capital Summit in Washington. "We have never made those employer assessments in the history of the IRS, so we're going to be making history this year," he said.

**Attention Clients with Arizona Employees:** 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.

### **How Governments Are Targeting Organizations Using Independent Contractors:**

Businesses that treat workers as independent contractors face an increasing risk that state and federal agencies will contest the classification of some of these individuals. Although independent contractor relationships have long been an audit target, governments experiencing deep financial pressures are scrutinizing them with new fervor.

**Latest example:** In his fiscal 2011 budget, President Obama proposes to focus more on employers using independent contractors. For the next fiscal year, the budget allocates \$25 million to the Department of Labor for a joint effort with the IRS that includes hiring investigators to find workers who can be re-categorized as employees.

Here are several steps a business can take to increase the chance that workers are properly classified as independent contractors:

- (1) Have written, signed contracts with workers classified as independent contractors, spelling out the terms and conditions of the relationship. Consult with your attorney in the preparation of contracts.
- (2) Once contracts are in place, give outside workers leeway over how they perform their duties.
- (3) Resist the urge to supervise them the way you oversee employees.
- (4) Send each contractor a Form 1099 showing non-employee income if you pay \$600 or more in a calendar year. The annual deadline for sending these forms is January 31.
- (5) Consistently treat workers performing similar tasks as *either* independent contractors or employees. Don't supply outside workers with services you give employees. Some companies run into trouble after they provide office space, computers, cars and other perks.
- (6) Maintain good records. Obviously, you need to keep an independent contractor's taxpayer ID number and other information required by the IRS, but you should also keep items that help prove the person is self-employed. For example, business cards, a letterhead, invoices and advertisements placed in newspapers. Keep copies of business licenses and print out a contractors' Web site pages showing that services are offered to the public. A simple listing in the yellow pages of the phone book is sometimes enough to convince an IRS auditor that an independent contractor is in business for him or herself.
- (7) Do a self-audit of each worker's or each class of workers' status before a federal or state agency conducts one.
- (8) Have your tax adviser, attorney or HR professional familiar with employment law in your state conduct an audit of each worker's status.

### **What Does the IRS Look For?**

Unfortunately, no single factor determines a worker's status by the IRS, other government agencies or the courts. Each situation is determined by the facts and circumstances involved.

Here are some of the factors the IRS considers to determine if a worker is an employee:

- (A) Behavioral Control - An employee generally is told when, where, and how to work, as well as what order or sequence to follow.
- (B) Tools - An employer usually gives tools, equipment and workspace to employees. In contrast, subcontractors often provide and invest their own money in equipment, tools and facilities.

(C) Assistants - Employees don't hire and pay others to help them do their jobs (although they may be told to hire assistants for the company). In contrast, contractors often hire, supervise, and pay their own assistants.

(D) Training - Employees are more likely to receive training from an organization than independent contractors.

(E) Other Customers - Independent contractors generally make services available to the public and are able to work for two or more businesses.

(F) Integral Role - An employer-employee relationship is supported when workers perform a service essential to the success of a business operation.

(G) Financial Control and Risk - An employer has the right to control the financial aspects of a job, such as the business expenses the employee incurs and how staff members are paid. On the other hand, a worker's opportunity to personally earn a profit and assume risk of loss may indicate a non-employee status.

An IRS determination that worker's status is an independent contractor status doesn't necessarily bind other agencies (such as the National Labor Relations Board) in making their decisions. However, the IRS tests for making its determination can help an employer avoid misclassifying a worker.

In addition to the new budget program targeting independent contractors, here are some other examples of initiatives at the federal and state level:

*Random Audits* - Beginning in February 2010, the IRS launched a three-year program to randomly audit 6,000 employers. These examinations will delve into compliance with employment tax issues, including the misclassification of independent contractors, fringe benefits, reimbursed expenses and the compensation of owner-employees.

*Information Sharing* - The IRS signed information-sharing agreements in 2008 with labor and workforce agencies in 29 states, to assist them in uncovering employment tax avoidance schemes" and ensure proper worker classification."

*Questionnaires Sent* - In 2009, California sent *employment relationship* questionnaires to workers identified as independent contractors. The purpose was to determine if the workers should be classified as employees. The state's attorney general is taking action against a construction company, seeking more than \$4 million. Last year, California won a \$13 million court judgment from two firms that misclassified janitors.

*Construction Focus* - A 2008 Illinois law targets the construction industry and sets out heavy fines for misclassification. In one case, the state's Department of Labor levied penalties of more than \$325,000 against a home improvement company for categorizing employees as independent contractors.

*Increased Policing* - An Iowa task force issued a 2009 report stating that about 15 percent of employers wrongly classified workers. The task force called for increased policing of classification in the state.

*Exemptions Required* - Last year, Minnesota started requiring certain individuals who want to work as independent contractors in the construction industry to obtain an exemption certificate from the state Department of Labor and Industry.

*Multi-Industry Effort* - New York continues a crackdown that began in 2008 targeting the construction industry, restaurants, car washes, janitorial firms, and trucking companies. Nearly 2,500 investigations were conducted with teams converging on some employers' premises to audit records. The effort reportedly found more than 31,000 misclassification cases and assessed \$11 million in unpaid unemployment taxes and \$14.5 million in unpaid wages.

*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 this fall, 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](http://www.pay-net.net), and click on “Pay-Net Solutions”.



## *Note from Wayne*

Wow, there has been a lot going on in the world of payroll. Usually, the first quarter of a year is very quiet, that is, until this year. The HIRE act is just 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 be 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 that can quickly react to new rules and regulations where our competition has to wait on corporate directions.

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