



Welcome to our Fifty First 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 When we sent out the last E-Newsletter, we got over 50 bounce-backs because the email addresses were no longer valid.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.

► **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 you prepare your payroll for processing.**

▶ November 15th falls on a Monday. If you normally date your checks for the 15th and you have direct deposit, we need your payroll information before 3:00 pm on **WEDNESDAY**, November 10th. Why Wednesday you may ask.... Because Thursday, the 11th, is a bank holiday!!

▶ November 20th falls on a Saturday. If you normally date your checks for the 20th, your check date will fall back to Friday, the 19th. If this applies to you, and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, November 17th.

▶ **Thursday, November 25th is Thanksgiving Day. This is a normal banking holiday and Pay-Net will be closed on this day. Please take this into account as you prepare your payroll for processing.**

▶ **Friday, November 26th is the original “Black Friday” and if you ever worked in retail you know why it’s called that. This IS NOT a banking holiday. However, Pay-Net will be closed on that day. Please take this into account as you prepare your payroll for processing. If you normally date your checks for a Friday, or the 26th, and you have direct deposit, we need your payroll information before 3:00 pm on Tuesday, November 23rd.**

▶ November 30th, the last day of the month, falls on a Tuesday. If you normally date your checks for Tuesday, or the last day of the month, and you have direct deposit, we need your payroll information before 3:00 on Wednesday, November 24th.

▶ **The Christmas and New Years Holidays are on both on Saturday this year. At this time, we do not know our processing schedule around these holidays. Please watch for an email or our November/December E-Newsletter for our holiday processing schedule.**

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.

Payroll Puzzler: The Question: Jill works for Company X and earns \$10,680 a month. The annual OASDI tax liability on her pay is satisfied with her October paycheck. The employer stops related withholding and also ends the employer portion of OASDI, but still withholds income tax and pays Medicare taxes. In November, she starts work at Company Y. Must her new employer withhold FICA taxes? Find the answer on the last page.

Current Health Law Changes Going Into Effect: It is exactly six months since the sweeping health-care overhaul bill known as the Patient Protection and Affordable Care Act was signed into law, and on September 22, 2010 a number of consumer protections provided by the law took effect.

For all plans including individual and group policies as well as employer-sponsored plans insurers will no longer be permitted to:

(1) Deny coverage to children with pre-existing conditions.

This doesn't necessarily prevent insurers from charging higher premiums in such cases. But it does mean they can no longer refuse to sell policies to children who are sick. Nor can they temporarily or permanently exclude coverage of medical bills arising from a child's pre-existing condition. An important caveat: This rule does not apply to plans purchased before the new law's adoption on March 23, 2010. But Americans of all ages will be able to get these protections after 2014.

(2) Put lifetime limits on benefits.

Some more caveats: A plan can still put a lifetime dollar limit on spending for health services that the government does not deem "essential." The new rules may not kick in until you begin a new plan year. For example, if your policy has a calendar plan year, the new rules would apply to your coverage beginning Jan. 1. Depending on your type of plan and when it was issued, the law also restricts how much of a dollar cap your insurer can put on your annual benefits.

(3) Cancel a policy retroactively without proving fraud.

This addresses a practice known as "recision," by which insurers could cancel coverage just as a person got sick on the grounds that they or their employer had provided inaccurate information on their original insurance applications.

The inaccuracies could be innocuous, and stories abound of people losing their coverage just when they needed it most because they had slightly misstated their height and weight, or failed to mention a gall stone removal years earlier that had no relation to their current illness. Now insurers will have to prove that the omission was more than just an honest mistake. As with many of the other rules, this one applies to "plan years" or "policy years" that begin on or after Sept. 23, 2010.

People enrolled in job-related health plans or individual health insurance policies created after March 23 will enjoy some additional benefits. However, for policies that have renewable "plan years," the protections only take effect after the renewal date. For example, if you are covered by an employer's plan that renews Jan. 1, these benefits will not kick in until then.

(4) Right to appeal denial of claims.

You now have the right to demand that your health plan reconsider a decision to deny you payment for a test or treatment. This includes the right to appeal to an external, independent reviewer.

(5) Free preventive services.

The plan must give you access to a range of recommended preventive services, such as screenings, vaccinations and counseling without charging you out-of-pocket costs.

(6) Young adults can stay on a parent's plan until age 26.

If your plan covers children, in most cases you will be able to add or keep your children on your policy until they turn 26 unless they can get coverage through a job.

(7) Choice of primary care doctor, obstetrician/gynecologist and pediatrician.

The plan must let you choose the primary care doctor or pediatrician that you want from its provider network, or let you see an OB/GYN, without requiring a referral from another doctor.

(8) The right to use the nearest emergency room without penalty.

Your plan can no longer require you to get prior approval before seeking emergency room services from a provider or hospital outside your plan's network. It also can't charge you higher co-payments or co-insurance for out-of-network emergency room services.

(This information was provided by one of Pay-Net's clients, Ferguson McClure & Associates)

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.

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

- ▶ * 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

Income Tax Withholdings Increase in 2011: As two key credits expire for employees, employees can expect to see an increase in the amount of taxes withheld from paychecks beginning next year as the Making Work Pay Credit and the Advance Earned Income Credit expire.

Employers, meanwhile, could receive a break in the form of a payroll tax holiday. President Obama, who recently proposed two tax breaks for businesses, hinted at a town meeting Sept. 20 that the administration is considering such a holiday.

Obama said the administration was “willing to look at any idea that's out there that we think will help. But we've got to do so in a responsible way.”

A payroll tax holiday is an idea that Obama said his administration has examined. “And you know, we are going to be working with businesses to see does it make sense for us to initiate some additional incentives in order to hire,” he said.

While employers might receive a tax break, employees will not. Income tax withholding will increase even if Congress votes to extend the recent Bush tax cuts in time for the release of the 2011 income tax withholding tables by the Internal Revenue Service, an American Payroll Association official said.

When the Making Work Pay Credit expires at the end of this year, employees will no longer receive credits that were automatically calculated into paychecks, so the withholding amount will rise, the APA said in a recent news release. The credit, part of the American Recovery and Reinvestment Act of 2009, came with a maximum of \$800 for a married couple filing jointly and \$400 for other taxpayers.

Repeal of the Advance Earned Income Credit will result in a decrease of up to \$152 in take-home pay for eligible workers, the APA said. The AEIC required special withholding for eligible low-income taxpayers to receive a partial Earned Income Credit on federal taxes in their paychecks rather than waiting to claim a refund the next year on their tax return. Employees qualifying for the credit will need to wait until 2012, when they file a 2011 tax return, to receive a tax credit.

At some point, if Congress does not vote to extend the tax cuts, IRS will have to issue 2011 income tax withholding tables operating under the assumption that the tax cuts will expire, Mezistrano said Sept. 21.

If Congress votes to extend the tax cuts after IRS releases the 2011 percentage-method withholding tables, the amount withheld from employees' paychecks at the start of 2011 also may be affected, said Scott Mezistrano, senior manager of government relations at the APA.

If tax cuts are extended after the 2011 percentage-method withholding tables are issued in mid-November, Mezistrano said, there will be some issues when it comes to calculating withholding on paychecks. If tax cuts are extended, IRS will have to issue new income tax withholding tables that reintegrate the tax cuts, which might take some time to show up in employees' paychecks, he said.

While some payroll departments can quickly have the new withholding tables integrated into payroll systems, other businesses rely on updates from payroll software developers that could take longer if new tables need to be programmed, Mezistrano said.

Additionally, some companies run the first payroll of 2011 in late 2010. If withholding tables are reissued, some employees are going to end up being overwithheld, Mezistrano said.

Senate Majority Whip Richard Durbin (D-Ill.) said Sept. 26 that he expects members of both parties to come together to extend the 2001 and 2003 tax cuts after the November elections. Durbin said most Democrats believe that Congress should not spend the money to extend cuts in the top tax rates for individuals earning more than \$200,000 and couples earning \$250,000, but ultimately he believes Democrats and Republicans will reach an agreement that will prevent a stalemate that ends in higher taxes for everyone.

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>

2011 Changes to California Reporting: The E.D.D. has just announced new payroll reporting forms will be implemented starting January 1, 2011.

The Quarterly DE-6 Form and the annual DE-7 Form will be replaced by a quarterly DE-9 Form, Quarterly Contribution Return and Report of Wages, and a DE-9c, the Quarterly Contribution Return and Report of Wages Continuation.

These new forms will mean that the state will be able to reconcile employer's accounts on a quarterly basis instead of the current annual basis.

Please note that you will not see these form until the First Quarter of 2011. We will still be completing and filing the DE-6 and DE-7 Forms for the Fourth Quarter of 2010. You will be receiving these DE-6 and DE-7 Forms in the middle of January, 2011.

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".

Payroll Puzzler Answer: Company Y must withhold FICA taxes, including OASDI, from Jill's salary and pay its portion of the tax for the rest of the year. She is eligible for a refund of OASDI taxes withheld by Company Y through her personal 1040 Income Tax filing.



Note from Wayne

It is hard to believe that Year End is fast approaching. In our future E-Newsletters, we will indicate the tax changes for 2011 and how they will affect you and your company. December is the last month of the year and a lot of payroll things will be happening. Be sure to read our Year End E-Newsletter to find out what our processing schedule will be around the holiday season. But, right now, sit back and enjoy the next month to 2 months of leisure before December hits!

Wayne