



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 When we sent out the last E-Newsletter, we got over 50 bounce-backs because the email addresses were no longer valid.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

- 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.

- February 20, 2011, falls on a Sunday. If you normally date your checks for the 20th, your check date will roll back to Friday, February 18th. If this describes your company, and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, February 16th.

▶ **Monday, February 21, 2011, is President's Day, a national holiday. Although Pay-Net will be open this day, all banks, government offices, etc. will be closed. Please take this date into consideration when you prepare your payroll information.**

▶ Remember that February is a "short" month. The month ending day is Monday, February 28th. If you normally date your checks for the end of the month, or the first of the month, be sure to watch your calendar.

▶ March 5, 2011, falls on Sunday. If you normally date your checks for the 5th, your check date will roll back to Friday, March 4th. If this describes your company, and you have direct deposit, we need your payroll information before 3:00 pm on Wednesday, March 2nd.

▶ March 15, 2011, falls on a Tuesday. If you normally date your checks for the 15th and you have direct deposit, we need your payroll information before 3:00 pm on Friday, March 11th.

▶ March 20, 2011, falls on a Sunday. If you normally date your checks for the 20th, your check date will roll back to Friday, March 18th. If this describes your company, and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, March 16th.

▶ April 5, 2011, 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, April 1st. No fooling around here!

▶ The end of April, April 30th, and the first of May occur on a weekend. If you normally date your checks for the end of the month or the first of the month, your check date will roll back to Friday, April 29th. If this is applicable to your company, and you have direct deposit, we will need your payroll information before 3:00 pm on Wednesday, April 27th.

▶ **Monday, May 30, 2011, is Memorial Day, a national holiday. Pay-Net will be closed that day. Please take this into account as you prepare your payroll information.**

Does Pay-Net Ensure Compliance With Various Federal and State Regulations? While we want to laugh at this question, one of our national competitors is spreading the rumor that Pay-Net does not ensure compliance with IRS and state regulations.

This is totally false and a baseless statement meant to plant seeds of doubt with our clients.

Not only are we constantly checking our software for compliance issues, our programmers react more quickly to changing compliance issues than any of our other competitors. For example, the HIRE Credit and COBRA credits were implemented in our software within hours of being signed into law! One of our national competitors still cannot do the COBRA or HIRE credits in their software, they must do it manually!! Our software is being run by the members of One Point Solutions with offices in seven states and processing over 250,000 checks per month for clients located in 48 states! We have one employee whose only job is to ensure compliance with Federal, State and Local laws. If we had any compliance issues they would have come to light.

Important Changes for 2011:

- ▶ You cannot make any Federal Tax deposits at a financial institution by taking in an 8109 coupons and a check. All federal deposits must be made electronically.
- ▶ Standard mileage rates will be \$0.51 per mile (up from \$0.50) for business, \$0.19 for moving purposes (up from \$0.165), and \$0.14 for charitable purposes (unchanged).
- ▶ Social Security wage base remains at \$106,800 for 2011. Medicare wage base remains at unlimited and the percentage remains at 1.45%. The employee Social Security percentage drops to 4.2%, but the employer percentage remains at 6.2%
- ▶ Advanced Earned Income Credit (AEIC) paid through payroll tax reduction will no longer be in effect. Employees can still claim EIC on their personal income tax returns.
- ▶ The Work Opportunity Tax Credit has been extended through 2011.
- ▶ The adoption assistance exclusion was extended through 2012.
- ▶ The HIRE credit, which gave a Social Security tax exemption to employers, and the Making Work Pay reduction in withholding were not extended.
- ▶ The employer-provided education assistance was extended for two years and went up to \$5,250 per year.
- ▶ One-year extension of the provision that equalizes the monthly-qualified transportation fringe benefit for public transit passes and qualified vanpools to the amount of the employer-provided parking benefit (\$230 for 2010).
- ▶ Standard mileage rate will be \$0.51 per mile.
- ▶ The limit for tax-deferred employee contributions to 401(k), 403(b) and 457 plans remains at \$16,500 for 2011. The additional “catch up” amount for 401(k) plans remains \$5,500. Simple IRA plans remain at \$11,500 with the “catch up” amount at \$2,500.
- ▶ The daily withholding additional amount for nonresident alien workers goes to \$10.14.

2010 Can Be Referred to as the Year of Misclassified Workers: With wage and hour lawsuits rising so quickly, 2010 might be appropriately referred to as the year of the Misclassified Worker.

Workplace filings continued to rise in 2010 and penalties, fines and wages totaled \$1.16 billion. 10 cases alone accounted for \$336.5 million.

What, or who, are Misclassified Workers. Generally, they fall into two major categories:

- (1) Employees deemed “exempt” (exempt from overtime pay), but whose job was not exempt in nature, and
- (2) Individuals deemed 1099 Independent Contractor, but whose job was not that of a true independent contractor.

Stepped-up government enforcement efforts have put employers on notice over misclassifying and underreporting workers. For example, a New York Joint Enforcement Task Force identified nearly 35,000 cases of employee misclassification and \$457 million in unreported taxes, \$13.2 million in unemployment taxes due, and \$14 million in unpaid wages. It was found that about 95% of the restaurants in Brooklyn had some type of misclassification.

How can you be sure your employees are classified correctly? The first place to start is the general description given by the IRS and EDD.

The IRS’s description is found in the Circular E: <http://www.irs.gov/pub/irs-pdf/p15.pdf>
The description of “employees” starts on page 8 of the Circular E.

The EDD generally follows the IRS, here is the link to the DE-44:
http://www.edd.ca.gov/pdf_pub_ctr/de44.pdf

The description of Independent Contractor vs Employee starts on page 7 of the DE-44.

If these documents do not answer all your questions, then you should call the IRS and California Labor Board for further information.

California Law differs from Federal law on Adult Children Health Care: According to the EDD, employers are required to report the portion of the insurance premium attributable to coverage for a nondependent adult child. The department has stated that the portion is considered wages and is subject to California state payroll taxes.

Although the federal Patient Protection and Affordable Care Act (Pub. L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152) consider nondependent adult children to be qualified dependents, California law does not according to the EDD. More information is available on the department's website at this link:

http://www.edd.ca.gov/Payroll_Taxes/Nondependent_Adult_Child_Health_Care_Premiums.htm

2011 Holiday Schedule: The following remaining holidays are scheduled for 2010 plus the 2011 holidays. The official “bank holidays” are marked with an “*”

- ▶ * Monday, February 21, 2011 – President’s Day – Pay-Net will be open
- ▶ * Monday, May 30, 2011 – Memorial Day – Pay-Net will be closed
- ▶ * Monday, July 4, 2011 – Independence Day – Pay-Net will be closed
- ▶ * Monday, September 5, 2011 – Labor Day – Pay-Net will be closed
- ▶ * Monday, October 10, 2011 – Columbus Day – Pay-Net will be open
- ▶ * Friday, November 11, 2011 – Veteran’s Day – Pay-Net will be open
- ▶ * Thursday, November 24, 2011 – Thanksgiving Day – Pay-Net will be closed
- ▶ Friday, November 25, 2011 – Pay-Net will be closed
- ▶ * Monday, December 26, 2011 – Christmas Day observed – Pay-Net will be closed
- ▶ * Monday, January 2, 2012 – New Years Day observed – Pay-Net will be closed

IRS to Move Employers to Electronic Tax Payments: Beginning January 1, 2011, all businesses will ***be required*** to make the deposits electronically, according to the Treasury Department. And, this applies to ALL federal deposits, not only payroll tax deposits.

If you already use Pay-Net’s Electronic Tax Filing Service, your payroll tax 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, or you can opt to enroll in Pay-Net’s Electronic Tax Filing Service.

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 your Year End package around the middle of January, 2011.

Changes in 1099's for 2012: One of the little noticed parts of the health care plan adopted this year calls for changes in the use and reporting of 1099's starting January 1, 2012.

Basically, every company must have all their vendors (anyone you pay money to) complete a Form W9. In other words, you must have a W9 on file for every vendor, INCLUDING corporations. In the past, corporations were exempt from the 1099 filings. In fact, the new rules state that you cannot make any payments to a vendor until you have a W9 on file for them!

In turn, you must file a 1099 for every vendor that receives more than \$600 from your company. This new requirement has caused a lot of concern among businesses according to the national Chamber of Commerce because of the increase in workload being passed down to companies. We hope that Congress will quickly change this provision. Can you imagine all the 1099's that will be filed on Staples alone!

In any case, Pay-Net can track these payments, prepare and file your 1099's. However, if you try to wait until the 2012 Year End time, we will not have the time to enter and process all this information. You must report your 1099 payments to Pay-Net during the course of the year, and you can do this monthly or even quarterly. By following these procedures, you will receive your 1099's timely and can mail them to your vendors in accordance with the IRS rules and regulations.

You can download a W9 Form from Pay-Net's web site under Employer Resources > Employer Forms. Or, you can download the W9 from the IRS web site, www.irs.gov .

Latest news on 1099's. As we were going to press on this edition of the E-Newsletter, Congress is currently considering a bill that would eliminate this new 1099 requirement and revert back to the "old" rules regarding 1099's.

Can I Date My Checks for Saturday?: We hear this question many times from clients. The specific question is probably better stated: can I date my payroll checks on holidays or weekends?

The simple answer to this question is: ***Probably Not.*** (We have to use the word "probably" because there are always exceptions to the rule!) Plus, such a simple question generates a long explanation, read on.....

The IRS has ruled many times that the date on an employee's paycheck must be a normal banking day so that the employee may exchange that piece of paper for cash money on the check date. A "normal banking day" is further defined as when the Federal Reserve is open.

Please note that per government rules, the Federal Reserve is NOT open on banking holidays, Saturdays or Sundays. So, even though the bank may be open, like on a Saturday, it is still not considered a banking day. In fact, at most banks, there is a "close of the banking day" that occurs during the week days, sometime before the bank actually closes for the day. For example,

many local banks have a “close of banking day” at 4:00 pm. If you go into the bank and make a transaction after 4:00 pm, the transaction is not actually posted until the following day.

This rule goes back many years to the days when paper checks started replacing the “pay window”. Remember the “pay window” from the movies (I know no one reading this actually worked during those days!), where an employee would receive a slip of paper telling him the amount of money he earned that payday. The employee would take that slip of paper to the “pay window” of the company and receive cold hard cash money.

So, when companies started paying by paper check, the IRS said that for a company to use a check, the employee must be able to exchange the check for cash that same day. Thus the basis for this regulation.

Now, you may say that an employee can cash their check on Saturday. Actually this is not true. When the employee presents his check to the bank on Saturday (Sunday, holiday, etc.) and requests cash back, the bank will only release funds up to those available in the employee’s existing bank account. For example, the paycheck was for \$600.00 but the employee only has \$400.00 in their account, the bank will only give the employee \$400.00, an amount equal to his account balance.

Another ramification of this rule is that you cannot have direct deposit funds go into an employee’s bank account on a Saturday, Sunday or holiday. Why, because the Federal Reserve is closed and there are no transactions posted on these days.

Now, you astute clients out there, will ask, “how about these check cashing places?” Interesting point, one that I am not sure has been tested by the courts yet or not. I am guessing here, but I would assume that this type of transaction is considered a loan, where the employee is the borrower and the check cashing business is the lender. The check cashing company lends money to the borrower with the collateral being the paycheck. So, in this case, the employee is really not exchanging a paper check for cash, they are borrowing short-term money.

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”.



Note from Wayne

YES, we have survived another Year End time in the payroll business. We “killed” a bunch of trees printing all the W2, tax forms, reports, etc. And, we got everything into our clients’ hands before the end of January. Approximately 35,000 W2’s went through our office in the month! It was a stressful time for our employees and our clients. I would like to thank all of our clients for bearing with us and some actually supporting us during this period. Now, we can get back to providing you with the best customer service we can. Thank you again, and we wish you a fantastic 2011!

Wayne