



Welcome to our Sixtieth 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 4 to 6 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 When we sent out the last E-Newsletter, we got over 30 bounce-backs because the email addresses were no longer valid.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 introduce our newest Customer Service Representatives, Veronica and Valerie.

- 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
- Veronica (Operations): vmunoz@pay-net.net
- Valerie (Operations): vpeterson@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)
- Jaime (Sales): jlee@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.

- ▶ **Thursday, November 22nd, is Thanksgiving Day, and a national holiday. Pay-Net will be closed that day.**
- ▶ **Friday, November 23rd, is "Black Friday". While not a national holiday, Pay-Net WILL BE CLOSED on that day. You can date your checks and direct deposits for this day, but process your payroll earlier in the week.**

▶ December 1, 2012, is on a Saturday. If you normally date your checks for the 1st of a month, your check date will roll back to Friday, November 30th. If this applies to you, and you have direct deposit, we need your payroll information before 3:00pm on Wednesday, November 28th.

▶ December 15, 2012, is on a Saturday. If you normally date your checks for the 15th of a month, your check date will roll back to Friday, December 14th. If this applies to you, and you have direct deposit, we need your payroll information before 3:00pm on Wednesday, December 12th.

▶ **December 24, 2012, is Christmas Eve Day. Pay-Net will be closing at 12:00 noon on that day. The cutoff for direct deposit transmissions is 9:30am on the 24th.**

▶ **December 25th is Christmas Day, a national holiday and a banking holiday. Pay-Net will be closed this day**

▶ **Friday, December 28, 2012, is the last day that you can report any payroll information or adjustments that you want to appear on your employees' W2 forms. Any adjustments reported after December 28th may be subject to reprocessing charges. If you would like Pay-Net to setup a 12/28/2012 check date in your calendar so you can enter yearend adjustments, please contact our office.**

▶ **Monday, December 31, 2012, is News Year's Eve Day. Pay-Net will be closing at 12:00 noon on this day. The cutoff for direct deposit transmissions is 9:30am on the 31st.**

▶ **Tuesday, January 1, 2013, is News Years Day, a national holiday and a banking holiday. Pay-Net will be closed this day.**

▶ Since Tuesday, January 1st is a holiday, if you normally date your checks for the 1st of the month, your check date will roll back to Monday, December 31st. If this applies to you, and you have direct deposit, we need your payroll information before 3:00pm on Thursday, December 27th.

▶ If you normally date your checks for the 1st of the month, BUT you want your checks to be dated January 2, 2013, then **YOU MUST CONTACT OUR OFFICE SO WE CAN ADJUST YOUR PAYROLL CALENDAR!!!** You can call us or you can send an email to operations@pay-net.net

▶ If you normally date your checks for January 5, 2013, this is a Saturday so your check date will roll back to Friday, January 4th. If this applies to you, and you have direct deposit, we need your payroll information before 3:00pm on Wednesday, January 2nd.

▶ January 15, 2013 is on a Tuesday. If you normally date your checks for the 15th of a month and you have direct deposit, we need your payroll information before 3:00pm on Friday, January 11th.

▶ January 20, 2013 is on a Sunday. If you normally date your checks for the 20th, your check date will roll back to Friday, January 18th. If this applies to you and you have direct deposit, we need your payroll information before 3:00pm on Wednesday, January 16th.

▶ **Monday, January 21, 2013, is Martin Luther King Day, a national and banking holiday. Pay-Net will be open that day, but since the banks will be closed, please take this into account as you prepare your payroll information.**

Holiday Processing Schedule: Please take note of the holiday schedule as you prepare your payroll information and be aware of Pay-Net's operating hours.

▶ If you normally date your checks for Tuesday, December 25th, your check date will roll back to Monday, December 24th. If this applies to you, and you have direct deposit, we need your payroll information before 3:00pm on Thursday, December 20th.

▶ If you normally date your checks for Wednesday, December 26th, and you have direct deposit, we need your payroll information before noon on Friday, December 21st.

▶ If you normally date your checks for Thursday, December 27th and you have direct deposit, we need your payroll information before 9:30am on Monday, December 23rd. Our bank is closing early on Monday; please remember to allow enough processing time to complete your payroll before the cutoff. If everyone waits until 9:00 to transmit their payroll, we cannot guarantee direct deposit will fund on Thursday.

▶ If you normally date your checks for Tuesday, January 1, 2013, your check date will roll back to Monday, December 31st. If this applies to you, and you have direct deposit, we need your payroll information before 3:00pm on Thursday, December 27th.

▶ If you normally date your checks for Wednesday, January 2, 2013, and you have direct deposit, we need your payroll information before noon on Friday, December 28th.

▶ If you normally date your checks for Thursday, January 3, 2013 and you have direct deposit, we need your payroll information before 9:30am on Monday, December 31st. Our bank is closing early on Monday; please remember to allow enough processing time to complete your payroll before the cutoff. If everyone waits until 9:00 to transmit their payroll, we cannot guarantee direct deposit will fund on Thursday.

▶ **W2 processing will begin at noon on Monday, December 31st. If everything goes well, you should have your employer copies of W2's on the Report Portal before Friday, January 4th.**

Holiday Schedule: The following remaining holidays are scheduled for 2012 and we have added the holidays for 2013. The official "bank holidays" are marked with an "*"

- ▶ * Thursday, November 22, 2012 – Thanksgiving Day – Pay-Net will be closed
- ▶ Friday, November 23, 2012 – Day After Thanksgiving – Pay-Net will be closed
- ▶ * Tuesday, December 25, 2012 – Christmas – Pay-Net will be closed
- ▶ * Tuesday, January 1, 2013 – New Year's Day – Pay-Net will be closed
- ▶ * Monday, January 21, 2013 – Martin Luther King Day – Pay-Net will be open
- ▶ * Monday, February 18, 2013 – President's Day – Pay-Net will be open
- ▶ * Monday, May 27, 2013 – Memorial Day – Pay-Net will be closed
- ▶ * Thursday, July 4, 2013 – Independence Day – Pay-Net will be closed
- ▶ * Monday, September 2, 2013 – Labor Day – Pay-Net will be closed
- ▶ * Monday, October 14, 2013 – Columbus Day – Pay-Net will be open

- ▶ * Monday, November 11, 2013 – Veteran’s Day – Pay-Net will be open
- ▶ * Thursday, November 28, 2013 – Thanksgiving Day – Pay-Net will be closed
- ▶ Friday, November 29, 2013 – Day After Thanksgiving – Pay-Net will be closed
- ▶ * Wednesday, December 25, 2013 – Christmas Day – Pay-Net will be closed
- ▶ * Wednesday, January 1, 2014 – New Year’s Day – Pay-Net will be closed

Critical Year End Items and Dates:

November/December – The various state governments will send you the revised SUI and, if applicable, the ETT rates for 2013. Please be sure to send us a copy of these notices.

November/December – The IRS will send you a letter if your deposit frequency changes for 2013. Please be sure to send us a copy of these notices. Also, since the IRS will not communicate with Pay-Net regarding any change in your depository requirements, Pay-Net cannot be held responsible for any penalties and/or interest the IRS may charge if you do not send us a copy of this notice.

Friday December 28, 2012 – the last day to enter payroll information for 2012. Any information reported after this day may be charged for a quarterly reprocessing fee. Please be sure that all manual checks, special items such as PUCC’s, fringe benefits, etc. you want to appear on the W2 Forms are reported on, or before, this date. If you want Pay-Net to delay your W2’s for such items as Third Party Sick Pay, or Allocated Tips, please notify us before December 28th.

Monday, January 23, 2012 – All Year End packages should be in your hands, unless you have requested a reprocess due to additional information that must appear on the W2 Forms.

Thursday, January 31, 2012 – W2’s and 1099’s have to be handed out, or postmarked on this day. All Quarterly and Year End Tax Returns have to be sent to the various governmental agencies.

FUTA Credit Reduction for 2012: We have not received any notifications from the IRS regarding the Credit Reduction for 2012. If you remember last year, the IRS had a Credit Reduction of approximately \$21.00 per employee and all employers had to increase their final FUTA deposits by this amount. As soon as we receive information on this issue, we will let you know.

Affordable Health Care Act: Now that the elections are over, your company can focus on the Affordable Health Care Act (also known as “ObamaCare”), and see how it will affect your business in the coming years. Hopefully, you have already discussed this Act with your insurance broker and your CPA and have made the appropriate plans for implementation. For those clients that have not really looked at the effects of this Act, we have placed three documents in our Report Portal. You will find three PDF documents on the Portal under the “_All Clients” folder:

- (1) HCR Overview Small Group.pdf
- (2) HCR Overview Large Employers.pdf
- (3) Small Business TAX CREDITS.pdf – some breaks for small businesses with less than 25 Full Time Equivalent employees.

Just use your normal Report Portal login. On the left tree view, you will see the folder “_All Clients” in addition to your normal company folder. Click on the “_All Clients” folder to open it and you will see these documents in addition to the Report Portal User Manual.

When you see the term “Full Time” employees in all the health-care related laws, this means “Full Time Equivalent” employees. To arrive at the number of “Full Time Equivalent” employees, take the total number of hours worked in a week for all employees and divide by 40; this gives you the “Full Time Equivalent”. Example: Suppose you are a restaurant that has 80 employees on staff, and all these employees hours for a week averages 1960 hours, your “Full Time Equivalent” employee count is 1960 hours divided by 40 which equals 49. Therefore even though you have more than 50 employees on your staff, your “Full Time Equivalent” employee count is 49. Therefore, your company does not fall under the “Large Employer” rules, but instead you fall under the “Small Employer” rules.

Most of the important parts of the legislation will not become effective until 2014, but we suggest that you start planning soon.

We want to thank Nico Insurance for providing us with these documents that can assist you in preparing for the implementation of the new health care rules and regulations. Pay-Net cannot advise you of how to implement these rules or which set of regulations your company must follow. Please consult with your own broker and CPA to determine how to implement the act.

Effects of Proposition 30: Now that California’s Proposition 30 has passed, what does this mean to you? We are aware of the provisions to raise revenue to use for schools and public safety, but where is money coming from? This proposition:

- Raises California’s sales tax to 7.5% from 7.25%, a 3.45% percentage increase over current law.
- Creates four high-income tax brackets for taxpayers with taxable incomes exceeding \$250,000, \$300,000, \$500,000 and \$1,000,000. This increased tax will be in effect for 7 years.
- Imposes a 10.3% tax rate on taxable income over \$250,000 but less than \$300,000--a percentage increase of 10.6% over current policy of 9.3%. The 10.3% income tax rate is currently only paid by taxpayers with over \$1,000,000 in taxable income.
- Imposes an 11.3% tax rate on taxable income over \$300,000 but less than \$500,000--a percentage increase of 21.5% over current policy of 9.3%.
- Imposes a 12.3% tax rate on taxable income over \$500,000 up to \$1,000,000--a percentage increase of 32.26% over current policy of 9.3%.
- Imposes a 13.3% tax rate on taxable income over \$1,000,000--a percentage increase of 29.13% over current "millionaires tax" policy of 10.3%.
- **The income tax increase will apply retroactively to all income earned or received since the first of the year (January 1, 2012).**
- Based on California Franchise Tax Board data for 2009, the additional income tax is imposed on the top 3% of California taxpayers.

Estimated revenue from Proposition 30 varies from Jerry Brown's \$9 billion estimate to the \$6.8 billion estimated by the non-partisan Legislative Analyst’s Office (LAO). The difference stem

for the volatility caused by capital gains income from high-income earners, an issue in California's tax system previously identified by the Legislative Analyst's Office (LAO).

Medicare Issue for 2013: As some of you are aware, barring any action by Congress or the Courts, the Medicare rate will increase for high income taxpayers next year. Effective January 1, 2013, the employee Medicare tax rate will remain the same (1.45%) up to a threshold. The threshold for single tax payers is \$200,000 and for married filing jointly it will be \$250,000. After the taxpayer reaches the threshold, the rate jumps up to 2.35%. The employer rate will remain constant at the current 1.45%.

For sole proprietors, the current Medicare tax rate is 2.90%. After a sole proprietor reaches the threshold, their Medicare tax rate will increase to 3.8%.

Another provision of the law provides a Medicare tax rate increase on investment income where earnings above the threshold will result in a Medicare tax rate of 3.8%.

Pay-Net is on top of this issue and our software will be ready for the new rates. We are waiting on IRS guidelines and form instructions.

Payroll Tax Changes for 2013: The Federal Withholding Tables and Employee Social Security Withholding are set to change dramatically on January 1, 2013, barring the lack of action on the part of Congress. At issue are the "Bush Era Tax Cuts" which are set to expire at the end of December plus a number of other tax reduction plans. If Congress does nothing, then the tax cuts will expire and personal withholding will increase and Social Security withholding will increase from 4.2% to 6.2%. In some cases, the increase will be dramatic; experts forecast the increase could be as much as \$3,500 per year for the average, middle class person. Pay-Net is monitoring the situation and will advise our clients of the outcome. As noted before, Proposition 30 has created an increase in California income taxes.

In addition, the changes that have been announced include an increase in the Social Security base from \$110,100 to \$113,700. An increase in 401(k) and similar retirement plans to a maximum deduction of \$17,500, up from \$17,000 in 2012 – but the "catchup" amount remains the same at \$5,500. California's SDI rate will remain at 1%, but the base will rise from \$95,585 to \$97,571.

With so many changes hanging on the vote in Congress, we cannot begin to list all the possible tax changes for 2013. Stay tuned as the issues come up for the next few months.

EVS Service – Results: For those clients that used our EVS Service (Electronic Verification Service), we have received the listings back from the Social Security Administration. There is a letter listing the "problem" employees now on the Report Portal, under your "Payroll" folder with a folder date of 20121201. The format of the letter is "NNNN_2012120101_EVS Notice.doc", where NNNN is your company number. The letter is a Word document. If you do not have Microsoft Word, please let us know and we will convert the letter to PDF for you.

There are generally two types of EVS failures that will be reported to you:

- (1) Name Mismatch.** This error indicates that the SSN number of the employee is valid but the employee's name does not match the name on the Social Security Administration's data base. This error could be a result of a spelling error. Or, the most common error is that an employee got married and changed their name on the

payroll system but not with the SSA. Or, in the case of Hispanic names, the designation of first or middle name is incorrect. In any case, compare the name on the employee's Social Security card with the name in the payroll system; they have to be the same.

- (2) **Non-Existent Number.** As described by the SSA, this means that “the SSN number of the employee has never been issued to any person living or deceased.” This could have been a simple data entry error. Again, you should check the employee's Social Security card with the SSN on the payroll system; they have to be the same.

In any case, the law is very clear that the employer cannot use the EVS result to discipline or terminate an employee. You can, however, meet with the employee and attempt to resolve the problem. Please note that if you did subscribe to the EVS Service and you did not get a letter, that means that all your employees were okay. Also, if you are not setup for the Report Portal, you will get your list in your payroll package.

Why is this important? The IRS considers these errors to result in an invalid W2 Forms. The IRS code calls for a \$50.00 per invalid W2 form penalty to be assessed to employers. However, in the real world, the IRS has not yet penalized any employer for invalid W2 forms, and hopefully this will continue. But, be aware that the Department of Homeland Security takes a keen interest in any employer with a large number of invalid W2 Forms.

Minimum Wage Increases: Hourly minimum wage rates are to increase January 1, 2013, in these states: Arizona (\$7.80), Colorado (\$7.78), Florida (\$7.79), Missouri (\$7.35), Montana (\$7.80), Ohio (\$7.85), Oregon (\$8.95), Rhode Island (\$7.75), Vermont (\$8.60), and Washington (\$9.19).

In California, there is a second city that is instituting a local minimum wage, the city of San Jose, of \$10.00 per hour starting January 1st. The other city is San Francisco, which is raising its minimum wage to \$10.55, also effective January 1st.

Important Tax Announcement: The IRS has issued a new Rev. Proc. 2012-32 that is effective November 19, 2012. This required procedure consists of many facets including the following:

- (1) Payroll providers must file a completed Form 8655 with the IRS and must ensure that the client receives copies of official notices, correspondence, transcripts, etc. Note: Pay-Net already does this and has for over 10 years.
- (2) Sign and electronically file Forms 941 and 940. Pay-Net already does this.
- (3) Make tax deposits and other federal payments by the EFTPS system. Pay-Net already does this.
- (4) A Reporting Agent, such as a payroll service, accountant, CPA, etc., must provide the taxpayer (client) with the following notice, as written by the IRS:

Please be aware that you are responsible for the timely filing of employment tax returns and timely payment of employment taxes for your employees, even if you have authorized a third party to file the returns and make the payments. Therefore, the Internal Revenue Service recommends that you enroll in the US Treasury Department's Electronic Federal Tax Payment System (EFTPS) to monitor your account and ensure that timely tax payments are being made for you. You may enroll in the EFTPS online at www.eftps.gov, or call (800)555-4477 for an enrollment form.

Please note that ALL payroll providers, including the big ones like ADP and Paychex and including small ones like Pay-Net, are required to notify their clients. Many years ago, Pay-Net was proactive in this area and we adopted several options for tax filing:

- (1) Complete Electronic Tax Filing. With this option Pay-Net drafts a client's bank account for all tax liabilities incurred with a payroll process. When tax deposits are due, Pay-Net makes the tax deposit electronically using the EFTPS system for Federal and the EFT system for California. For other states that allow for electronic payments, we make the deposits by EFT. At the end of the quarter, all Federal and California payroll tax returns are filed electronically, and also in other states that allow for electronic filing.
- (2) Confirm FTD. This optional service goes with (1). When a client chooses this option, for a small onetime fee of \$25.00, we enroll the client in the EFTPS system with your own PIN so you can monitor your account. Or, as mentioned above, you can contact the EFTPS directly and get setup for no charge.
- (3) Modified Electronic Tax Filing. With this option, clients choose to have their tax deposits come directly from their own bank account. Pay-Net electronically notifies the taxing agency, and the agency drafts the client's bank account for the deposits. At the end of the quarter, all payroll tax returns are filed electronically. This method is only offered by payroll companies using the EFTPS Batch Filer Software system, which Pay-Net uses. Larger payroll companies use a different software system, the Bulk Filer System, to make tax deposits which does not have this particular option.
- (4) Non Tax Filing. With this option, clients choose to make their own tax deposits and file their own quarterly returns.

Note from Wayne



It is hard to believe that we are almost at Year End, our really BUSY time of the year. The Federal Government is on the brink of financial disaster and will be passing all kinds of bills and laws to attempt to avert this disaster. As we go to press with this E-Newsletter, there are many issues that have not been addressed that will have tremendous effects on your payroll. We will be watching for these items to be acted on in the next month or so, and we will attempt to keep you advised of the effects of these new rules and regulations. In the meantime, I wish all of you a great Turkey day!!! And, if we don't send out another E-Newsletter in December, we wish you a great Christmas and New Year's.

Wayne Ho