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SSA/IRS

Reporter

Social Security Administration

Internal Revenue Service

A Newsletter for Employers

Fall 1995

STAWRS

The White House recently announced a new project called the "Simplified Tax and Wage Reporting System" (STAWRS) that will do two things: reduce the time and expense employers spend filing and paying federal and state employment taxes; and make government service to employers more efficient and effective.

The STAWRS project office is made up of representatives from the Department of Treasury, the Department of Labor, the Social Security Administration and the Internal Revenue Service. This project office is part of a partnership that is working to simplify the tax and wage reporting system for the benefit of employers and the government. The other partners are: the Office of Management and Budget (OMB); state revenue, unemployment and legislative agencies; employer community groups such as employers, professional associations, tax practitioners and service bureaus; and community groups such as privacy advocates, employees and organized labor groups.

Employers can expect several things of the STAWRS project office in the near future: less complicated wage-related tax and withholding requirements, more consistent definitions and filing and payment requirements, less duplication among federal, state and local levels, and greater use of new technology such as electronic tax filing.

The result will be that employers will spend less time and money on recordkeeping and staying current on requirements, and spend more time doing business and making money.

For more information, call the toll-free hotline, 1-800-4-STAWRS, during regular business hours. After hours, leave a message and a staff member will return your call. Look for more details in future issues of the *Reporter*. —*IRS*

Modernized SSA/IRS Wage Reporting Reconciliation Implemented

SSA has implemented a modernized SSA/IRS reconciliation process that permits SSA to compare the processed employer wage reports file (Forms W-3/W-2) for a given tax year (TY) to the IRS file of wages on which FICA and Medicare taxes have been reported on Forms 941.

When FICA or Medicare wages are less than the wages on the IRS records, SSA sends a letter to the employer asking for help in resolving the discrepancy. This reconciliation process ensures that proper wages are properly credited to the right employees' earnings records.

IRS has its own reconciliation process for identifying situations in which it has received less in taxes than would be indicated by the amount of wages reported to SSA on Forms W-2. The two agencies coordinate the processes and SSA refers situations it cannot resolve to IRS for further action.

Because the new process allows SSA to identify discrepancies faster, it can contact employers and resolve situations earlier. SSA mailed the first letters in June 1995 to employers with a history of filing a single employer wage report. The majority of letters for TY 1994 will be mailed in October 1995.

The new system continually uses new earnings data reported to either SSA or IRS, compares the data weekly, and mails correspondence to employers as new discrepancies are detected.

Under current plans, the TY 1995 reconciliation processing will begin even earlier—April 1996 for employers who usually file a single wage report. The majority of TY 1995 reconciliation letters will be mailed in October 1996. —*SSA*

Tip Rate Alternative Commitment (TRAC) Program

On June 1, 1995, the Internal Revenue Service announced the new Tip Rate Alternative Commitment (TRAC) program that it developed in conjunction with representatives of the food service industry.

TRAC is an agreement that the IRS will enter into with food and beverage service employers. It differs considerably from, and is an alternative to, the Tip Rate Determination Agreement (TRDA), which is an agreement between the IRS and participating employers and their employees. Both programs are designed to help ensure fair and full tax compliance by the food service industry.

To learn more about the TRAC program, including application procedures, contact the Tip Coordinator in your local IRS district office. Check your phone book for the number. —*IRS*

Form W-2 Proposed Regulations For Companies Going Out Of Business

If you must file a final Form 941 with the IRS you may soon have to file Forms W-2 and W-3 with the Social Security Administration, and give Form W-2 to employees at the same time the final Form 941 is filed. These proposed regulations are expected to become final late in 1995.—*IRS*

Market Segment Understanding Program Provides Guidelines

The Market Segment Understanding (MSU) Program is an innovative IRS program designed to resolve some long standing disagreements with various industries on administrative or technical issues.

The MSU identifies a particular area of tax noncompliance where the facts, law or both are unclear, or noncompliance is widespread, within an identified market segment. The unique feature of the MSU process is the establishment of a working group of IRS and industry representatives to discuss guidelines on how tax law applies to these industries.

The MSU process may be appropriate where the law is clear, but the facts are unclear, as with the determination of employee/independent contractor status or the appropriate depreciation method.

It also may be appropriate in situations where the facts are clear, but the law is unclear. Or, it can be used to provide guidelines where non-compliance is wide-spread and compliance cannot be achieved through traditional means.

MSUs can be initiated either by IRS or at the request of an industry. Because of their nationwide impact, MSUs require several levels of IRS review and approval. This approval is needed whenever meetings are held with market segment or industry representatives, or with a gathering of taxpayers, who want to create a mutually acceptable written IRS guideline, audit technique, or other document available to the public or IRS personnel on a general basis.

The IRS has issued a MSU Procedures Handbook that describes procedures to be used when initiating, developing and implementing MSU products. Such issues are not limited to specialty tax matters.

The first MSU Guidelines were issued as Audit Technique Guidelines for the Classification of Workers Within the Television Commercial Production and Professional Video Communication Industries. The purpose of these guidelines is to enable examiners to make accurate and consistent determinations of employee/independent contractor status in television commercial production and professional video communication industries.

MSU Guidelines were issued in January 1995, on Noncash Remuneration for Agricultural Labor to assist examiners, taxpayers, and practitioners in determining whether in-kind payments for agricultural labor constitute "wages" for federal employment tax purposes.

The Tip Reporting Alternative Commitment (TRAC) is the most recent MSU approved. The purpose of the TRAC Program is to ensure tip reporting tax compliance by the employees of food and beverage establishments.

The MSU Program is coordinated by the Office of the National Director of Specialty Taxes. Questions or proposals regarding this program may be directed to local IRS district directors by calling 1-800-829-1040. —*IRS*

IRS to Use Barcodes for Forms Identification

Barcodes will soon appear on all forms taxpayers send to the IRS, including Forms W-2. The IRS plans to read the barcodes to identify the form number, year, page number and possibly the producer of the form. This identifying information will allow IRS computers to digitize and capture the data on most forms within a tax return and to process returns faster, more accurately and more efficiently. —*IRS*

New Requirement for Military Employers

Beginning in tax year 1995, basic allowance for quarters (BAQ), basic allowance for subsistence (BAS), and certain income earned during service in a combat zone must be reported for all service members. Military employers will report this information in Box 13 of the Form W-2, using code "Q" to designate the character of the figure reported. —*IRS*

Offer Electronic Filing as an Employee Benefit

Electronic tax filing for businesses and individuals is here to stay, and you can offer free or low-cost electronic filing to your employees as part of their benefits package.

When you set up an electronic tax filing site in your place of business, you may have trained IRS volunteers input and transmit tax return information, you may designate someone on your staff to do it, you may contract an accepted electronic filer to do it, or employees may do it themselves.

IRS volunteer assistants can help prepare employees' tax returns, you may designate staff members to do that, or simply tell employees to bring completed returns to your electronic filing site for data entry and transmission only. You are not responsible for mistakes on an employee's tax return. That individual is ultimately responsible for the information on his or her return, no matter who prepares or transmits it.

This truly is a benefit to your employees. They would have to pay a tax preparer anywhere from $25 to $40 for the same service. They will get their refunds two or three weeks from the date the IRS acknowledges receipt of returns. They can use the direct deposit option to have their refunds transferred right into their savings or checking accounts.

And it benefits you, too because hardware and software for electronic tax filing are tax deductible as ordinary and necessary business expenses. Electronic filing is considered a "de minimis" fringe benefit, which means it does not have to be included on an employee's Form W-2. And you will enhance your company's image as a technological leader.

To find out more about Electronic Tax Filing, how to set up an electronic filing site for your employees, or about the IRS Volunteer Income Tax Assistance program, call your local IRS office. Check your phone book for the number. —*IRS*

The Employee Benefit You Don't Think About

Whether you have thousands of employees or just one or two, you're furnishing some kind of benefit package. Your employees may enjoy paid health insurance, a company pension, a profit-sharing plan, or membership in a fitness club. If, however, you have a small business, you may only be able to offer a two-week vacation with pay.

But there's more to your benefit package. It's the Social Security package of protection -- retirement, survivors benefits, disability insurance, and Medicare hospital insurance. You may regard the 7.65 percent of employees' salaries that you pay to Social Security as just a business expense required by law. You also have to withhold 7.65 percent of your employees' salaries and send that to the government. What kind of a benefit is a mandatory tax, you ask?

It's a tax you and your workers share that provides a comprehensive package of insurance for your workers and their families. Social Security provides:

- Retirement insurance that will pay the employee monthly benefits as early as age 62.
- Survivors insurance that pays monthly benefits to the widow or widower and dependent children of a deceased worker.
- Disability insurance that pays monthly benefits to workers of all ages who have a severe disability. (In some cases, a young worker may qualify for a disability benefit after having worked as little as one and one-half years.) The worker's spouse and dependent children also receive monthly benefits when the worker is disabled.
- Medicare hospital insurance.

To help your employees better understand this part of their employee benefit package, encourage them to get an estimate of the benefits they are eligible for now and in the future. It's easy for them to do. They should complete a Form SSA-7004, *Request for Personal Earnings and Benefit Statement*, and return it to Social Security. They'll receive their statement within 4 to 6 weeks. Your employees can call Social Security's toll-free number anytime to order a Form SSA-7004. And, you can keep a supply of these forms on hand as a service to your employees.

How To Order A Supply of Forms 7004 For Your Employees

Up to 500 SSA-7004 forms are available from your local Social Security office or by calling SSA's toll-free number (1-800-772-1213).

If you need from 501 to 4,999 forms you may write to SSA, Office of Central Records Operations, Metro West Building, 300 North Greene Street, Baltimore, Maryland 21201, Attention: Division of Operations Support, 7004 Operations or call (410) 966-9122, to order that quantity.

If you need more than 5,000 forms, send your request to SSA, Office of Publications and Logistics Management, 227 Supply Building, 6401 Security Boulevard, Baltimore, Maryland 21235, Attention: Division of Logistics Services.

You can also use the Form SSA-7004-SM (SPEC) to reproduce the forms at your own expense. The reproduction must meet certain printing standards. This form can be obtained by writing to: SSA, Office of Publications and Logistics Management, Room 1-A-21 Operations Building, 6401 Security Boulevard, Baltimore, Maryland 21235, Attention: Design and Development Branch, FAX (410) 965-6400.

Form SSA-7004 is available in both English and Spanish languages. You will receive the English version unless you specifically ask for the Spanish version.

The file for printing Form SSA-7004 is also available over the Internet in English only. The Adobe Acrobat Reader is required to print the form. Multiple copies may be printed using this file. The address is http: //www.ssa.gov. —*SSA*

Household Employers Alerted

Employers who have household and other employees may, until further notice, include their household employees on Forms 941 and 940 that they file for their non–household employees. Or, employers may report their household employees on Schedule H that they file with their individual income tax return.

State and local health and welfare agencies will report and pay FICA, FUTA and withheld income tax for employees furnished by agencies that provide household services for recipients of public assistance. The health and welfare agencies must report FICA and withheld income taxes quarterly on Form 941 and FUTA taxes on Form 940.

IRS Notice 95–18 answers some questions dealing with reporting requirements of employers who must otherwise file Form 941, as well as executors and trustees, and state and local government health and welfare agencies. As more information is available, the IRS will provide instructions in its Internal Revenue Bulletin and future issues of the *Reporter* as to how trustees and executors should report employment taxes on household employees. —*IRS*

Automatically Ordered FTD Coupon Booklets

Are you still paying your federal taxes using coupons from the blue-colored coupon booklets? If so, mail the reorder form in the front of the booklet to the IRS.

Upon receipt of the new yellow-colored FTD coupon booklets, throw away your blue-colored booklets. Using coupons from the yellow-colored booklet will register you to automatically receive coupon booklets, and you will never have to order again. Better yet, why not pay your federal taxes electronically? Call the TAXLINK helpline at 1-800-829-5469 or write to:

Cash Management Site Office
Atlanta Service Center
P.O. Box 47669
Doraville, GA 30362 —*IRS*

Excerpt from PEBES Informational Package is Desk Reference for Employers

SSA's recently-issued PEBES Employer Information Package, Publication No. 003, helps employers respond to many generic questions that employees may ask, and also furnishes information about correcting erroneous postings. As promised in the summer edition of the *Reporter*, the following is an excerpt from the Information Package.

This excerpt, which has been expanded to serve as a desk reference, lists SSA publications designed specifically for employers.

- Technical Instruction Bulletin No. 4 (TIB-4), Pub. No. 42-007, *Magnetic Media Reporting* contains specifications and edits for preparing wage reports on magnetic tape, cartridges, or diskettes.

- Technical Instruction Bulletin No. 5, (TIB-5), Publication No. 42-007PR, *Magnetic Media Reporting Instructions of Forms 499R-2/W-2PR for Puerto Rico Sited Employees.*

- Technical Instruction Bulletin No. 6 (TIB-6), Publication No. 42-007VI, *Magnetic Media Reporting Instructions of Forms W-2VI for Virgin Islands Sited Employees.*

- Technical Instruction Bulletin No. 7 (TIB-7), Publication No. 42-007GU/AS, *Magnetic Media Reporting Instructions for Forms W-2GU and W-2AS for Guam and American Samoa Sited Employees Submitting Annual Copy A Information to the Social Security Administration.*

- Software Specifications and Edits for Preparing Forms W-2 and Copy A of Paper Forms W-2 and W-3. Publication No. 31-011, sets out standards and edits for software that produces automated paper W-2 wage reports.

- Employer's Guide to Filing Timely and Accurate W-2 Wage Reports, Publication No. 16-004, contains reporting information for both magnetic media or paper filing in layperson terms for small businesses who prepare their own wage reports.

- Employer Information Package for PEBES (Personal Earnings and Benefit Estimate Statements), Publication No. 20-003, contains information to assist employers with potential employee questions concerning earnings statements.

- Software Specifications and Edits for Preparing Copy A of Paper Forms W-3c/W-2c, Publication No. 31-031—for preparing automated paper correction reports.

- Magnetic Tape or 3480 Cartridge Specifications for W-2c Copy A Information: Correction of Annual Federal W-2 Copy A Information (No publication number)—for submitting **correction** reports via magnetic tape or 3480 cartridge.

- Diskette Specifications for W-2c Copy A Information (No publication number) – for submitting correction reports via diskette.

- An Employer's Investment in Social Security (Publication No. 05-10059)—this pamphlet tells how the employer's portion of the Social Security tax provides protection for employees and their families.

Contact the regional magnetic media coordinator servicing your State to request any of the above publications. If you don't know your coordinator's name, call SSA at 1-800-772-1213. —*SSA*

Q&A

Q. Is it possible to get a copy of the 1995 magnetic media reporting requirements (TIB-4) before the October/November 1995 mailing date?

A. Yes, if you have access to a PC and a modem. The 1995 TIB-4 has been available on SSA's Employer Information Bulletin Board System since July 1, 1995. The Board's number (for modems only) is (410) 965-1133. The system will let you preview the instructions as well as download it to your PC and print it. —*SSA*

REMINDER

Beginning in 1995, The words "For Paperwork Reduction Act Notice, see separate instructions," must be printed in red OCR drop-out ink on Copy A of substitute Forms W-2. This information was omitted in the nature of changes section in Publication 1141, *General Rules and Specifications for Private Printing of Substitute Forms W-2 and W-3.*

Form 941 filers who use authorized reporting agents to file business tax returns on magnetic tape should not file the Form 941 paper return that they receive in their quarterly package from the IRS. Filing both a paper return and magnetic tape will result in duplicate filing and could delay processing the return. —*IRS*

Correction

On page 3 of the Summer 1995 issue, we referenced an incorrect box number in **Section 1** under the heading of **Form W-2.** Box 17 of Form W-2 should actually state Box 13.

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