

The Blue Pages

501 Church Street NE Suite 306 . Vienna Virginia 22180

703.281.7486

Volume 21, Number 4 / Winter - December 2004

PayMaster Version 8

PayMaster for Windows

shipped December of this year. Yes, it's finally here, **PayMaster V.8**.

In October of this year, Computer Aid-LLC hosted its first "Users Group Meeting" to preview the product. Local customers joined us at the Hilton in Old Towne Alexandria, Virginia. At the meeting, our participants found the new **PayMaster** to have several key benefits.

- Greater reliability and stability
- Modern MySQL Database
- Supports all Windows compatible hardware
- Runs on Windows 98, NT, ME, 2000 and XP
- ODBC-compliant—Supports popular report writers
- Easy installation on stand-alone and network
- Multi-user (up to 100) concurrent users
- Integrates with popular POS systems (Point of Sale)
- Converts old PayMaster Bio to new
- Unlimited jobs, deductions, additional incomes
- Reports can be run on any date range
- Handles J1 Visa tax status

In This Issue :

Minimum Wage and Overtime	2
SUTA Wage Changes	2
Update Your 2005 Tax Tables	2
2004 Filers Need PayMaster Version 7.30	2
Q & A	3
Tax Law Changes	4
Free AccuWage Software	5
Social Security to Eliminate Mag Media	5
Tips to Avoid Penalties	5
Filing Reminders	6
OCSE wants to Increase Withholding from Tipped Employees	6
Employer-Provider Holiday Gift Coupons were Taxable Fringe Benefits	7
IRS Extends Tip Compliance Agreement Program.....	7
Sign up for AutoUpdate	8

We want to congratulate the new PayMaster V.8 customers

Jackie Jones of **Doughrollers**
 Beth Dennis of **Fager's Island**
 Wendy Rotanz of **Mac and Bob's**
 Angela Gurley of **The Irish Lion**
 Sandra Waddell of **ECPH**
 Patti Bounds of **Macky's Bayside**
 Dona Sims of **Barker Air**
 Janice Bone of **One World**

Call us soon to take advantage of the special current customer pricing. For the new product: Contact Blake (703-801-1974) or via email at Blake@computeraid-llc.com.

Minimum Wage and Overtime

When operating in a state that allows a tip credit, employers must make sure that employees declare enough in tips to bring them up to the full minimum wage. Otherwise, the employer is responsible for making up the difference. Another reminder is that the tip credit may only be taken by the employer when the employee has the ability to earn tips. Therefore, when employees are attending meetings and training or are performing any

other work that does not involve the payment of tips, they must be paid the full minimum wage.

A common problem for companies employing tipped workers is not having enough money in the employees' paychecks to cover taxes and pretax deductions. One way to increase the amount employees receive in their paychecks is to pay out charged tips through payroll. However, such a policy **MUST** be put in writing and agreed to by the employees.



Even if tips are put through payroll, for wage-and-hour purposes these tips may not be included when calculating the required minimum wage



of overtime payments. Further, deductions from pay for the employer's benefit may only be made from wages paid by the employer, not from charged tips, and many not be made at all if they would bring the hourly pay below the minimum wage.

For calculating overtime, production bonuses paid to employees must be included in their regular rate of pay. For example, if employees receive a bonus for selling a certain number of appetizers, the bonus must be included in their rate of pay for the period during which the bonus was earned. Also as a reminder, any tip credit taken must be included in the regular rate of pay, as must any other additional payments, such as banquet fees.

2004 Filers Need PayMaster Version 7.30 with PYW2.EXE File Dated 12/15/04 or Later

Changes to the mag media format and hard copy means **everyone who files** needs a *PayMaster* upgrade in order to correctly prepare your 2004 mag media and paper W-2s. Your PYW2.EXE file should be dated 12/15/04 or later (**Please note: that you must register prior to using the e-service by creating an account, to do so, go to:**

<https://la.www4.irs.gov/e-services/Registration/index.htm>

AutoUpdate subscribers will automatically receive the *PayMaster* upgrade that will be shipped this month. If you're not on AutoUpdate, please call soon for price and order information.

SUTA Wage Changes

This is a partial listing of the SUTA rate changes for 2005. As with last year, the complete list is not available until February of 2005.

	2005	2004
Illinois	\$10,500	\$9,800
Iowa	\$20,400	\$19,700
Minnesota	\$23,000	\$22,000
Missouri	\$11,000	\$8,000
Montana	\$21,000	\$20,300
Nevada	\$22,900	\$22,000
New Jersey	\$24,900	\$24,000
New Mexico	\$17,200	\$16,800
Washington	\$30,500	\$30,200
Wyoming	\$15,600	\$15,900

Update Your 2005 Tax Tables - Federal & State

If you're on AutoUpdate, there is no charge, but you still need to send in the form so we know which states to include. Or, you can log on to our website and see the changes to manually enter yourself in PayMaster Classic.

www.computeraid-llc.com

THE BLUE PAGES

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501 Church Street, NE

Vienna, VA 22180-4734

703-281-7486

Q & A

Q I have to process my first payroll of 2005 and don't have time to print my W-2s first. Help!

A If you've enough room on your hard drive, have *PayMaster* create a new subdirectory for you and copy the data into it. ***Make sure you do this before processing end-of-year on the data.***

Decide on a new company ID code for the 2004 data, e.g., 04W2. For multiple companies, use ID codes such as A04W2, B04W2, etc. The prompts are shown in **bold**. What you enter is in *italics*. Our example uses *04W2* as the new code and subdirectory under C:\PAYDATA. The company we're creating the 04W2 directory for is Flora Enterprises, whose company ID code is *flora*. (So the code of our *source* company is *flora*.)

1. **Enter company ID code:**
04W2
2. **1)Add a company, 2)Archive copy of existing company, or 3)Try again:** *2*
3. **Data drive:** *C (or other drive)*
4. **Suggested data path:**
C:\PAYDATA\04W2
Enter data path:
C:\PAYDATA\04W2
Enter a new path if you wish, or press enter to accept this one.
5. **Enter code of source company:** *flora*

Remember — *PayMaster* company ID codes are case sensitive.

PayMaster will create the new directory in the path specified and will copy the data from the source

company into it. When it's done, you're at the password prompt for the copied archive data. Enter your regular password. You're now in the 04W2 company (you can see the `d a t a p a t h a t` INIT/COMPANY/COMPANY). **Tip:** Add "2004 W-2s" to each division name (INIT/DIVISION/DIVISION) so you know at a glance you are using the 04W2 data (division name appears above the main menu line). Print a payroll summary to make sure the data is OK. This is the data you will use to print your W-2s.

Then, after backing up the data on two separate sets of floppies or zip disks, process end-of-year on the data you access using your **original company ID code** (*flora* in our example). This is what you'll use to process your 2005 payroll. When it's time to run the W-2s, use the other company ID code — *04W2*.

Q How can I be sure that my mag media file is OK before I send it off to the SSA?

A On page 5 is an full explanation of a software program called Accuwave provided by the SSA, downloadable from their website for free. This utility will check for errors.

Q I forgot to order the tax tables and I need to process my first payroll of the new year. What can I do?

A If your SDI changes, manually make those changes (via INIT/TAX/SDI). Then, fill in the form of the Insert (even if you're on AutoUpdate) and

send it in now so you'll have the new withholding tables for your next payroll. Using the old income tax withholding tables for one or two pay periods isn't critical. OASDI/Social Security and Medicare percentages remain the same for 2005. The 2005 OASDI taxable wage base has increased. You can make that change yourself at INIT/TAX/OASDI.

Q If my printer jams in the middle of printing my W-2s, am I stuck?

A You **can** resume printing your W-2s. Choose REPORTS/W-2 as you normally would.

Respond *y* to **All employees?** Respond *y* to **Resume an interrupted run?** At the **Print from employee =** prompt, enter the code of the first employee to print. *PayMaster* will print from there, including the totals.

Q How long does a diskette last? Can I use the same diskette every year?

A Diskettes do not last forever. How long? It depends on how often they're used and how well they're treated. To prevent a situation where you need to restore data and get the dreaded error message: "Error reading Drive A: Abort, Ignore, Retry," you might want to follow these two suggestions:

1. Reformat your used diskettes once a year before using

(Continued on page 4)

Throughout **THE BLUE PAGES**, there are references to payroll tax laws and requirements in effect as of the date specified. These references to the laws and the explanations provided are designed to familiarize the employer with said laws, but are not meant to serve either as a legal or accounting opinion, or as any indication that reference to the Internal Revenue Code or Regulations issued there under and appropriate administrative or court rulings interpreting same is unnecessary. All persons using this newsletter should look to and rely upon their respective legal counsel and accountants with respect to these laws and requirements.

(Continued from page 3)

them again. Formatting, checks for bad sectors. If you find any, get rid of that diskette.

Use brand new formatted diskettes when you back up your end-of-year data, and back it up not just once, but twice, on two diskettes or sets of diskettes.

Tax Law Changes

o Federal

- **Mag media and paper format change for the 2004 W-2s.** All *PayMaster* users who file mag media W-2s and hard copy will need a program upgrade to version 7.30 to correctly prepare 2004 W-2s. Your *PayMaster* 7.30 must have a PYW2.EXE file dated 12/15/04 or later. (Please note that the insert instructions included with your W-2 forms were prepared before we had the latest mag media and paper changes.)

- If you have an **employer-provided vehicle as a fringe benefit** in 2004, please call us at 703-281-7486 before preparing 2004 W-2s.

- **Social Security (OASDI) taxable wage base increases** from \$87,900 to \$90,000 for 2005. Rate continues at 6.2%, so the maximum OASDI tax paid by employer and employees is \$5,580 **each**.

Tip: Be sure to run your 4th quarter 941 and your 2004 W-2s with the 2004 \$87,900 OASDI maximum. Change your OASDI maximum in the current company **after** you have archived your *PayMaster* data and processed end of year. Do not run end-of-quarter or end-of-year in the archived company. The archived company should have the 2004 rates.

- **Federal withholding tax tables** have changed.

- **“Catch-up” contributions** made by an eligible 401(k), 403(b), Simple IRA, and SEP Plan participant who is age 50 or over must be reported in the total amounts as elective deferrals in Box 12 with Codes D through H, and S.

A plan is not required to allow catch-up contributions, rather it is permitted to do so. The “catch-up” contributions permitted for a 401(k), 403(b), SEP are: \$1,000 in 2002; \$2,000 in 2003; \$3,000 in 2004; \$4,000 in 2005; and \$5,000 in later years.

“Catch-up” contributions for a Simple 401(k) and IRAs are: \$500 in 2002; \$1,000 in 2003; \$1,500 in 2004; \$2,000 in 2005; and \$2,500 in later years.

PayMaster users: These additional amounts should be added to the amount in the maximum field of the appropriate deduction, but only for those employees to whom it applies. Make sure to change it for following years if applicable.

IRS will not treat **amounts paid before January 1, 2005, by an employer to a charitable organization in exchange for vacation, sick or personal leave** an employee foregoes, as wages of that employee. Employees will not be able to claim such contributions as deductions on their personal income tax returns, but employers will be able to claim a deduction.

PayMaster users: This leave should be tracked in *PayMaster*, but not issued as taxable wages. To “pay” the leave, make the sick and/or vacation rate zero.

- **Earned Income Credit**

For 2005, the Earned Income Credit: “Tables for the Percent Method of Advanced Earned Income Credit Payments” can be found on our website at: [www.http://computeraid-llc.com/EIC_tables.html](http://www.computeraid-llc.com/EIC_tables.html). They are in easy to read *PayMaster* Classic format. Make the changes in INIT, TAX, EIC.

Type	EIC	Code	Name	Subtitle	PS	S
Over			Not over	Tax	Percent	Excess over
11			0.00	0.00	1251	20.40
21	69200	000	12600	000	114	1412
31	126000	000	0.00	133	1412	000
41	0.00	0.00	0.00	16	0.00	251
51	0.00	0.00	0.00	171	0.00	251
61	0.00	0.00	0.00	303	0.00	0.00
71	0.00	0.00	0.00	359	0.00	0.00
81	0.00	0.00	0.00	250	0.00	321
91	0.00	0.00	0.00	251	0.00	321
101	0.00	0.00	0.00	222	0.00	384
111	0.00	0.00	0.00	251	0.00	321
121	0.00	0.00	0.00	251	0.00	321

{37}Less percent of excess: 9.59

- **Cents-Per-Mile and Maximum Car Value** for 2005 remains at \$14,800. Under the vehicle cents-per-mile method of valuing an employee’s personal use of a company-provided car, the IRS’s standard business mileage rate (40.5 cents beginning 1-1-2005) is multiplied by the personal miles driven by the employee. For cars put into service in 2005, this valuation method can be used only if the car does not have a fair market value of more than \$14,800. This is the same as the 2004 tax year.



Remember, not all W-2 forms have the same size boxes in the same position on the page. Order your W-2s from us to **guarantee** they work with *PayMaster*.

- **Free AccuWage Software :**

<http://www.ssa.gov/employer/accu-wage/index.html>. This software program is downloadable from Social Security's website. *AccuWage* tests for the Magnetic Media file created in PayMaster Classic, (W2REPORT), for any errors. If it passes the errors, it directs you to their website to upload your Federal taxes. Much easier than copying to a floppy A (1.44) and mailing. Please note, you would have to have created an Employers PIN (personal identification number) prior. You will find more helpful information on their website as well.

- **Social Security to Eliminate Magnetic Media by 2006:**

Social Security is eliminating magnetic media as an option for submitting annual wage reports. Employers who submit 250 or more Forms W-2 in a calendar year must **transmit** the data online. The changes for filing Forms W-2 are effective as follows:

- **Tips to avoid penalties for filing incorrect W-2s:**

To **avoid filing incorrect W-2s**, verify that your employees' SSNs match the names on Social Security Administration records. Two common reasons for a mismatch are:

1. The payroll records have a nickname and the name on the Social Security card is the legal name, or
2. A woman changes her name when she gets married and fails to notify the SSA of the change.

To avoid incorrect W-2s, require an employee to produce a Social Security card after they are hired. And require a new Social Security card before changing a name in the payroll system.

Use Social Security's Verification Service (800-772-6270) when an employee is hired or requests a name

change. Up to 50 names can be submitted on a paper list to your local Social Security office. The list should have the employee's first and last name and middle initial, Social Security number, date of birth, and gender. If more than 50 names, you must pre-register to file on magnetic media at the Social Security Administration site, www.ssa.gov.

- **Tip Allocation:**

Form W-2 Box 8, allocated tips, is a number the IRS assigns to tipped employees under certain circumstances. You are not required to withhold any tax on allocated tips but you must report them on Form W-2. An employee who receives them may have to treat them as income on Form 1040 on April 15.

Before we delve into tip allocation, here is some tax advice you might wish to give your employees:

"All employees receiving \$20 or more a month must report 100% of their tips to their employer." The IRS strongly encourages each tipped employee to keep a daily tip log. This can mean the difference between having to treat allocated tips as income or not. See IRS Pub. 531 for details.

The subject of allocated tips can be a confusing one. One reason for this is that the IRS uses an "aggregate method" to estimate unreported

income. In general, if the overall tip percent of an establishment is too low, certain employees will receive "allocated tips" to bring the overall tip percent back up to some minimum, usually eight percent. (Please look at the example from "Instructions for Form 8027" available for free at www.irs.gov. The following discussion refers to it.) Let's start by looking at the total allocation for an establishment. (Step 5 in the IRS example.)

To get the number in step five take the allocable receipts and multiply by .08. Then take that number and subtract the sum of all direct and indirect tips. This is the total tip allocation, a good number to keep an eye on. If the total allocation is negative or zero, there will be no allocated tips on any W-2. If the number is greater than 0, one or more employees will see a number in box 8 on their W-2.

(PayMaster for Windows lets you run a tip allocation report for the year at any time.)

Exactly who gets allocated tips? The short answer is those employees who have what the IRS calls a shortfall. Figuring this out gets a little involved but the important point is that those employees with a shortfall get allocated tips and those without do not.

Computing the shortfall is a two step process. First we need to compute the "Employee's share of 8% of gross." (Acceptable reported tips, more or less.) This in turn is a two step process. Multiply allocable receipts by .08 and subtract total indirect tips from the result. Write this number down. Next, for each employee, divide their individual allocable receipts by total allocable receipts and multiply by the number you just wrote down. This is the "Employee's share of 8% of gross."

(continued on page 6)

Computer Aid Holiday Hours



**Our office will be closed:
December 24 and December 31**

(continued from page 5)

Now we can get the shortfall. This part is easy. Just take the 8% of gross you just computed and, for each employee, subtract their reported tips. The resulting number is their shortfall. If their shortfall is a positive number AND the establishment has a total allocation, they will be getting a number in box 8. Just what number, remains to be seen.

To get individual allocations we need three numbers. We already have two of them. Luckily, the last one is easy. Take all positive shortfalls from above and add them together. This is the total employee shortfall. Now all we need to do is for each employee take the establishment's total allocation, multiply by the employee shortfall and divide by the total employee shortfall. That's their allocation.

There are complications that don't get mentioned here. For example, the 8% we use here is negotiable. Some places may be allowed to allocate by hours. The calculations are similar.

Hopefully, we've lent a bit more clarity to the 8027 instructions and prompted you to download IRS Publication 531 for your tipped employees.* **

* 2004 Instructions for Form 8027 and §31.6053-3

** * Contributed by staff member.

Filing Reminders:

Filing Deadlines:

- File Copy A of Form W2 and W3
- 1. On Magnetic Media by February 28, 2005
- 2. Electronically (not by magnetic media) by March 31, 2005

For tax year 2004, Business Services Online (BSO) filers cannot upload their files before January 10, 2005.

Note: You may owe a penalty for each Form W-2 that you file late. (Refer to IRS 2004 Instructions for Forms W-2 and W-3 regarding Penalties and Terminating a Business.)

Other Filing Reminders :

- Tax year 2004 is the last year SSA will accept tape or cartridge submissions.
- A Form 6559 is only needed when submitting magnetic tapes or cartridges.
- SSA will not accept 8 inch, 5 1/4 inch, Zip diskettes, CD-ROM, DLX cartridges or 4490 cartridges.
- All submitters must obtain a Personal Identification Number (PIN) through SSA registration process and must enter that PIN in the RA Record.
- Make sure the PIN assigned to the employee who is attesting to the accuracy of the W-2 data is included in the Submitter Record (RA Record).
- Make sure each data file submitted is complete (RA through RF Records).
- Electronic File Upload:
Do NOT upload multiple diskette submissions. Copy multiple diskettes into a single file and send the file via the BSO: <http://www.ssa.gov/bsowelcome.htm>

If you compress the submission, compress the "single" file prior to sending the BSO.

• Diskette Submissions:

If the size of the wage report exceeds the capacity of a single diskette, a file may be split into multiple files and submitted on multiple diskettes, one file per diskette. However, a

better alternative is to file electronically so splitting of the file is unnecessary.

- If you compress the submission, compress each file separately using PKZIP or WINZIP software.

• Electronic Date Transfer:

- You cannot compress the file.

• Magnetic Tape/Cartridges Submissions:

- Each tape reel or cartridge must be a separate file.

- You cannot compress the file.

** Social Security Administration Publication No. 42-007 MMREF-1 Tax Year (V-1)

OCSE wants to Increase Withholding from Tipped Employees

Recent advice from the federal Office of Child Support Enforcement shows that the agency is looking to change the way employers calculate the amount of child support to withhold from tipped income.

An OCSE's Amy Gober explained, a waiter might earn \$1,000 one week but receive \$500 of that in cash, which he reports to the employer. Under the old policy, the amount of child support withheld would be calculated on the \$500 that was actually paid to the employee by the employer. Under the new policy, the employer would calculate the child support withholding on the entire \$1000, and withhold that amount from the employee's paycheck.

Gober, stated that the change in policy also needs to pass muster with the Department of Labor. Child support withholding is governed by the Consumer Credit Protection Act, which is monitored by the DOL. Currently, DOL treats tips as wages for unemployment, minimum wage and overtime purposes, but not for CCPA purposes. The OCSE plans to submit a request for a ruling from the DOL administrator. ***

*** RIA Payroll Guide

Employer-Provider Holiday Gift Coupons were Taxable Fringe Benefits

The IRS has held that an employer's holiday gift coupon to employees, redeemable at certain grocery stores, were not tax-free fringe benefits, but were cash equivalents subject to FITW, FICA, and FUTA.

The Facts. An employer had been providing its employees with hams, turkeys, or gift baskets as annual holiday gifts. However, at the request of certain employees with religious convictions or dietary restrictions, it began to issue holiday food coupons with a face value of \$35.00 instead.

The Law. Under IRC §132, wages do not include de minimis fringe benefits provided to employees. Such benefits are those that are offered so infrequently and have a fair market value so small that it is impractical and unreasonable to account for them. All three requirements (value, frequency, and impracticality) must be met for a benefit to be considered de minimis. De minimis fringe benefits include occasional supper money, money or cab fare, discounted meals at an employer-operated facility, occasional company parties or picnics, and certain holiday gifts (e.g. turkeys, hams, gift baskets).

The Ruling. The IRS concluded that, for both years, the employer's holiday gift coupons were taxable to the employees and subject to withholding and employment taxes. Although the coupons were of a nominal value and not distributed frequently, they, like gift certificates, were not administratively impractical to account for. *

* *Payroll Guide Newsletter, 10/01/2004 Volume 63, No 20*

State Tax Law Changes

• PENNSYLVANIA



Withholding. The state has ruled that an out-of-state resident who is temporarily assigned to work in Pennsylvania, while continuing to work outside the state for two days per week, is subject to Pennsylvania personal income tax with respect to compensation earned while working in Pennsylvania. The taxpayer's employer is also required to withhold Pennsylvania tax.

(PA Personal Income tax Ruling PIT-04-028)

Effective for taxable compensation paid after Dec. 31, 2004, the Philadelphia wage tax rate for residents will be reduced from 4.4625% to 4.331% and the Philadelphia wage tax rate for non residents will be reduced from 3.8801% to 3.8197%. [Phila. Dept. Rev. Notice, July 2004]

• VERMONT



Wage and Hour. The Department of Labor and Industry has revised its regulations to include coverage of retail, hospitality, and restaurant industries within its regular minimum wage regulations. The new rule supersedes and replaces Wage Orders 1 and 2. **

** see Payroll Guide : coverage of state minimum wage rules [Rule 24, Sept 1, 2004]

• VIRGINIA



Wage and Hour. The Department of Workforce Development has introduced a proposal that would increase the minimum wage from \$5.15 to \$5.70 per hour upon adoption of the bill, and to \$6.50 per hour, effective Oct. 1, 2005. The proposal would also establish a "minor minimum wage" of \$5.30 per hour, increasing to \$5.90 per hour on Oct. 1, 2005. The opportunity wage rate would be the same as minor wage rate.

IRS Extends Tip Compliance Agreement Program

The IRS has announced that it is indefinitely extending its Tip Rate Determination and Education Program, a voluntary compliance tool that has helped nearly double the reporting of tip income. The program was set to expire in 2005 [IR 2004-117]

The tip program offers employers multiple voluntary agreement options designed to provide non-burdensome methods for employers and employees to comply with tip reporting laws. Options include:

- Tip Rate Determination Agreement (TRDA);
- Tip Reporting Alternative Commitment (TRAC);
- EmTRAC—Employer-designed TRAC. **

** *Payroll Guide Newsletter Vol. 63 No 20 ¶3800*



Sign Up for AutoUpdate to Keep Current With *PayMaster* Changes Required by Paper and Mag Media W-2 Formats

Why subscribe to AutoUpdate?

1. You'll save money. The annual AutoUpdate cost is less than paying separately for the upgrades as they are available.
2. You'll be able to take advantage right away of *PayMaster's* new features and reports.
3. You'll be all set for whatever changes are made each year to the paper and mag media W-2s, and to your state tax laws.

Please call or email us for more information about AutoUpdate.

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Order Your W-2s
by December 20 to
Guarantee Delivery

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