

## Social Security Administration

## Internal Revenue Service

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# Reporter

Summer 2006

A Newsletter for Employers

## IRS and SSA Announce Four Changes to Electronic Filing

### 1. New Batch Provider Software for Tax Professionals Available from EFTPS

**T**ax professionals that prepare and pay federal taxes for clients or multiple Taxpayer Identification Numbers (TIN), have a secure, easy and convenient way to make up to 1,000 payments in one transmission using the newly updated Batch Provider Software from the Electronic Federal Tax Payment System (EFTPS).

The latest version of the popular free software contains many enhancements designed to make paying easier:

- Send up to 1,000 enrollments and 5,000 payments in one transmission;
- Use memorized transaction capability where the last transaction is automatically displayed for each EIN/SSN;
- Make individual debits to a Master Account or clients' account (or use both);

*continued on page 2*

### 2. Social Security Requires Electronic Filing Beginning with Tax Year 2006 W-2s

**I**f your company now files W-2s with Social Security on *diskette*, you will be required to file electronically starting in tax year 2006 (W-2s due in calendar year 2007), as Social Security will no longer accept diskettes. Similarly, as of tax year 2005, Social Security no longer accepts W-2s filed on magnetic tape and cartridge.

Companies that file on magnetic tape, cartridge or diskette format their reports according to Social Security's Magnetic Media Reporting and Electronic Filing format (MMREF). Filing electronically uses the same MMREF format, so re-programming is not necessary. All you need to do is follow your same year-end process, up to the point where you would copy the W-2 report onto a tape, cartridge or diskette and mail it to Social Security.

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### 3. Electronic Data Exchange (EDI) and Proprietary Formats for Electronically Filed Forms 940 and 941 to be Discontinued

**T**he Internal Revenue Service (IRS) recently announced plans to discontinue the acceptance of electronically Filed Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, and Form 941, *Employer's Quarterly Federal Tax Return*, that are transmitted in the EDI and Proprietary formats. Participants currently using the EDI and Proprietary formats can transmit Form 941 for the 3rd Quarter until November 13, 2006. After that time, the IRS will no longer accept e-file transmissions in these formats.

Decline in use of these formats, combined with increasing costs to maintain these formats, prompted this decision. This decision is also

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Department of the Treasury  
Internal Revenue Service

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#### 4. IRS to Eliminate 3 1/2-inch Diskettes

Effective January 1, 2007, the Internal Revenue Service (IRS) Enterprise Computing Center in Martinsburg, WVA (IRS/ECC-MTB) will no longer accept information returns filed on 3 1/2-inch diskettes.

IRS/ECC-MTB encourages filers to file electronically on the Internet using the FIRE (Filing Information Returns Electronically) system at <http://fire.irs.gov> (if the link does not work, you may need to copy and paste it into your browser window). *Note:* If you already have a Transmitter Control Code (TCC) for diskette filing, you do not need to reapply.

Some advantages of filing electronically are:

- Paperless Form 4804 not required;
- Secure Socket Layer (SSL) 128-bit encryption;
- More attempts than magnetic media filing to replace bad files within a specific time frame before imposing penalties;
- Better customer service due to online availability of transmitter's files for research purposes;
- Extendable due dates for electronically filed Forms 1098, 1099 and W-2G;
- Longer period to test electronic files: November 1st through February 15th; and
- Available results available within 1-2 workdays regarding the acceptability of the data transmitted.

Additional information on the electronic filing of information returns can be found in Publication 1220, *Specifications for Filing Forms 1098, 1099, 5498 and W-2G Electronically or Magnetically* [Rev. Proc. 2005-49 (<http://www.irs.gov/app/scripts/retriever.jsp>)], reprinted from IR Bulletin - dated August 1, 2005, or Publication 3609, *Filing Information Returns Electronically* (<http://www.irs.gov/app/scripts/retriever.jsp>).

Please call toll free at 866-455-7438 between 8:30 a.m. - 4:30 p.m. EST if you have any questions. **IRS**

#### New Batch Provider Software continued from page 1

- Send clients a Taxpayer Inquiry PIN so they can look at their accounts online;
- Synchronize enrollments and payment history between the software and the EFTPS database in real-time;
- Import/export enrollments and payments; and
- Create customized reports.

The EFTPS Batch Provider Software allows tax professionals to set roles and responsibilities for multiple users of the software. If the EFTPS Batch Provider Software will be used by more than one person, levels of access for each of the users can be set ... allowing central control of who can view, update, add or remove payments from the database. There is also a Calendar to help keep track of payment due dates, holidays and communications with other users of the software.

As part of the software upgrade, EFTPS will send e-mail notifications regarding enrollments, payments and upgrades. In addition, a dedicated Tax Professional Customer Service Help Line (800-945-0966) is available for any problems users might have. The User's Manual and Quick Start Guide (go to <http://www.eftps.gov>) will help tax professionals get started with a step-by-step process.

If you are a tax professional, visit <http://www.eftps.gov> to download the new software, or call EFTPS Batch Provider Customer Service at 800-945-0966 to request the software on a CD.

If you are a taxpayer who works with a tax professional for making federal tax payments, let them know the new EFTPS Batch Provider software is available. **IRS**

#### SSA Requires Electronic Filing continued from page 1

Instead, you will log onto our Web site and upload the file. It's that simple. For security purposes, you will need to register first for a PIN and password, which you may already have since the PIN is required in the RA - Submitter Record in your wage report.

Each year Social Security receives more than 235 million W-2s. Sixty-seven percent of them are now transmitted electronically. Find out why so many businesses choose e-filing. Visit <http://www.socialsecurity.gov/bsowelcome.htm> and register today. **SSA**

#### IRS to Discontinue EDI continued from page 1

necessary as part of the IRS' efforts to provide a more modernized and efficient method of receiving Form 940/941 returns.

The IRS will continue to support the Employment Tax e-file System which utilizes the Extensible Markup Language (XML) standard for the transmission of Forms 940/941. The Employment Tax e-file System provides greater flexibility for filing Forms 940/941 electronically. See <http://www.irs.gov/efile/article/0,,id=118519,00.html> for more information on the Employment Tax e-file System (XML) and how it can improve your filing process. **IRS**

# Tips on Federal Tax Deposit Coupons

The Internal Revenue Service would like to share a few important tips for employers who are still making federal payroll deposits with paper tax deposit coupons:

- Employers who applied for and received an EIN after January 2004 are most likely already enrolled in EFTPS as part of the express enrollment (<http://www.irs.gov/pub/irs-pdf/p4275.pdf>) initiative for new businesses. Employers should have received a confirmation package and an EFTPS PIN. More information can be found in Publication 4275, *Express Enrollment for New Businesses – IRS Customer Service Scripts* (<http://www.irs.gov/pub/irs-pdf/p4275.pdf>), on <http://www.irs.gov>.
- Employers who have been utilizing paper tax deposit coupons generally receive new

tax deposit coupon booklets automatically. If they do not receive a new booklet, they should call 800-829-4933 to reorder.

- If employers' mailing address changes, they need to complete and file both Form 8109-C, *FTD Address Change*, and Form 8822, *Change of Address Form*. Filing Form 8109-C updates the mailing address only for the purpose of delivery of tax deposit coupons. The Form 8109-C is located in the coupon booklet. Form 8822 updates the mailing address on IRS records for all other tax purposes.
- Employers who want new coupon booklets sent directly to their payroll provider or tax practitioner should complete and file Form 8109-C to show the payroll provider or practitioner's mailing address. Filing Form

8109-C will not change the address of record with IRS.

- Employers who need to obtain a FTD coupon can visit their local Taxpayer Assistance Center (TAC). Locations are listed in the local phone directory and also at <http://www.irs.gov/localcontacts/index.html>. Depending on an employer's deposit requirements, they will receive two to four forms, with the Employer Identification Number and business name already entered. The person requesting the coupons must be a responsible official of the business or have a signed Power-of-Attorney or Tax Information Authorization to receive the completed Form 8109-B. A new tax deposit coupon booklet will also be ordered for the employer at that time. If there is not a local TAC in the area, employers can call 800-829-4933 to request several Forms 8109-B be mailed to them.

## How to Use Valuable Online Services for the Post-Filing Season

Even though the filing season is over, you can still get valuable help from Social Security's *Business Services Online*. For instance, you can:

- Check the status of your submission(s);
- View and acknowledge a notice asking you to resubmit your data; and
- Browse information about errors found in your submission.

### Who Can Use the Service

The service is available to all submitters whose W-2 Report is formatted according to Social Security's Magnetic Media and Electronic Filing (MMREF) specifications, or people who filed using W-2 Online. If you filed using magnetic media or electronic data transmission, please allow 2-3 weeks for your submission information to be available. Submission information is not available for paper submissions.

### What You Need

All you need is a PIN and password. If you don't have a PIN and password, you can register for one at <http://www.socialsecurity.gov/bsowel/bsowelcome.htm>.

Business Services Online will assign a PIN to you, and allow you to choose a password.

Once you have your PIN and password, just take the following steps.

1. Log in to Business Services Online.
2. Select the "Request Access to BSO Services

Link", and select "View File, Wage Report Status, Errors, and Error Notices."

3. In about two weeks, you will get an activation code.
4. Once you have your activation code, log back in to Business Services Online.
5. Select "Activate Access to BSO Services."
6. Enter your activation code.
7. Return to the Business Services Online Home page.

More than one person in a company can have a PIN and password. If you use a third-party preparer, you can still access the services above by using your PIN, password, and the EIN entered in the RE, Employer Record.

### How

Once you log into Business Services Online, you can:


- View Submission Status Information or View Employer Report;
- Acknowledge Resubmission Notice; and
- Request Resubmission Extension (Note: You may NOT request an extension if you have previously resubmitted data for this wage file identifier or more than 45 days have passed since the date on the resubmission notice.)

For more information about online services, download a copy of the BSO Handbook available at <http://www.socialsecurity.gov/employer/bsohbnew.htm> or call 800-772-6270. 

- If an employer is unable to obtain a paper coupon in time to make a required deposit, a same-day wire transfer may be an option. Employers should check with their financial institution to find out if this service is offered and if there are any applicable fees associated with using this method to make a payroll deposit.

- Employers should be sure to keep track of their FTD coupon booklet. Issuing duplicate books is costly to the government and time consuming for employers.

Better yet, employers can join the millions who are making their federal tax deposits electronically or by phone. The Electronic Federal Tax Payment System (EFTPS) is the preferred method of making payroll deposits and business tax payments. EFTPS is fast, secure and available 24 hours a day, 7 days a week. Payments may be made online or via the phone and can be scheduled up to 120 days in advance.

Enrolling in EFTPS is simple and can be done by completing an application online at <http://www.eftps.gov> (See related article on page 6, "Sign up for *Simplify* e-Newsletter.") Employers can also call 800-555-4477 to request a paper application. They will receive a confirmation letter and PIN within 15 business days of completion of the application and can then start making deposits. More information is available at <http://www.irs.gov>; click on the EFTPS logo. 

## Tips on Dealing with an IRS Audit

The Internal Revenue Service enforces federal tax laws through the audit process. Resolution of minor issues such as a mathematical error can usually be accomplished by correspondence between the IRS and the taxpayer. Some restricted-scope audits can be handled by a representative of your organization meeting with the IRS in their offices.

An IRS on-site examination, commonly referred to as a field audit, may be a limited one such as an employment tax examination. Or it may be part of a comprehensive audit conducted under the IRS—Industry Case Program commonly known as an IC audit.

Your organization usually will be informed by letter or by phone that it has been selected for a field audit. The letter, often referred to as the “confirmation letter”, may contain a request for the information the agent wants to peruse, or this request may come at a later date. In either case, the next step for the IRS is to have the agents who will be conducting the fieldwork meet with your organization.

Before this meeting takes place, you should establish an internal team that will coordinate your organization’s participation during the examination. This may include representation from payroll, accounts payable, accounting, human resources, internal auditing, general counsel, and outside tax professionals.

A properly functioning internal team should appoint an *audit controller* to manage the examination and supervise the input from any of your employees. This individual should assemble and regulate the flow of information between the IRS and your organization. The audit controller should review all information before it is turned over to the IRS and be present during tours and interviews of your employees.

The objective is not to restrict or hide information. Rather, the objective is to make sure the information released to the IRS is organized, complete, and focused.

Requests for information by field agents should be made through your audit controller in writing by use of Form 4564, the *Information Document Request* (IDR). You are required to provide the IRS with all legally allowed information that is requested. However, you should also note that your organization needs to provide only the information specifically requested by the IRS.

It is perfectly acceptable to have unresolved audit issues with the field auditors. If at any time your organization does not feel a field agent is conducting himself/herself professionally, the audit should be stopped and you should ask to discuss the matter with the field auditor’s supervisor to resolve differences.

Audit issues that cannot be resolved during the examination and which are not part of a closing agreement may be appealed to an IRS Appeals Office. Failure to resolve open audit issues with this Office may be litigated through a formal trial. Because of the time and expense involved with litigation of unreconciled tax disputes this option should be chosen only as a last resort. <sup>APA</sup>

*Editor’s note:* APA’s partnership with the IRS and SSA allows it to prepare its publications and classes, such as *Preparing for Year-End and 2007*, with the most accurate and up-to-date information to educate employers. More information about the APA is available at <http://www.americanpayroll.org>.

SSA/IRS

## Reporter

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SSA.IRS.REPORTER@irs.gov

Fax: 410-962-2572

### CHANGE OF ADDRESS? OUT OF BUSINESS?

Notify the IRS. Send a letter to the IRS center to which you sent your business returns. Please include your Employer Identification Number (EIN).

Cincinnati IRS Center  
Cincinnati, OH 45999

Ogden IRS Center  
MS:6273  
Ogden, UT 84207  
Attn: BMF Entity Control Unit

Outside US:  
Philadelphia IRS Center  
Philadelphia, PA 19255

### About Reprinting Articles

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### IRS and SSA “Help” Telephone Numbers and Web Addresses Now on IRS.gov

IRS and SSA “Help” telephone numbers and Web addresses are now posted on IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=109886,00.html>.

## States Now Requiring Electronic Child Support Payments

Illinois, Indiana, and Massachusetts have passed legislation now in effect, requiring employers to remit their child support payments electronically. California and Florida passed similar legislation, to take effect later in 2006. The criteria for determining if your company must submit electronic payments vary by state and are listed below.


**Illinois:** Employers with 250 or more employees or fewer than 250 employees and paying on 10 or more orders are required to remit their child support payments electronically.

**Indiana:** Employers with 50 or more employees and having at least one employee with an income-withholding order are required to remit their child support payments electronically. Indiana also has a non-compliance fine of \$25 per employee, per pay period.

**Massachusetts:** Employers with five or more employees are required to remit their child support payments electronically. Also, employers with a history of irregular or untimely payments or other instances of failure to remit child support payments may be required to remit electronically.

**California:** Employers who file their taxes electronically are required to remit their child support payments electronically. The law took effect 1/1/05, but no date for enforcement has been announced because the CA State Disbursement Unit is still being implemented. It will probably be at least late spring or summer before the law takes effect.

**Florida:** Employers with 10 or more employees or who pay \$30,000 or more in state taxes annually are required to remit their child support payments electronically, effective 10/1/2006.

For more information, go to the HHS Web site at <http://www.acf.hhs.gov/programs/cse/newhire/employer/home.htm>. Contact your state child support enforcement office or Nancy Benner at [nbenner@acf.hhs.gov](mailto:nbenner@acf.hhs.gov) or call 202-401-5528. 

## IRS Taxpayer Advocate Service Protects Taxpayer Rights

If you or your business have ever encountered a difficult or complicated tax problem, or if your employees have unresolved tax issues or are facing hardships related to or made worse by such problems, contact the Taxpayer Advocate Service of the IRS. It is a free service.

The Taxpayer Advocate Service provides an independent system to ensure that tax problems not resolved through normal channels are handled promptly and fairly. The Office of the Taxpayer Advocate operates independently of any other IRS office and reports directly to Congress through the National Taxpayer Advocate. Each state (and IRS campus) has at least one Local Taxpayer Advocate.

You qualify if you've attempted other channels and you face economic harm or significant cost, a 30-day delay to resolve the issue, or a response or resolution deadline that the IRS has promised but has not met. Payroll tax issues, which are among the most common tax problems for many businesses, are particularly challenging because they carry the potential for stiff penalties.

Besides handling individual and business problem cases, TAS attempts to remedy broad, systemic issues that can frustrate many taxpayers (and IRS employees). If you know of such a problem – one that affects an entire group or segment of taxpayers – you can report it to TAS via the Systemic Advocacy Management System on the TAS public Web site (<http://www.irs.gov/advocate>). We resolve some of these issues by working cooperatively with other IRS functions. Others require changes to the law or the tax code, which the National Taxpayer Advocate may propose in the Annual Report to Congress.

Here's how to contact us:

- Call the Taxpayer Advocate Service toll-free telephone number: 877-777-4778 (or TTY/TTD: 800-829-4059);
- Call, write, or visit the Local Taxpayer Advocate office for your state. You can find a list of TAS offices in Publication 1546 (<http://www.irs.gov/pub/irs-pdf/p1546.pdf>), *Troublesome Tax Issues*, which is available on the IRS Web site; or
- Visit the Taxpayer Advocate Web site at <http://www.irs.gov/advocate/index.html>. 


## Electronic Filing (e-file) is Required for Some Large Tax-Exempt Organizations

The e-file requirement, imposed on some large tax-exempt organizations requiring e-filing of Forms 990 in 2006, will expand to include more organizations in 2007. On January 12, 2005, the IRS released temporary regulations that require (<http://www.irs.gov/charities/article/0,,id=133968,00.html>) certain tax-exempt organizations to file annual exempt organization returns electronically.

For tax years ending on or after December 31, 2005, tax-exempt organizations are required to e-file Forms 990 if the organization has \$100 million or more in total assets and files 250 or more returns a year, including income tax, excise tax, information and employment tax returns. This e-filing requirement will be expanded in 2007 to include tax-exempt organizations with total assets of \$10 million or more, who file 250 or more returns a year.

Private Foundations and charitable trusts, regardless of their asset size, will also be required to e-file Forms 990-PF beginning in 2007, if they file at least 250 returns a year.

There are limited circumstances where a tax-exempt organization can request a waiver from the e-filing requirement. Notice 2005-88 sets out the criteria and the procedures for requesting a waiver of the electronic filing requirement. The Service will generally grant a waiver where the taxpayer can demonstrate undue hardship, including the incremental costs to file electronically as well as technical issues that prevent electronic filing.

All tax-exempt organizations are encouraged to e-file and take advantage of the many benefits e-filing offers. E-filing is quick, accurate, and provides a quick acknowledgment that the IRS has received your return. More information about e-filing for tax-exempt organizations, including authorized providers, is available at [www.irs.gov/charities](http://www.irs.gov/charities) (<http://www.irs.gov/charities/>). 

## Product and Service Announcements from IRS and SSA

### Hurricane Katrina Housing Credit Available

An employer who conducted an active trade or business in the Gulf Opportunity (GO) Zone can claim the Hurricane Katrina housing credit. The credit is equal to 30% of the value (up to \$600 per month per employee) of in-kind lodging furnished to a qualified employee (and the employee's spouse and dependents) from January 1, 2006 through July 1, 2006.

The value of the lodging is excluded from the income of the qualified employee, but is treated as wages for purposes of taxes imposed under the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA). Generally, the deduction for salaries and wages must be reduced by the amount of the credit (before the tax liability limit).

The employer must use Form 5884-A (<http://www.irs.gov/pub/irs-pdf/f5884a.pdf>) to claim the credit, which is a credit against income tax. Refer to Publication 4492 (<http://www.irs.gov/pub/irs-pdf/p4492.pdf>). For complete information on IRS relief and assistance to recent hurricane victims, please go to the IRS Web site at <http://www.irs.gov/newsroom/article/0,,id=147085,00.html>. **IRS**

### W-2 News – Subscribe Today!

Do you submit Forms W-2, *Wage and Tax Statement* to Social Security for your business or your clients? If you do, you will want to sign up for *W-2 News* – a free electronic newsletter.

Because your time is valuable, we will issue this newsletter only when important wage reporting information becomes available, such as when:

- Changes occur in W-2 reporting requirements;
- Changes occur in Paper and Electronic Filing Instructions;
- The new MMREF and AccuWage become available; or
- The Business Services Online Web site opens for business.

In 2007, Social Security will no longer print and mail paper copies of the MMREF to employers. Registering for *W-2 News* will alert you as to when the publication is available online.

To sign up, just go to: <http://www.socialsecurity.gov/employer/w2news>, provide your email address and select *Submit*. It's that easy.

*Note:* You will automatically receive this newsletter if you provided your email address when you registered with Business Services Online, or if you indicated in your MMREF Record RA, Submitter Record, that your preferred method of contact was email/Internet. **SSA**

### Learn about the ADA

**R***eaching Out to Customers with Disabilities* is an easy way for businesses to learn about the Americans with Disabilities Act (ADA) and the tax incentives that can help offset the costs of complying with the ADA.

This web-based, interactive online course condenses ADA regulations, technical guidance and Justice Department policy in ten simple, understandable lessons. With straightforward language, numerous examples, easy navigation and links to supplemental information, this course is designed for owners, managers, and employees of all types of businesses.

The course, part of the Department's ADA Business Connection initiative, is located on the ADA Web site: <http://www.ada.gov/reachingout/intro1.htm>

Or contact the ADA Information Line at: 800-514-0301 (voice) 800-514-0383 (TTY) **DOJ**

### Sign Up for the Simplify e-Newsletter

**T**he U.S. Treasury launched a *Simplify* campaign in November 2005 to communicate to businesses the benefits of paying taxes electronically. The *Simplify* campaign supports the Treasury's goal to shift away from federal tax deposit (FTD) coupons to electronic payment through EFTPS.

To subscribe to the *Simplify* e-newsletter, please go to the sign up page (<http://www.simplifyeftps.org/eNewsletter/Sign-Up-for-e-newsletter.html>) on the Simplify Web site. **IRS**

### Three Popular Resources for Small Businesses Now Available

**T**he *2006 Small Business Resource Guide (SBRG) CD-ROM* is a handy, interactive CD designed to equip business owners with skills and knowledge needed to successfully manage a business. This CD covers a wide range of topics from starting a business to retirement plan options.

New Publication 1066C, *A Virtual Small Business Tax Workshop DVD* (with English, Spanish and Mandarin Chinese subtitles) is an innovative educational product designed to help small business owners and the self-employed understand and meet their federal tax obligations. The 10 lesson workshop consists of interactive video presentations of tax subjects and a text-only Help lesson with links to the latest information on IRS.gov.

Publication 1518, *The Tax Calendar for Small Businesses and Self-Employed*, features information on general business taxes, IRS and SSA customer assistance, electronic filing and paying options, retirement plans, business publications and forms, common tax filing dates, and Federal legal holidays.

Order copies of these popular small business products and others online <http://www.irs.gov/businesses/small/article/0,,id=101169,00.html> or through the IRS distribution center by calling 800-829-3676. **IRS**