

## Social Security Administration

## Internal Revenue Service

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Internal Revenue Service

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# Reporter

Winter 2006

A Newsletter  
for Employers

## IRS Releases New Tip Reporting Program

The Internal Revenue Service recently released formal guidance on its new tip reporting procedure, the Attributed Tip Income Program (ATIP). ATIP expands the existing IRS tip reporting and education program by offering employers in the food and beverage industry an additional tip reporting compliance alternative. ATIP reduces industry recordkeeping burdens, has simple enrollment requirements and promotes reporting tips on Federal income tax returns.

ATIP provides benefits to employers and employees similar to those offered under previous tip reporting agreements. However, ATIP does not require employers to meet with the IRS to determine tip rates or eligibility. Employers are not required to sign an agreement with the IRS to participate. Like other tip reporting programs, participation by employers and their employees is voluntary.

Employers who participate in ATIP report the tip income of employees based on a formula that uses a percentage of gross receipts, which are generally attributed among participating employees based on the practices of the restaurant.

By participating in ATIP, employers receive significant benefits:

- The IRS will not initiate an "employer-only" 3121(q) examination during the period the employer participates in ATIP.
- Tip reporting is simplified and in many cases employers will not have to receive and process tip records from participating employees.
- Enrollment is simple. There are no one-on-one meetings with the IRS and no agreements to sign. Employers elect participation in ATIP by checking the designated box on Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips*.

Employees also benefit from ATIP:

- Participating employees do not have to keep a daily tip log or other tip records.

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## Social Security Announces Wage Base Increase for 2007

Social Security has announced the increase in 2007 for the maximum amount of earnings subject to the Social Security tax. The Social Security wage base will be \$97,500, up from \$94,200 in 2006. Beginning January 1, 2007, employers should withhold Social Security taxes (6.2 percent) from employees' wages up to \$97,500 and withhold the Medicare tax (1.45 percent) on all wages. Employers must match the tax payments withheld from employees' wages.

In 2007, employees will earn one Social Security credit for each \$970 in earnings, up to a maximum of four credits for the year. Social Security also announced that benefit amounts will increase in 2007 by 3.3 percent.

The full retirement age for people born in 1942 is now 65 years and 10 months. There is no limit on employees' earnings beginning with the month they reach full retirement age, they can work and receive unreduced Social Security retirement benefits.


If your employees are less than full retirement age when they begin to

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## Charities and Non-Profits Enjoy the Benefits of Electronic Filing

**M**any charities and non-profits are discovering the advantages of electronic filing (e-file). Since e-file became available to the tax-exempt community in February 2004, ever increasing numbers of organizations are e-filing their requests for extensions, Forms 8868, and information returns, Forms 990, 990-EZ, and 990-PF. Exempt organizations can electronically file returns and extensions through any of the Approved IRS 990-e-file Providers.

More information about e-filing for charities and non-profits, including the list of approved e-file providers, is available at the Charities & Non-Profits page on the IRS Web site (<http://www.irs.gov/efile/article/0,,id=108211,00.html>).


Continuous updates on this subject and other topics relevant to charities and non-profits are available via the EO Update e-newsletter. Visit the IRS Web site to sign up: <http://www.irs.gov/charities/article/0,,id=135307,00.html>. 

## Wage Base Increase cont. from page 1

receive benefits, they can earn more in 2007 without their benefits being reduced—

1. Social Security beneficiaries who haven't reached full retirement age can earn \$12,480 before their benefits are reduced. For every \$2 they earn over \$12,480 before the year of their full retirement age, \$1 is withheld from benefits.
2. In the year employees reach full retirement age, \$1 in benefits is deducted for each \$3 they earn above \$33,240 until the month the employees reach full retirement age.
3. Benefits are not reduced when employees are full retirement age or older, no matter how much they earn.

Employees receiving Social Security disability benefits must report all wages, no matter how little they earn.


For more information on wage base and benefit increases, see the Social Security press release at <http://www.socialsecurity.gov>. 

## Exempt Organizations and Employment Tax Responsibilities

**E**xempt Organizations (EOs) and their representatives can find a wealth of on-line information to help them meet their employment tax responsibilities on the IRS Charities and Non-Profits Website at <http://www.irs.gov/charities/index.html>.

The IRS generally requires EOs to pay employment taxes on wages and to report wages and certain other payments. EOs are responsible for federal, state and local employment taxes, including (i) federal income tax withholding (FITW), (ii) Social Security and Medicare taxes (FICA), and, with certain exceptions, (iii) federal unemployment taxes (FUTA).

Simply go to <http://www.irs.gov/eo>, click on "Charitable Orgs" or "Other Nonprofits" and access Employment Taxes for Exempt Organizations (<http://www.irs.gov/charities/article/0,,id=128716,00.html>) to find the most up-to-date information. The Web site includes specialized information for EOs on the basic requirements for tax and wage reporting compliance, obtaining an EIN, calculating withholding, making tax deposits and record keeping.

The Employment Taxes for Exempt Organizations page also features links to information about electronic filing and payment options and how to make required federal tax deposits. EOs can also find the most up to date employment tax forms, publications and notices of interest to exempt organizations. Key publications available online are Publication 15, *Circular E, Employer's Tax Guide*, <http://www.irs.gov/pub/irs-pdf/p15.pdf> and Publication 15A, *Employer's Supplemental Tax Guide*, <http://www.irs.gov/pub/irs-pdf/p15a.pdf>. 

## New Tip Reporting Program cont. from page 1

- The IRS will not initiate a tip examination during the period the employer and employee participate in ATIP.

- The improved income reporting procedures could help employees qualify for loans or other financing.

Employees who work for a participating employer can easily elect to participate in ATIP by signing an agreement with their employer to have their tip income computed under the program and reported as wages.

Some general requirements for participating restaurants:

- The employer annually elects to participate in ATIP and uses the prescribed methodology for reporting tips by filing Form 8027 and checks the ATIP participation box. Simplified filing is provided for small establishments not required to file Form 8027.

- Employer's establishment must have at least 20% of gross receipts as charged receipts that reflect a charged tip.

- At least 75% of tipped employees must agree to participate in the program.

- Employer reports attributed tips on Employees' Forms W-2 and pays taxes using the formula tip rate.

- The formula tip rate is the charged tip rate minus two percent – the two percent takes into account a lower cash tip rate.

- The charged tip rate is based on information from the establishment's Form 8027.

ATIP is a three-year pilot program for food and beverage employers. Employers will participate on an annual basis. The first annual basis begins January 1, 2007.


Details and requirements for participation for employers and employees are available in Revenue Procedure 2006-30 "Attributed Tip Income Program," at <http://www.irs.gov/businesses/small/article/0,,id=98944,00.html>.

### Related Links:

- IR-2006-118, IRS Announces New Tip Reporting Program <http://www.irs.gov/newsroom/article/0,,id=160536,00.html>

- Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips* <http://www.irs.gov/pub/irs-pdf/f8027.pdf>

- Instructions for Form 8027 <http://www.irs.gov/pub/irs-pdf/f8027.pdf>

- Transmittal of Employer's Annual Information Return of Tips and Allocated Income <http://www.irs.gov/pub/irs-pdf/f8027t.pdf> 

## Required Electronic Filing (e-file) For Some Large Corporations and Tax-Exempt Organizations Will Expand in Tax Year 2006 to Include More Organizations

The Internal Revenue Service recently announced that more than 12,500 of the nation's largest corporations have electronically filed their 2005 corporate tax returns. "These corporations have successfully made the transition from paper to electronic returns," said Deborah Nolan, Commissioner of the IRS Large and Mid-Size Business Division (LMSB). "This is a significant milestone in the Service's modernization efforts that will pay dividends for years to come."

Department of the Treasury Temporary Regulation 301.6011-5T, issued January, 2005, required tax year 2005 e-filing by large corporations with \$50 million or greater assets that filed more than 250 returns (aggregation of income tax returns, information returns, excise tax returns, employment tax, etc.). For tax-exempt organizations, the e-file requirement included those with over \$100 million in assets required to file returns under Section 6033.

**The requirement for certain large corporations and tax-exempt organizations to e-file**

**will expand to include more organizations for tax year 2006.** Corporations filing Forms 1120 or 1120S, and tax-exempt organizations filing Form 990, that have \$10M or more in assets and who file 250 or more returns will be required to e-file. Private foundations and charitable trusts, regardless of their asset size, will also be required to e-file Forms 990-PF for tax year 2006 if they file at least 250 returns a year.

Corporations and tax exempt organizations not required to e-file may do so voluntarily. E-filing offers many benefits, including a quick, accurate method of filing that provides an acknowledgment that the IRS has received your return.

IRS suggests that taxpayers start planning their transition from paper-based filing to electronic filing as soon as possible. It is important that taxpayers who rely upon third party tax professionals contact those service providers early to ensure they are ready to prepare and authorized to transmit tax forms electronically.


Corporations, tax-exempt and private foundation organizations that prepare their own

returns must be authorized by the IRS as a "Large Taxpayer" to e-file their own returns, or they can use an Online Provider or a tax professional who is an IRS Authorized *e-file* provider.

There are limited circumstances where taxpayers or organizations can request a waiver from the e-filing requirement. Generally, the IRS will 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. Notice 2005-88 contains the criteria and procedures for requesting a waiver.

The most recent guidance on all aspects of e-file is available at <http://www.irs.gov>.

### Related Links:

- e-file for Large and Mid-Size Corporations (<http://www.irs.gov/businesses/corporations/article/0,,id=146959,00.html>)
- e-file for Charities and Non-Profits (<http://www.irs.gov/efile/article/0,,id=108211,00.html>) 

## Overview of EO Employment Tax Issues

**C**ertain provisions of the general employment tax rules are particularly pertinent to EOs. For example, many exempt organizations reward staff members and volunteers with awards or gifts. (Non-cash items of nominal value, such as a holiday turkey, generally are not taxable to the volunteer.) However, cash items, including gift certificates, would be considered to be taxable and withholding and reporting requirements apply.

It is especially important for an exempt organization to understand the difference between an employee and an independent contractor. Certain persons, such as the EO's officers, are generally considered to be employees by statute, while others, such as members of the EO's board of directors, are independent contractors by statute. Payments to officers for their services would be reported on Forms W-2, while payments to directors would be reported on Forms 1099-MISC.

While exempt organizations do not generally have to withhold or pay employment tax on payments to independent contractors, they may have information reporting (Form 1099) responsibilities, as discussed above. However, if the EO improperly classifies a worker as an independent contractor, it may be liable for employment tax.

Certain exceptions to employment tax rules apply only to exempt organizations or to certain types of EOs. Wages paid to employees of most EOs are subject to social security and Medicare taxes unless the employee is paid less than \$100 in a calendar year. However, payments for services performed


by a minister of a church in the exercise of the [his or her?] ministry are generally not subject to income tax withholding or FICA.

In addition, if a church or qualified church-controlled organization makes an appropriate election, payments for any services performed for that church or organization, other than in an unrelated trade or business, will be exempt from FICA taxes as well. Additional modifications of the federal employment tax provisions as they relate to the treatment of ministers and church employees are discussed in Publication 1828, *Tax Guide for Churches and Religious Organizations* (<http://www.irs.gov/pub/irs-pdf/p1828.pdf>), which is available online.

Finally, all 501(c)(3) organizations, including churches, are exempt from FUTA. This exemption from FUTA can not be waived.

Refer to our Web site for the latest information about reporting, making deposits and e-filing requirements. Subscribe to the EO Update for the most up-to-date information about employment tax and other EO tax issues at <http://www.irs.gov/charities/page/0,,id=130596,00.html>.

### Related Links:

- IRS Offers Tips on How to Correct Reporting of Misclassified Employees at <http://www.irs.gov/businesses/small/article/0,,id=155756,00.html>
- IRS Reminds Businesses to Classify Workers Correctly at <http://www.irs.gov/newsroom/article/0,,id=158750,00.html> 

## Collecting “Taxable Benefit” Information

One of the challenges of the year-end payroll process is the correct collection and treatment of information about any and all taxable fringe benefits so that they are reported on Forms W-2 and taxes are withheld and deposited. Talk to other departments in your company, such as accounts payable or human resources, as they may be unaware that a benefit or payment they are handling is taxable.

### Where to Begin

For starters, compile a list of possible taxable fringe benefits for your company. A good resource, which includes the rules on valuing and taxing various benefits, is IRS' *Employer's Tax Guide to Fringe Benefits* (Publication 15-B, <http://www.irs.gov/pub/irs-pdf/p15.pdf>). Read any employee handbooks or policy manuals. Examples of potentially taxable benefits include:

- Personal use of company cars
- Educational assistance
- Moving/relocation expenses
- Life insurance
- Loans
- Awards, prizes, gifts
- Third-party sick pay
- Dependent care
- Employee business expenses

You may want to examine the Forms W-2c that were prepared for the last tax year to see if there were certain benefits that are often overlooked.

### Set Up Your Meeting

Next, hold a meeting to review the list with representatives of other departments, including accounts payable, human resources, benefits, accounting, and tax. Include someone from your information technology department or from your payroll service provider if any programming changes will be required to collect or report new information. For any newly “discovered” wages, you'll probably also need to consider how they will be recorded in the general ledger, whether they are subject to regular or supplemental wage withholding, and whether they are subject to state income tax or unemployment tax.

### When Fringe Benefits Are Considered Paid

Any fringe benefit paid in cash and any taxable relocation expenses must be included in wages and are subject to withholding at the time they are paid. There is more flexibility with non-cash taxable fringe benefits, which may be considered “paid” at any time during the year in which they were provided.

### “Grossing up” a Benefit

If, at the time you consider a benefit to be paid, the employee is no longer receiving wages from which to withhold income tax (federal, state, and/or local), social security tax, and Medicare tax, the employer must pay these taxes on behalf of the employee. However, doing so is another taxable benefit! Therefore, the original taxable benefit must be “grossed-up” by dividing its value by an amount equal to one minus the sum of all the applicable tax percentages.

For example, if an employee working in Alabama had been paid \$25,000 in wages in 2006 when he was awarded a \$500 television, but is no longer receiving wages at the time the payroll department learns about it, the total benefit to be included on the employee's W-2 is calculated as follows, using these tax rates: federal supplemental wage withholding = 25%, social security tax = 6.2%, Medicare tax = 1.45%; Alabama supplemental wage withholding = 5%.

$$\frac{\$500.00}{1 - (.25 + .062 + .0145 + .05)} =$$

$$\frac{\$500.00}{0.6235} = \$801.92$$

The employer will include \$801.92 as taxable wages on the employee's W-2, pay the \$301.92 in taxes on the employee's behalf (and, as always, match the social security and Medicare taxes), and include the tax amounts in their respective boxes on the W-2.

*The American Payroll Association's strong partnership with the IRS and SSA allows it to include the most accurate and up-to-date information in its classes and publications, such as its book, The Payroll Source®. More information about the APA is available at <http://www.americanpayroll.org>.* **APA**

SSA / IRS

# Reporter

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### CHANGE OF ADDRESS? OUT OF BUSINESS?

Notify the IRS. Submit Change of Address Form 8822 available at <http://www.irs.gov/pub/irs-pdf/f8822.pdf> 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

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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>.

## TEST YOUR KNOWLEDGE

## Backup Withholding Reminders

**Situation:** Hired last year at Cypress Company, Terry was looking over a checklist of year-end payroll and information reporting procedures that the previous controller, Chris, had drawn up before retiring from the business. One procedure on the list was a review as to whether the accounts payable section had any backup withholding issues. Not understanding what this might involve, Terry placed a call to Chris for some insight.

**Question:** What are some of the reminders that Chris might cover on backup withholding?

**Answer:** Payers making certain “reportable” payments may be responsible for withholding and remitting a specified percentage of the payment. This type of withholding is called backup withholding and is currently applied at the rate of 28% of the payment amount. As discussed below, backup withholding can apply to these payments when the payee does not furnish a correct TIN or when the Name/TIN combination does not match IRS records.

“Reportable” payments may include interest, dividends, rents, royalties, commissions, non-employee compensation, and other payments such as broker proceeds. These payments generally require the payer to issue an Information Return (usually a Form 1099) to the payee (the recipient of the payment) that includes the payee’s Name and Taxpayer Identification Number (TIN). A copy of this Information Return is also filed with the IRS (<http://www.irs.gov/pub/irs-pdf/i1099.pdf>).

Payments of wages and pensions (which have their own withholding requirements) aren’t subject to backup withholding nor are payments to government agencies or tax-exempt organizations. Payments to corporations aren’t subject to backup withholding procedures unless the amounts are for medical or health care payments or represent reportable gross proceeds paid to attorneys.

**Obtaining a payee’s TIN and certification:** For U.S. persons (including resident aliens), a payer can generally use Form W-9, *Request for Taxpayer Identification Number and Certification* (<http://www.irs.gov/pub/irs-pdf/fw9.pdf>) or the Spanish version, *Forma W-9(SP), Solicitud y Certificación del Número de Identificación del Contribuyente* (<http://www.irs.gov/pub/irs-pdf/fw9sp.pdf>). The W-9 instructions are available at: <http://www.irs.gov/pub/irs-pdf/iw9.pdf> and at <http://www.irs.gov/pub/irs-pdf/iw9sp.pdf> for the W-9(SP). For information regarding foreign persons, see “How Do I Know When To Use Form W-9?” on page one of the Form W-9 instructions.

**When payers are responsible for backup withholding:** If a payee refuses or neglects to provide a TIN, the payer should generally commence backup withholding on reportable payments (and continue doing so until a TIN is received). Additionally, backup withholding may be required as a result of an incorrect TIN notice (Notice CP2100 or CP2100A) sent to the payer.


For CP2100/2100A notices showing incorrect Name/TIN combinations, the payer may need to send payees a “B” Notice to solicit corrected information. As provided in Publication 1281 *Backup Withholding for Missing and Incorrect*

*Name/TIN(s)* (<http://www.irs.gov/pub/irs-pdf/p1281.pdf>), a payer is generally required to start backup withholding from reportable payments when a payee does not timely respond to a “B” Notice request.

Publication 1281 provides additional information about backup withholding and reviews situations when “B” Notices are required. It also reviews situations when “B” notices would not be necessary and contains templates that a payer can use when preparing and sending these “B” notifications.

**Reporting and remitting backup withholding:** Backup withholding is one of the several “non-payroll” withholdings reported on Form 945, *Annual Return of Withheld Federal Income Tax* (<http://www.irs.gov/pub/irs-pdf/f945.pdf>). The instructions (<http://www.irs.gov/pub/irs-pdf/i945.pdf>) include information about the federal deposit requirements and schedules for remitting the non-payroll withholdings. The amount withheld from payments is also listed on the Information Document (e.g. Form 1099) provided to each respective payee.


**Resources for Additional Information:**

■ Publication 15, (Circular E), *Employer’s Tax Guide*  
<http://www.irs.gov/pub/irs-pdf/p15.pdf> 

## IRS Fact Sheets Seek to Educate about Tax Gap


The IRS is implementing an extensive outreach strategy to educate taxpayers and businesses about issues contributing to the tax gap. Underreported business income accounts for more than \$100 billion per year in unpaid taxes, according to IRS estimates.

### Related Links:

- U.S. Department of Treasury's Office of Tax Policy, "A Comprehensive Strategy for Reducing the Tax Gap" <http://www.ustreas.gov/press/releases/hp111.htm>.
- The Tax Gap <http://www.irs.gov/newsroom/article/0,,id=158619,00.html> 

## Social Security's Improved and Free Vendor List


Social Security has improved its Vendor List of companies that offer products and/or services that will enable you to file Forms W-2/W-3 electronically with Social Security. You can now search the list of companies alphabetically or by state of service. And if you are a payroll service or vendor that supports the electronic filing of Forms W-2/W-3, you can now list your company's information, including your Website address on Social Security's Vendor List.

- Need Help Submitting Forms W-2/W-3 electronically to Social Security? Go to: <http://www.socialsecurity.gov/employer> and choose "Vendor List" in the left column to search companies by name or state.
- Want to be included on the Vendor List? Go to: <http://www.socialsecurity.gov/employer> and choose "Vendor List" in the left column to learn how you can get your company on Social Security's Vendor List. 

## Unpaid Trust Fund Taxes Are Serious Business


Most businesses voluntarily file and pay their taxes, but are shortchanged by those who don't pay their fair share. One category the IRS considers a priority is unpaid employment taxes. Unfortunately some businesses engage in "pyramiding," which involves repeatedly withholding trust fund taxes from employees but intentionally failing to remit them to the IRS. Employment taxes are often referred to as 'trust fund' taxes because employers hold the employee's money in trust until they deposit it with the government.


Regardless of the reason a business has for not paying, federal law requires that employment taxes be paid to the government on

time. Failure to do so may subject a business to the assessment of penalties and interest, and collection actions such as filing a Notice of Federal Tax Lien, issuance of a Notice of Levy to its bank or receivables, or seizure of assets. To learn more, go to IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=162382,00.html>. 

## Watch "Tax Talk Today" to Stay Current on IRS News

One of the most exciting products IRS offers is Tax Talk Today. Tax Talk Today is a free, monthly program sponsored by the IRS and broadcast through the Web about current tax issues and policies. The one-hour shows air at 2 p.m. (EDT) on the second Tuesday of each month (except for April and August when the show takes a break) and can be viewed three ways: live Internet broadcast, archive Internet broadcast, or VHS. You can even view archived shows and purchase inexpensive CPE credits.

To learn more, just go to the Tax Talk Today Web site at <http://www.taxtalktoday.tv/> to register and attend or go to IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=161456,00.html>. 



## SOCIAL SECURITY

Social Security has a free Internet filing solution for small businesses. It's called W-2 Online.

1. Go to [www.socialsecurity.gov/bso/bsowelcome.htm](http://www.socialsecurity.gov/bso/bsowelcome.htm)
2. Select "Registration" to get a PIN and password
3. Select "Login"
4. Select "Create W-2s Online"

"W-2 Online Website is a GRANDSLAM!"  
— K.E. Brown, CPA