



ITG News

Keeping First Nations Informed



Publication 4267-G
Catalog Number 37844Q

Western Edition

April 2007

Message From The Director



The Internal Revenue Service and the United South and Eastern Tribes (USET) recently issued a joint press release confirming our commitment to working in partnership to address federal tax administration issues for their 24 member tribes. The occasion of this release was a meeting between Brian Patterson, the new USET President, and Steve Miller, the Commissioner of the Tax Exempt Government Entities Division of the IRS, which includes the office of Indian Tribal Governments (ITG).

I am extremely proud of the relationship that has evolved between USET and ITG. USET has been in the forefront in surfacing concerns, and helping to develop and implement solutions to federal tax administration issues. ITG has been invited to attend every USET meeting during our 7 year existence, and the dialogue that has occurred at those meetings has helped both parties better understand the issues facing Indian country. Although we recognize that we will never agree on every issue, we respect each other's position and commit to a continuing dialogue in the hope that resolution may eventually occur on all issues.

I am often asked by other tribal organizations how we developed such a strong working relationship with USET. There is one simple answer..."they invited us to the table, and we accepted".

I wish that we had a similar relationship with all tribal organizations that share an interest in discussing issues involving federal tax administration or Bank Secrecy Act matters. While we will be continuing our Consultation Listening meetings, those opportunities cannot replace the benefits of an ongoing joint dialogue that can exist through the regular discussions with regional groups.

I want to openly invite all tribal organizations to consider including ITG in your regular meetings where issues concerning federal taxation, economic development, gaming regulation, or similar items may be on the agenda. We are committed to participating in the dialogue, assisting in resolving questions, and ensuring that your concerns are heard. As always, please feel free to contact me at 720-956-4504, or via e-mail at christie.jacobs@irs.gov.

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Christie Jacobs



Consultation Listening Meeting Scheduled for Reno

In accordance with the Consultation procedures utilized by the Internal Revenue Service, ITG holds Consultation Listening meetings on a rotating basis throughout Indian country. The meetings are open to any tribal representatives, and provide an opportunity to surface concerns, ask questions, provide input and suggestions to ITG, and dialogue with other tribal representatives concerning federal tax issues. Our objective is to hold a meeting within each of the 12 BIA regions at least once every three years.

Our next meeting has been scheduled for Reno, Nevada on Tuesday April 24th. The meeting will be held from 9:30am-Noon at:

Courtyard by Marriott
6855 South Virginia Street
Reno, Nevada 89511

In order that we can adequately plan for the meeting, we ask that those wishing to attend register for the meeting through a link on our web site at www.irs.gov/tribes.

We plan to hold two additional meetings during the current fiscal year—one in Minnesota in June, and one in Oklahoma in August. The specific dates, times, and locations for those meetings will be announced on our web site, and via direct mailings to the tribes in those areas.

Beware of Bogus Issuance Requesting Form W-8 BEN

We want to express our appreciation to the tribes who surfaced the recent scam involving a bogus letter soliciting Forms W-8BEN from tribes and tribal members. Thanks to the quick action of those tribes, we were able to issue an alert to all of Indian country, and were also able to mitigate any potential damage that might have occurred by this scheme, which amounts to little more than an attempt at identity theft.

Although the individuals attempting to perpetrate this scam are continuing their efforts, and are making changes to the scheme by changing fax submission numbers or e-mail response addresses, the joint action by tribes and ITG has helped protect the assets of tribal members.

If you are unaware of this scheme, we ask that you be on the lookout for any letter, fax, or e-mail communication that appears to be from the IRS, informing you that you are non-resident aliens and are exempt from federal taxation. The information in the letter, fax, or e-mail is not only incorrect, but the letter itself is bogus.

This letter is not from the Internal Revenue Service, and you should not follow any of the instructions contained within the letter, nor complete or submit the form that is attached to it. The letter is a scam being perpetrated to attempt to secure financial information from unsuspecting individuals. In addition, the attachment to the letter is not a legitimate Form W-8 BEN, as evidenced by numerous typographic errors, including referring to our country as the "United State" of America. The fax number does not belong to the IRS, and all IRS e-mail addresses end in the suffix "@irs.gov", which is not the suffix used in the e-mail address in the letter.

We cannot overemphasize the importance of this matter. Please take all reasonable steps to ensure your tribal members are not victimized by this scam.



Tax Provisions Benefiting Indian Country Extended by Congress

As the recent Congressional session drew to a close, Congress authorized the extensions of the Indian Employment Tax Credit, and the Accelerated Depreciation rules for business property located on Indian reservations. Although these are both income tax benefits for businesses, and thus of minimal direct benefit to tribes, they are important tools that can be used for economic development and job creation for tribal members.

The Indian Employment Tax Credit was originally created under the Omnibus Budget Reconciliation Act of 1993. The provision created a business tax credit for the employer of qualified employees that work and live on or near an Indian reservation. The credit is for wages and health insurance costs paid to qualified employees (up to \$20,000) in the current year over the amount paid in 1993. Wages for which the work opportunity tax credit is available are not qualified wages for the Indian employment tax credit. The Indian employment tax credit had expired on December 31, 2005. However, the recent Congressional action extended the credit for two additional years (through the end of 2007).

Congress also extended the special rules allowing for accelerated depreciation of business property located on Indian reservations. The original law allowed a special depreciation recovery period applies to qualified Indian reservation property placed in service before January 1, 2006. Congress extended the special depreciation for two additional years, meaning that qualified Indian reservation property placed in service before January 1, 2008 will qualify. In general, qualified Indian reservation property is property used predominantly in the active conduct of a trade or business within an Indian reservation, which is not used outside the reservation on a regular basis and was not acquired from a related person.

Many tribes have made extensive use of these tax benefits as marketing tools for economic growth. If you have any questions about these provisions, please feel free to contact your assigned Indian Tribal Governments Specialist.

New ITG Tip Income Coordinator

ITG has a full-time Tip Coordinator to assist you with any questions about tip reporting agreements.

Julie Reese, who has performed this duty for the past few years, has retired from the Internal Revenue Service as of the end of March. We are indebted to Julie for the excellent work she did on behalf of the Service and Tribes. She will be sorely missed, and we all wish her the best in her retirement.

We are pleased to announce that **Suzanne Perry** has been selected as a replacement for Julie, and will continue to assist tribes in this important area. Suzanne has been an ITG Specialist in Arizona for the past 7 years, and brings a wealth of experience in working with tribes, and particularly with the Tip compliance program.

If you are interested in securing a Tip Agreement, have questions concerning your existing agreement, or have received a notice about tip reporting responsibilities that is unclear, please contact Suzanne at (602) 207-8254, or via e-mail at Suzanne.V.Perry@irs.gov.



Mileage Allowance Increase

The Internal Revenue Service has issued the 2007 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business. This is important to employers, such as tribes, since it is the same rate that can be used for reimbursement for employees who incur mileage for their employer, and are under an Accountable Plan.

Beginning January 1, 2007, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) is 48.5 cents per mile. The new rate for business miles compares to a rate of 44.5 cents per mile for 2006. The primary reasons for the higher rate were higher prices for vehicles and fuel during the year ending in October. The standard mileage rate is based on an annual study of the fixed and variable costs of operating an automobile. Runzheimer International, an independent contractor, conducted the study for the IRS. Revenue Procedure 2006-49 contains additional information on these standard mileage rates.

Questions concerning Accountable Plans can be directed to your ITG Specialist.

Telephone Excise Tax Refund for Tribal Governments

The IRS stated in [IR 2006-82](#) and [Notice 2006-50](#) that it would stop collecting the excise tax on long-distance telephone service, and make refunds of tax paid available. Procedures were established to allow refunds within the statute of limitations to all individuals and organizations that had paid the tax. It was initially indicated that exempt organizations (including tribal governments) would request the refund on Form 990-T, making the calculation of the refund on new Form 8913. The Internal Revenue Service has now clarified the procedure for requests for refund of telephone excise taxes by tribal government entities.

Since tribal government entities are exempt from all federal telephone excise taxes for their governmental functions under section 4253(i) and section 7871 of the Internal Revenue Code, their refund requests are not covered by the provisions of Notice 2006-50. Any request for refund of telephone excise tax (whether local or long-distance) should be requested on [Form 8849](#), Claim for Refund of Excise Taxes. Tribal government entities should not use Form 990-T to request a refund of telephone tax.

You may request the refund directly from your telephone service provider. If you want to request the refund from the IRS, use the following procedure:

- Fill out Form 8849 [Schedule 6](#) with the amount to be refunded. Complete a line for each period requesting a refund.

Reporting Abuses/Schemes

We continue to work with tribes and tribal officials to address financial abuses and schemes being promoted in Indian country. Working together can help ensure the integrity of tribal finances, and eliminate the threats posed by individuals with schemes that appear "too good to be true" and often are.



- Annotate the top of Form 8849 in red "Not a Notice 2006-50 Claim". Complete the identifying information at the top, check the box for "Section 6," and sign and date the return.
- Indicate on the form that the request is filed pursuant to IRC section 4253(i). Attach Schedule 6 to Form 8849 and mail to:

Internal Revenue Service
Cincinnati, OH 45999-0002

- Indicate that the telephone service provider erroneously imposed communications excise tax on the tribal government entity.

Note: Disregard the "Caution" on page 2 of the Form 8849 instructions. This does not apply to 4253(i) refunds to tribal and other governmental and exempt organizations.

A tribal government entity may request a refund for Federal excise taxes on long distance service billed after February 28, 2003, and for all local Federal telephone excise taxes billed after December 31, 2003 for essential government services. You should request a refund for the entire period on one form; the return should be filed during calendar year 2007. In addition, there are statutory deadlines applicable to requests for calendar year 2004. The refund requests for the calendar quarters shown below must be filed by the due date shown:

<u>2004 Calendar Year Quarter</u>	<u>Refund Request must be filed by:</u>
<u>January-March, 2004</u>	<u>April 30, 2007</u>
<u>April-June, 2004</u>	<u>July 31, 2007</u>
<u>July-September, 2004</u>	<u>October 31, 2007</u>
<u>October-December, 2004</u>	<u>January 31, 2008</u>

Publication 4268—Employment Tax Guide for Tribes

Our on-line Employment Tax Guide was updated in October 2006. You can download this comprehensive guide from a link on our landing page at www.irs.gov/tribes.

Self-Assess Your Federal Tax Compliance Risks

Tribal entities can now self-assess their federal tax compliance and work with ITG to address any problems they uncover. Entities electing to participate receive a fillable template from ITG, and are provided with the name of a local ITG Specialist who will serve as their resource during the process.

Information on the program, as well as an on-line request form, is available through the "Enhancing Federal Tax Compliance" link on the right-hand of the ITG web site landing page at www.irs.gov/tribes, or you can make a inquiry about the program via e-mail to tege.itg.tefac@irs.gov

Customer Satisfaction Survey Results Published

The Office of Indian Tribal Governments recently completed its fourth annual customer survey, to obtain feedback from our customers that will allow us to measure customer satisfaction with our products and services, and to determine areas where we need to effect operational changes.

We want to thank everyone who participated. We received input from 184 of the 562 federally-recognized Tribes, representing a 33% response rate. This was virtually identical to the prior year survey response rate, but is a major improvement from the initial survey completed in 2003. We are pleased that the overall level of satisfaction rose from 72% to 76%, but there were a number of issues surfaced where we are undertaking actions to address concerns raised in the survey. This includes, but is not limited to:

- Developing specific materials for tribal members and tribal employees that explain tax issues that affect them
- Revising work processes to improve responsiveness to tribal inquiries by ITG staff
- Enhancing ITG News to make it a more effective communication tool

In addition to the overall measures, we also looked at satisfaction by geographic area and by common themes within the survey. The following table shows that analysis, and compares the responses this year with

	Eastern		North Central		Southwest		California/Nevad		Northwest		Alaska	
	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006
Burden/ Delivery of Information												
Satisfied	60%	83%	76%	72%	82%	56%	71%	76%	60%	82%	57%	57%
Neutral	30%	9%	18%	21%	11%	26%	22%	16%	29%	15%	32%	29%
Dissatisfied	10%	8%	6%	7%	7%	18%	7%	8%	11%	3%	12%	14%
Collaborate												
Satisfied	72%	72%	75%	58%	77%	60%	68%	71%	38%	48%	45%	42%
Neutral	22%	20%	19%	36%	21%	25%	26%	20%	54%	40%	41%	43%
Dissatisfied	6%	8%	7%	6%	2%	15%	6%	8%	9%	12%	14%	15%
Recognition												
Satisfied	75%	82%	80%	73%	84%	69%	76%	84%	55%	73%	58%	52%
Neutral	21%	11%	16%	22%	14%	20%	18%	10%	36%	23%	36%	38%
Dissatisfied	4%	8%	3%	5%	2%	11%	6%	5%	9%	4%	6%	10%
Protocol/ Horizontal Equity												
Satisfied	73%	88%	75%	71%	72%	69%	70%	79%	51%	66%	51%	57%
Neutral	25%	6%	25%	25%	22%	25%	29%	17%	46%	26%	43%	36%
Dissatisfied	2%	5%	0%	4%	6%	6%	1%	3%	3%	8%	5%	8%
Accuracy/ Timeliness/ Honesty												
Satisfied	63%	73%	68%	49%	72%	55%	66%	72%	46%	63%	45%	48%
Neutral	28%	21%	27%	40%	28%	28%	30%	24%	52%	31%	49%	40%
Dissatisfied	8%	6%	4%	11%	0%	18%	4%	4%	2%	6%	6%	12%
Overall Satisfaction												
Satisfied	77%	88%	87%	78%	92%	73%	88%	86%	57%	85%	56%	59%
Neutral	19%	4%	13%	22%	8%	15%	12%	8%	29%	8%	39%	33%
Dissatisfied	3%	8%	0%	0%	0%	12%	0%	5%	14%	8%	5%	8%

A more complete report on the survey is posted to our web site at www.irs.gov/tribes. We look forward to input at the ongoing Consultation Listening meetings (see article on page 2) to further assist in determining improvement opportunities.



Filing Corrected Information Returns on Paper Forms

If you filed a Form 1099-Misc. or W-2G with the IRS and later discover that you made an error on it, you must:

- Correct it as soon as possible and file Copy A and Form 1096 with your Internal Revenue Service Center
- Furnish statements to recipients showing the correction. When making a correction, complete all required information.

Note: You do not have to file a corrected return for an incorrect payer Taxpayer Identification Number (TIN) and/or incorrect payer name and address.

The most frequently made errors and the steps to correct are grouped as either an Error Type 1 or 2. So the key to correcting these returns is to determine the Error Type and then follow the required steps.

Error Type 1: Incorrect money amount(s), code, or checkbox, or Incorrect address, or Incorrect payee name, or A return was filed when one should not have been filed.

These errors require only **one** return to make the correction. To correct follow these steps:

A. Form 1099 Misc. or W-2G:

1. Prepare a **new** information return.
2. Enter an "X" in the "CORRECTED" box (and date (optional)) at the top of the form.
3. Correct any recipient information such as money amounts and address. Report other information as per original return.

B. Form 1096:

1. Prepare a new transmittal Form 1096.
2. Provide all requested information on the form as it applies to Part A, 1 and 2.
3. File Form 1096 and Copy A of the Part A return with the appropriate service center.
4. **Do not** include a copy of the original return that was filed incorrectly.

Error Type 2: No payee TIN (Social Security Number (SSN), Employer Identification Number (EIN), or Individual Taxpayer Identification Number (ITIN)), or **Incorrect payee TIN, or Incorrect name and address, or Original return filed using wrong type of return** (for example, a Form 1099-Misc was filed when a Form W-2G should have been filed)

Two separate returns are required to correct these errors. To correct you'll need to follow all instructions for both Steps 1 and 2:



Step 1 - Identify **incorrect** return submitted:

1. Prepare a new information return (Form 1099-Misc. or W-2G).
2. Enter an "X" in the "CORRECTED" box (and date (optional)) at the top of the form.
3. Enter the payer, recipient, and account number information exactly as it appeared on the original incorrect return; however, enter 0 (zero) for all money amounts.

Step 2 - Report **correct** information:

A. Form 1099-Misc. or W-2G:

1. Prepare a new information return.
2. Do **not** enter an "X" in the "CORRECTED" box at the top of the form. Prepare the new return as though it is an original.
3. Include all the correct information on the form including the correct TIN, name, and address.

B. Form 1096:

1. Prepare a new transmittal Form 1096
2. Enter the words "Filed To Correct TIN," "filed to Correct Name and Address," or "File to Correct Return" in the bottom margin of the form.
3. Provide all requested information on the form as it applies to the returns prepared in Steps 1 and 2.
4. File Form 1096 and Copy A of the return with the appropriate service center.
5. Do not include a copy of the original return that was filed incorrectly.

If you need any assistance you can always call your ITG Specialist, or refer to the Instruction booklet titled Instructions for Forms 1099, 1098, 5498, and W-2G.

Form 1042 and 1042-S Refresher

Who Must File Form 1042-S

Every withholding agent (defined below) must file an information return on Form 1042-S to report amounts paid during the preceding calendar year to foreign persons (including persons presumed to be foreign) that are subject to withholding. Amounts subject to withholding are amounts from sources within the United States that include, but are not limited to, the following U.S. source items.

- **Compensation for independent personal services performed in the United States.**
- **Annuities.**
- **Pension distributions and other deferred income.**
- **Most gambling winnings.** However, proceeds from a wager placed in blackjack, baccarat, craps, roulette, or big-6 wheel are not amounts subject to reporting.
- **Students, teachers, and researchers.**
- Amounts paid to foreign students, trainees, teachers, or researchers as scholarship or fellowship income, and compensation for personal services (whether or not exempt from tax under an income tax treaty), must be reported. However, amounts that are exempt from tax under IRC Section 117 are not subject to reporting.



Where, When, and How to File Form 1042-S

Forms 1042-S for 2006, whether filed on paper, electronically, or on magnetic media, must be filed with the Internal Revenue Service by March 15, 2007. You are also required to furnish Form 1042-S to the recipient of the income on or before March 15, 2007.

Send any paper Forms 1042-S with Form 1042-T, Annual Summary and Transmittal of Forms 1042-S, to the Ogden Service Center, P.O. Box 409101, Ogden, UT 84409. You must use Form 1042-T to transmit paper Forms 1042-S.

General Instructions Purpose of Form 1042

Use Form 1042 to report tax withheld on certain income of foreign persons, including nonresident aliens, foreign partnerships, foreign corporations, foreign estates, and foreign trusts.

Who Must File 1042

Every withholding agent or intermediary (see definitions below) who receives, controls, has custody of, disposes of, or pays any fixed or determinable annual or periodical income must file an annual return for the preceding calendar year on Form 1042. You must file Form 1042 if either of the following applies:

1. You are required to file Form(s) 1042-S (whether or not any tax was withheld or was required to be withheld). File Form 1042 even if you file Forms 1042-S electronically or on magnetic media.
2. You pay gross investment income to foreign private foundations that are subject to tax under IRC Section 4948(a).

Nonresident alien individual

Any individual who is not a citizen or resident of the United States is a nonresident alien individual. An alien individual meeting either the "green card test" or the "substantial presence test" for the calendar year is a resident alien. Any person not meeting either test is a nonresident alien individual. Additionally, an alien individual who is a resident of a foreign country under the residence article of an income tax treaty, or an alien individual who is a bona fide resident of Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the U.S. Virgin Islands, or American Samoa, is a nonresident alien individual. See Pub. 519, U.S. Tax Guide for Aliens, for more information on resident and nonresident alien status.

Withholding Agent

Any person required to withhold tax is a withholding agent. A withholding agent may be an individual, trust, estate, partnership, corporation, nominee (under IRC Section 1446), government agency, association, or tax-exempt foundation, whether domestic or foreign.

Intermediary

An intermediary is a person who acts as a custodian, broker, nominee, or otherwise as an agent for another person, regardless of whether that other person is the beneficial owner of the amount paid, a flow-through entity, or another intermediary.

Where and When To File

File Form 1042 for 2006 with the Ogden Service Center, P.O. Box 409101, Ogden, UT 84409, by March 15, 2007. Also send amended returns to this address.

**Extension of time to file**

If you need more time to file Form 1042, you may submit Form 7004, Application for Automatic 6-Month Extension of Time to File Certain Business Income Tax, Information, and Other Returns. Form 7004 does not extend the time for payment of tax.

Interest and Penalties

If you file Form 1042 or 1042-S late, or fail to pay or deposit the tax when due, you may be liable for penalties and interest unless you can show that the failure to file or pay was due to reasonable cause and not willful neglect.

For additional information about these Forms you can contact your ITG Specialist, or download Publication 515 from the IRS website (www.irs.gov). This Publication is also available by calling 1-800-TAX-FORM (1-800-829-3676).



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Telephone, Internet, & Mailing Address

- **Call: Customer Account Services** toll free **877-829-5500**
- **Visit: Indian Tribal Governments** Web site at **www.irs.gov/tribes**
- **Write: Internal Revenue Service**

Indian Tribal Governments SE:T:GE:ITG

1111 Constitution Ave., NW

Washington, DC 20224

Federal Tax Calendar for Second Quarter 2007

April 2007

SUN	MON	TUE	WED	THU	FRI	SAT
1	2	3	4 * make a deposit for 3/28-3/30	5	6 * make a deposit for 3/31-4/3	7
8	9	10 Employees report March tip income to employers if \$20 or more	11 * make a deposit for 4/4-4/6	12	13 * make a deposit for 4/7-4/10	14
15	16	17 ** make a deposit for March if under the monthly deposit rule	18	19 * make a deposit for 4/11-4/13	20 * make a deposit for 4/14-4/17	21
22	23	24	25 * make a deposit for 4/18-4/20	26	27 * make a deposit for 4/21-4/24	28
29	30					

May 2007

SUN	MON	TUE	WED	THU	FRI	SAT
		1	2 * make a deposit for 4/25-4/27	3	4 * make a deposit for 4/28-5/1	5
6	7	8	9 * make a deposit for 5/2-5/4	10 Employees report April tip income to employ- ers if \$20 or more	11 * make a deposit for 5/5-5/8	12
13	14	15 ** make a deposit for April if under the monthly deposit rule	16 * make a deposit for 5/9-5/11	17	18 * make a deposit for 5/12-5/15	19
20	21	22	23 * make a deposit for 5/16-5/18	24	25 * make a deposit for 5/19-5/22	26
27	28	29	30	31 * make a deposit for 5/23-5/25		

*= Make a Payroll Deposit if you are under the semi-weekly deposit rule.

** = Make a Monthly Deposit if you qualify under that rule.

NOTE: Deposits made through EFTPS must be initiated at least one day prior to the due dates listed above in order to

June 2007

SUN	MON	TUE	WED	THU	FRI	SAT
					1 * make a deposit for 5/26-5/29	2
3	4	5	6 * make a deposit for 5/30-6/1	7	8 * make a deposit for 6/2-6/5	9
10	11 Employees report May tip income to employ- ers if \$20 or more	12	13 * make a deposit for 6/6-6/8	14	15 * make a deposit for 6/9-6/12 ** make a deposit for May if under the monthly deposit rule	16
17	18	19	20 * make a deposit for 6/13-6/15	21	22 * make a deposit for 6/16-6/19	23
24	25	26	27 * make a deposit for 6/20-6/22	28	29 * make a deposit for 6/23-6/26	30

*= Make a Payroll Deposit if you are under the semi-weekly deposit rule.

**= Make a Monthly Deposit if you qualify under that rule.

NOTE: Deposits made through EFTPS must be initiated at least one day prior to the due dates listed above in order to be timely.

Return Filing Dates

April 2nd

- > If filing electronically, file all Forms W-2, W-2G, 1099, and Form 8027 for 2006. Otherwise the due date was 2/28.
- > File Form 730 and pay the tax on applicable wagers accepted during February.

April 30th

- > File Form 730 and pay the tax on applicable wagers accepted during March.
- > File Form 941 for the 1st quarter of 2006. If all deposits paid on time and in full, file by May 10th.

May 31st

- > File Form 730 and pay the tax on applicable wagers accepted during April.

July 2nd

- > File Form 730 and pay the tax on applicable wagers accepted during May.