

UAN Year End Update 2009

Internal Revenue Service
Federal State and Local
Governments

Trudee Billo, Revenue Agent
419-522-2359

Military Pay Differential

- Payment made by employer to worker
- Worker called to active duty > 30 days
- Payment represents part or all of the wages the worker would have received if they were still performing services for employer

Military Pay Differential

Heroes Earning Assistance & Relief
Act of 2008

- Effective for all payments after 12/31/2008
- Military Pay Differential is now wages

Military Pay Differential

All payments made after 12/31/2008:

- Subject to federal income tax withholding
- Report payments in Box 1 of W-2
- Not subject to FICA or Medicare
 - Therefore do not enter in Boxes 3 or 5
- Considered compensation for retirement plan purposes

Combat Zone Bonus Pay

Heroes Act of 2008 Section 112

- Bonus payments paid by state/local government
- to active/former military personnel
- for service in combat zone
- Paid on or after June 17, 2008
- Exclude from wages
 - Distinguished from military pay differential



How to Arrive at Taxable Wages

Federal Wages, Tips, and Other Compensation

➤ Gross (taxable fringe benefits included in Gross)

Minus:

- ❖ Federal Tax Exempt Wages (active combat service)
- ❖ Deferred Compensation (457(b), 403(b), 401(a), etc)
- ❖ Cafeteria 125 Benefits (may vary depending on benefit)

Plus:

- ❖ Group Term Life Insurance
- ❖ Third Party Sick Pay
- ❖ Other Compensation (Bonuses, Stipends, Cash Awards, Back Pay)

Equals: Wages, Tips, and Other Compensation

How to Arrive at Taxable Wages Continued

Social Security Wages

➤ **Gross** (Taxable Fringe Benefits included in Gross)

Minus:

- ❖ Social Security Exempt Wages (FICA replacement plan, relieved of unemployment, patients/inmates in institutions, temp emergency personnel, fee based officials, non-resident aliens on certain visas, student FICA exception)
- ❖ Cafeteria 125 Benefits (may vary depending on benefit)

Plus:

- ❖ Group Term Life Insurance
- ❖ Third Party Sick Pay

Equals: Social Security Wages

How to Arrive at Taxable Wages Continued

Medicare Wages

➤ **Gross** (Taxable Fringe Benefits are included)

Minus:

- ❖ Medicare Exempt Wages (same as Social Security and continuous employment exception 3/31/86)
- ❖ Cafeteria 125 Benefits (may vary depending on the benefit)

Plus:

- ❖ Group Term Life Insurance
- ❖ Third Party Sick Pay

Equals: Medicare Wages

How to Arrive at Taxable Wages Continued

• **Federal Wages**

- Quarter to Date amounts—Line 2 of Form 941
- Year to Date amounts—Box 1 of Employee W-2
- Total Year to Date Amounts for Employer—Box 1 of W-3 (this amount should balance to the sum of all 4 quarters Line 2 of F941)

• **Social Security Wages**

- Quarter to Date amounts—Line 5a of Form 941
- Year to Date amounts—Box 3 of Employee W-2
- Total Year to Date Amounts for Employer—Box 3 of Form W-3 (this amount should balance to the sum of all 4 quarters line 5a F941).

• **Medicare Wages**

- Quarter to Date amounts—line 5c of Form 941
- Year to Date amounts—Box 5 of Employee W-2
- Total Year to Date Amounts for Employer—Box 5 of Form W-3 (this amount should balance to the sum of all 4 quarters line 5c F941)

Common Non-Taxable Fringe Benefits

- Employer paid health reimbursements or health insurance (IRC 104, 106)
- Certain Cafeteria Plan Benefits (IRC 125)
- Education Assistance (IRC 127)
- Dependent Care Assistance (IRC 129)
- Certain Benefits under IRC 132
 - (d) Working Condition Fringes
 - (e) De minimis Benefits
 - (f) Qualified Transportation Expenses
 - (g) Qualified Moving Expenses

Common Taxable Fringe Benefits

- Cash (not wages)
- Reimbursements made under a non-accountable plan
- Meals while not away overnight
- Personal use of Employer-provided Vehicle
- Personal use of Employer-provided Cell Phones
- Employer-provided Clothing adaptable to General Wear

Form 944

- For small employers with employment tax liability of \$1,000 per year or less (FITW, SS, and MC)
- Annual Form
- Same deposit rules apply to 944 and 941 filers
- For tax periods beginning January 1, 2010 can opt out for any reason
- Qualified Employers can request to file Form 944 with IRS—Do NOT file 944 until IRS notifies you to do so
- Employers may request to opt out of filing Form 944 by following specific procedures
- If not filing Form 944, must file Forms 941

What Is Reported on Form 941/944?



- Total wages, Social Security wages, Medicare wages
- Number of employees (941 only)
- Federal Income Tax Withheld
- Social Security (employer and employee)
- Medicare (employer and employee)
- Advanced EIC
- Any Federal tax deposits made

Form 941

- Line 2 - Enter amounts on line 2 that would also be included in box 1 of your employees' Forms W-2.
 - include 3rd party sick pay from your insurance carrier if timely notice received
 - Do not include compensation or benefits that are excluded from the EE's wages (457(b) and 125 plans).
 - Fringe benefits need to be included in wages.
- 3 - Total income tax withheld
 - Do not include income tax withheld by a third-party payer of sick pay even if you reported it on Form W-2.
- 7b - Current quarter's sick pay—
 - Enter the adjustment for the employee share of social security and Medicare that were **withheld by the third-party** sick pay payer.
- Note: Adjustments from prior periods are now made on Form 941-X, not in section 7 of form 941
- 12a - Report on this line the COBRA premium assistance payments you made.
 - Only report the premium assistance payments you made for eligible individuals who have **paid** their reduced premiums This amount should be 65% of the total COBRA premiums individuals without regard to the reduction
 - Do not include any amounts *paid to you* by the COBRA eligible individuals

Form 941

- **Line 17: If line 10 is \$2,500 or more, you must deposit** the amount by using EFTPS or at an authorized financial institution with Form 8109.
- The amount shown on line 10 **must** equal:
 - Total liability for quarter shown on Form 941, line 17 or
 - Total liability for the quarter shown on Schedule B (Form 941).
- This is a summary of your *Tax Liability*, not your tax deposits made.
 - See the form 941 instructions for line 17 and Schedule B

Form 944

- Line 1 - Enter amounts on line 2 that would also be included in box 1 of your employees' Forms W-2.
 - Do not include compensation or benefits that are excluded from the EE's wages (457(b) and 125 plans).
 - Fringe benefits need to be included in wages.
- 2 - Total income tax withheld
- 6a - Enter the adjustment for the *employee* share of social security and Medicare that were **withheld by the third-party** sick pay payer.
- Note: Adjustments from prior periods are now made on Form 944-X, not in section 6 of form 944
- 13 - If total taxes are less than \$2,500, check the first box and go to Part 3, line 15
 - If total taxes are more than \$2,500, check the second box and enter your tax *liability* for each month
 - If you are a semi-weekly depositor (total taxes are more than \$50,000) you must complete form 945-A and file it with your form 944
- Your total tax liability for the year (line 13m) must equal your total taxes on line 9.

Where to File?

- Special Filing Address for Federal, State, and local government entities:

- **Form 941:**

- Without a Payment:

- With a Payment:

Department of Treasury Internal Revenue Service Ogden, UT 84201-0006	Internal Revenue Service P.O. Box 105083 Atlanta, GA 30348-5083
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- **Form 944**

- Without a Payment:

- With a Payment:

Department of Treasury Internal Revenue Service Ogden, UT 84201-0044	Internal Revenue Service P.O. Box 105118 Atlanta, GA 30348-5118
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At the end of each tax year, what must you do?

- By 1/31:
 - File Form 941 quarter ending 12/31, or
 - Form 944 year ending 12/31
 - File Form 945, if appropriate (Non-payroll withholding)
 - Furnish W-2's to employees
 - Furnish 1099's to recipients
- By 3/01/2010 (paper) or 3/31 (electronic):
 - File W-2's and W-3 to SSA
 - File 1099's & 1096 to IRS

Form 941 – X

- Stand alone form (do not file with form 941 or 944)
- For errors discovered after 1/1/2009
- Provide more accurate process for making and tracking adjustments
- Replaces Form 941-C

More on Form 941-X

- File by due date of return in quarter error discovered
 - Interest free treatment
- Amounts owed must be paid by time form is filed
 - Can use EFTPS to pay
- Overpayment will be refunded or can be credited to quarterly Form 941

Example – Reporting prior period correction on Form 941-X

- Error discovered on 11/2/2009
- Employer underreported Medicare wages on Form 941 for the 3rd quarter 2009 by \$4,500.
- Employer did not correctly enter employee as being subject to Medicare tax in UAN when hired in September 2009.
- Employer checks the box in Part 1 line 1 of Form 941-X for “Adjusted employment tax return”.

Form W-2 Reminders

- Box 12 Deferrals
 - Codes change—check the W-2 instructions, use most current revision.
 - If only one code, put in Box 12a, even if code is D. Codes do not relate to boxes.
 - Taxable GTLI over \$50,000; 457(b) & 403(b); non-taxable sick pay; excludable moving expenses paid to employee;
- Box 13 Retirement indicator
- Box 14
 - lease value of employer provided auto reported in Box 1, required in Box 14
 - Other amounts MAY be reported (label items reported):
 - 414(h)2 amounts (i.e., Pick ups)—do NOT report in Box 12
 - Union dues; Uniform payments; educational assistance;

W-2/W-3 Review

- Anyone required to file Form W-2 must file form W-3
- File Copy A of forms W-2 and W-3 with Social Security Administration.
 - Make a copy of form W-3 to keep
 - Do NOT staple or tape form W-3 and forms W-2
- Keep Copy D of forms W-2
- Copy 1 to State, City, or Local tax department
- Furnish Copies B, C, and 2 of forms W-2 to Employees

File W-2's On-line

- Visit www.socialsecurity.gov/employer
- Select “Electronically File Your W-2s,” and provide registration information
- You will be able to create and file “fill-in” versions of Forms W-2 with SSA and can print out completed copies of Forms W-2 for distribution to your employees and for your records
- Form W-3 will be created for you based on your Forms W-2

Form W-2
How to sign up to file Online

- www.ssa.gov/employer
- Select Business Services Online
- Select Registration
- One-on-One assistance:
 - 1-800-772-6270
 - Employer Service Liaison Officer
 - Paul Dieterly, 312-575-4244

Payments to be Reported on
Forms 1099-Misc

- **Paid in the course of your trade or business**
 - This includes payments made by Federal, State and Local Governments
- **Payments of \$600 or more for the year for:**
 - Rents
 - Copier, computers, equipment, software, parking, uniforms.
 - Services (including parts and materials)
 - Prizes/Awards
 - Other Income
 - Medical and Health Care Payments

Payments to be Reported on
Forms 1099-Misc

- **Payments of \$600 or more for the year for:**
 - **Non-employee compensation**
 - **Commissions**
 - **Fees**
 - Services (accounting, architects, attorneys, etc)
 - Printing, advertising, catering, electrical/plumbing repair, lawn maintenance, pest control, construction, etc.
 - **Other forms of remuneration for services rendered**
 - Non-cash; use Fair Market Value
 - **Royalties**

Payments to be Reported

- **Regardless of the amount of payment:**
 - Gross Proceeds to an Attorney
 - Payments from which Federal Income Tax was withheld under backup withholding rules
 - Deceased Employee's wages

Instructions for Forms 1099, 1098, 5498, and W-2G, pg. Misc 1, Gen. 16

Exceptions for filing Form 1099-Misc

- Payments to Corporations (other than for Medical or to Attorneys)
- Payments to Tax Exempt Organizations
- Payments made to Other Government Entities
- Payments for Merchandise
- Payments reported on form W-2
- Fees paid to informers about criminal activities
- Payments Reportable on other form 1099 series (R, Div, C, T, etc)

Reportable Payments to Corporations

- **Medical and Health Care Payments**
 - > Reported in Box 6
 - > Payments of \$600 or more
 - > Does not apply if payment made to tax exempt hospital
 - > Payments include:
 - ❖ Medical care (emergency, office, physician, veterinarian, etc.),
 - ❖ Therapy (physical and other)
 - ❖ Opticians/Optometrists
 - ❖ Nursing home care
 - ❖ Dentists
 - ❖ X-rays, laboratory services, drug tests, etc.

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Reportable Payments to Corporations

- Attorney's Fees
 - Reported in Box 7
 - Payments of \$600 or more
- Gross Proceeds paid to Attorneys
 - Report in Box 14
 - Any Amount Paid
 - Do not report in Box 14 if reported in Box 7

- Instructions for Forms 1099, 1098, 5498, and W-2G
pg. MISC-1 thru MISC-6

Different Plans

- Health Savings Accounts
- Health Reimbursement Arrangements
- Flexible Spending Arrangements
- Medical Savings Accounts
 - Archer MSA
 - Medicare Advantage MSA

Health Savings Accounts (HSA)

- Contributions from employer
 - Not taxable to employee
- Contributions by individual:
 - Salary reduction thru 125 or
 - Deductible on Form 1040 (after tax contribution)
- Distributions to pay qualified medical expenses are not taxed
- Set up with trustee
 - financial institution, insurance company

Health Savings Account

Benefits of HSA:

- Claim deduction on 1040 w/Form 8889
- Employer can contribute
- Contributions can roll over from year to year
- Interest earnings are tax free
- Account portable if you change jobs

HSAs and Employer

- Contributions not subject to tax
- Report W in Box 12, Form W-2
- Contributions must be comparable to all comparable participating employees
 - Same amount or % of deductible
 - Type of coverage (self or family)
 - Category of employment (full vs part-time)
- If thru 125 plan, non-discrimination rules apply

Health Reimbursement Arrangements

- Contributions can only be from employer
- Employer contributions are not taxable
- Distributions to pay qualified medical expenses are not taxed
- Employees reimbursed by ER up to maximum amount per year
- Can be offered with other plans
- Unused amounts carryover

Resources

- Publication 969
- www.treas.gov
 - Click on Health Savings Accounts
- HSA questions 1-800-829-4933
- Notice 2004-50, HSA Questions and Answers
- FSLG Newsletter, January 2008 (available at www.irs.gov).

WHAT IS A CAFETERIA PLAN?

- Cafeteria Plans are:
 - employer-sponsored benefit packages that
 - offer employees a choice between
 - taking cash and receiving **qualified benefits**.
- Qualified Benefits can be treated as pre-tax amounts.
- Cash is not treated a pre-tax amount.

WHAT ARE THE REQUIREMENTS?

- The Plan must be:
 - Written
 - Maintained by Employer
 - All participants are Employees
 - Each participant can select benefits
 - Offer at least one taxable and one nontaxable benefit



**QUALIFIED BENEFITS
INCLUDE**

- Accident & Health Ins. (IRC 105 & 106)
- Group Term Life Insurance (IRC 79)
- Dependent Care Assistance (IRC 129)
- Health savings accounts
- Adoption Assistance (IRC 137)

**THESE BENEFITS ARE NOT
QUALIFIED**

- Contributions to Medical Savings Acct.
(IRC 106(b))
- Qualified Scholarships (IRC 117)
- Educational Assistance Programs (127)
- Certain Fringe Benefits (IRC 132)
- Qualified Long-Term Care Insurance
(IRC 7702B)

**ADDITIONAL SOURCES OF
INFORMATION**

- Publication 15
- Publication 15-A
- Publication 15-B
- Rev. Rul. 61-146, 1961-2 C.B. 25
- Regulations 1.125-1(Questions and
Answers regarding Cafeteria Plans)
- See I.R.S website-www.irs.gov

Health Insurance Question

- Employee has health insurance coverage either through a second Employer or through a Spouse
- Government Employer pays Employee cash in lieu of health insurance
- Is this Taxable?

Health Insurance Question

- Maybe
- It Depends on the Situation

Health Insurance Question

- Scenario 1: If Employee receives cash in lieu of Health Insurance out of a Cafeteria 125 plan,
 - ❖ **Taxable to Employee**
- If no Cafeteria 125 Plan, then it depends:
 - Scenario 2: Second Employer/Spouse's Employer provide health insurance post-tax.
Employee does not substantiate to Government Employer amount paid for other insurance.
 - ❖ **Taxable to Employee**
 - Scenario 3: Second Employer/Spouse's Employer provide health insurance post-tax.
Employee substantiates amount paid for insurance and Government Employer reimburses Employee for exact amount Employee pays for insurance.
 - ❖ **Not Taxable to Employee**

Health Insurance Question

- References:
 - 2001 CCA 200206053, Q&A #43
 - Rev. Rule 61-146

Questions??

Wendy Speelman (419) 526-2607
Wendy.E.Speelman@irs.gov
Trudee Billo (419) 522-2359
Trudee.L.Billo@irs.gov
John Darr (419)526-2886
John.L.Darr@irs.gov

Trudee Billo (419) 522-2359

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|-------------|--------------|------------|
| • Adams | ■ Greene | • Pickaway |
| • Brown | ■ Hamilton | • Pike |
| • Butler | ■ Highland | • Preble |
| • Champaign | ■ Jackson | • Richland |
| • Clark | ■ Logan | • Ross |
| • Clermont | ■ Madison | • Scioto |
| • Clinton | ■ Marion | • Shelby |
| • Delaware | ■ Miami | • Union |
| • Fayette | ■ Montgomery | • Vinton |
| | ■ Morrow | • Warren |

Wendy Speelman (419) 526-2607

- Allen
- Ashtabula
- Auglaize
- Crawford
- Cuyahoga
- Darke
- Defiance
- Erie
- Fulton
- Geauga
- Hancock
- Hardin
- Henry
- Huron
- Lake
- Lorain
- Lucas
- Medina
- Mercer
- Ottawa
- Paulding
- Putnam
- Sandusky
- Seneca
- Trumbull
- Van Wert
- Williams
- Wood
- Wyandot

John Darr (419) 526-2886

- Ashland
- Athens
- Belmont
- Carroll
- Columbiana
- Coshocton
- Fairfield
- Franklin
- Gallia
- Guernsey
- Harrison
- Hocking
- Holmes
- Jefferson
- Knox
- Lawrence
- Licking
- Mahoning
- Meigs
- Monroe
- Morgan
- Muskingum
- Noble
- Perry
- Portage
- Stark
- Summit
- Tuscarawas
- Washington
- Wayne

Resources

- Business and Specialty Tax line 1-800-829-4933
- EFTPS hotline 1-800-555-4477
- Employee Plans Taxpayer Assistance 1-877-829-5500
- Form 941 Online filing program (E-help) 1-866-255-0654
- To get IRS Forms 1-800-829-3676
- Copy A, Form W-2 reporting questions, SSA employer reporting service 1-800-772-6270 or employerinfo@socialsecurity.gov
- Information reporting program customer service 1-866-455-7438 or mccirp@irs.gov
- Information reporting web page www.irs.gov/smallbiz

List of Resources

- The semi-annual "Federal, State and Local Governments Newsletter" is available on the IRS Web site at www.irs.gov/govts.
- The *Taxable Fringe Benefit Guide* provides basic information for determining the taxability, withholding, and reporting requirements regarding employee fringe benefits. This resource guide can be found at www.irs.gov/govts, link to [Educational Products](#), then on the [Fringe Benefit Guide](#) (01-09 version is 91 pages)

List of Resources

- e-Help Desk Toll Free Number 866-255-0654
Supports e-file, Electronic Federal Tax Payments System, and future e-Services customers.
Operational hours of the e-Help Desk can be found at www.irs.gov/efile
- Social Security Administration electronic filing of wage reports (Forms W-2/W-3) through SSA's Online Wage Reporting Service (OWRS). Register for Internet filing at www.ssa.gov/employer/ then click on Employer Services Online. You will receive a PIN assigned by SSA. Within two weeks of your registration, you will receive in the mail from SSA, a Password.

List of Resources

- IRS e-News for tax Professionals - Ohio
If you want to subscribe to this mailing list, please send a blank e-mail to <mailto:ohio-subscribe@lists.qai.irs.gov> to subscribe.
- e-Services, including TIN Matching www.irs.gov link to Tax Professionals; scroll to bottom of page and link to e-services-New Products. Must register to access products.

List of Resources

- Questions relating to information returns (forms 1099) contact Martinsburg Computing Center mccirp@irp.gov or call 866-455-7238
- Fire System www.irs.gov/efile or Reporting Program Customer Service at 866-455-7438 or email at mccirp@irs.gov. Electronic submission of information returns (forms 1099) use FIRE system (Filing Information Returns Electronically)
- IRS Government Call Site 1-877-829-5500
- EFTPS www.eftps.gov
