

## Now you may be able to prevent a tip audit. News about the internal IRS memo that helped Rosa's Restaurant prevent a tip audit, and about the new IRS alternative—TRAC.

An internal IRS memo is being circulated through the "underground". If you're as lucky as Pam Hunt was and come across it, you may be able to keep the IRS from your door when they come knocking with a tip audit.

Pam Hunt, the owner of Rosa's Restaurant in Portsmouth, NH, was approached by a special IRS audit team early this spring. (Pam is featured in this issue's User Spotlight on page 7.)

The IRS agent said her employees were not reporting all of their tips. They were working from a Form 8027 filed two years earlier showing 8% cash tips. Since then, Pam had done what she was supposed to—encouraged her employees to report all of their tips. Her most recent Form 8027 had 18% charge tips and 11% cash tips, averaging 14%.

The IRS wanted Pam to sign a Tip Rate Determination Agreement (TRDA) saying she would get her employees to report 13% on average. The IRS arrived at this percentage using the McQuatters Formula (based on a 1993 tax court case) minus a stiff factor, minus the best tip rate, minus the bartender tip rate. Pam pointed out to them that her latest Form 8027 was 14%, higher than the 13% the IRS wanted in the TRDA. But the IRS refused to look at that Form 8027. "That wasn't the year they

were auditing." The fact that Rosa's was already reporting more than the 13% was not a factor.

Pam did not want to sign the agreement. She was threatened with a tip audit for prior years if she refused to sign. And, she was told, the IRS would start immediate audits of all of her current employees if she refused to sign. But if she agreed to sign, the IRS would apply the new percentage only to the previous six months.

What did she do? She thought she had no choice. She got signed agreements from each of her employees and was within **hours** of signing the TRDA with the IRS. Then she heard about an IRS memo suggesting that agents agree to a postponement, **if** the restaurant **requested** one. What could she lose? She got a copy of the memo and showed it to the IRS agent. His response? "Oh...yeah." And the IRS went away.

How can knowledge of an IRS memo help you? Because the memo, from IRS National Director of Specialty

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TRDA & TRAC continued from page 1.

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### **PayMaster Version 7.0**

We're pleased to announce the release of our latest and greatest: *PayMaster* Version 7.0

The September issue of the **BLUE PAGES** will highlight new features and benefits of Version 7.0. Examples: TAB through the Division, Employee, and System screens to move 15 fields at a time; clone an employee (computer record, not real body (sorry)); ALT/G on the interactive screen to gross up a check; **Xtra** users print actual 941 on laser or dot matrix form, as well as liabilities on Schedule B.

Taxes, Marshall Washburn, to IRS Regional Chief Compliance Officers, recommends agreeing to let a taxpayer postpone entering into a Tip Rate Determination Agreement (TRDA) with the IRS **if the taxpayer requests a postponement**. Why is the IRS so agreeable to a postponement? They've been discussing an alternative to the TRDA with a coalition of national food service & hospitality industry associations—maybe the IRS agrees with restaurateurs that the TRDA might be a tad unfair.

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The IRS memo suggests “redirecting efforts towards non-filers of Form 8027 until the question of the proposed alternative contract is resolved.”

All “large” food & beverage establishments are required to file Form 8027 by February 28 of each year. Please see Appendix F (page F-21) in the *PayMaster* manual for a definition of “large”.

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Just recently, the IRS announced the alternative, known as TRAC—Tip Reporting Alternative Commitment. It sounds like a much better deal for restaurants. If you've already signed the TRDA, this alternative is probably not available to you. But if the auditors appear on your doorstep now, ask them about TRAC.

Although TRAC has a number of requirements, they are not as onerous as those of TRDA.

TRAC requires the employer to agree to educate new and current employees, on a continuing basis, about correct tip reporting. It also requires the employer to provide a written record of charge tips to each employee monthly, and to give them the opportunity to correct the records to reflect tip outs and tip sharing.

TRAC does **not** require an employer to get 75% of employees to sign a written agreement to report tips at a specific rate. Employees do not have to sign up for anything.

TRAC limits the IRS to assessing employer FICA on tips based on Form 4137 (FICA on Unreported Tip Income), filed by an employee along with the 1040; or on Form 885-T (Adjustment of FICA on Tip Income Not Reported to Employer), prepared by the IRS after an employee tip examination. The IRS will not go after the employer for FICA on unreported tips unless they have first ruled that the employee has underreported tips.

**Educate yourself about TRAC.** You want to know

specifically what is involved if you sign it, and also what is involved if you don't sign it. During the first year of the program, the IRS will accept all employers who sign up for TRAC except those either currently undergoing an IRS audit or where it is obvious that they will not comply. TRACs will become effective with the next calendar quarter. After that, employers signing up for TRAC will have to wait until the IRS notifies them they have been accepted.

### PayMaster Version 7.0 Availability

Auto Update subscribers will begin to receive their updates shortly. If you're not on Auto Update, call for prices and an order form.

You want to have Version 7.0 installed prior to the end of the year when the W-2 update is available. Your data has to be converted (a simple step you do yourself with a convert program that accompanies your Version 7.0 update), and you have to add a few bits of information to your Division screen. Not complicated, but you may have questions. And, as always, we're much busier at the end of the year and can handle support questions more easily now.

### THE BLUE PAGES

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## Adjustments: how to avoid them (and how to make them when you can't avoid them).

We all make mistakes. Not to worry.  
*PayMaster* makes it easy to fix them.

*PayMaster* makes it simple for you to check your work **before** updating pay files, so you can avoid later corrections. It's much easier to correct something before it's finalized. Follow steps A-D while processing payroll, and you may save yourself some work.

- A. Print your pre-check register before updating the files. It's easier for many people to look at a hard copy instead of the screen. Plus, the pre-check register gives you a Totals Page and a Federal Tax Deposit Report.
- B. Double check the Totals Page. The illustration below highlights the items you want to double check before updating the pay files and printing checks.
- C. Double check the Federal Tax Deposit Report. Turn to page 4 for an illustration of what to check on the Federal Tax Deposit Report.
- D. Double check any other appropriate information.

Continued on page 4.

Adjustments continued from page 3

Another page you want to carefully look at is the Federal Tax Deposit Report above.

If you see something that's wrong and are at the **Make corrections?** prompt, respond **Y** for yes and enter the employee ID code of the first person for whom you want to make a change. Make the change, and press <home> to enter the next employee ID.

Once you've made all the corrections, press <home> till you see **Print pre-check register?** Print it again and double check it.

IMPORTANT: If you <home> or <esc> too far to the main menu, choose RESUME to pick up where you left off. Do not choose CALCULATE. You may end up having to redo all of your work.

If everything on your newly printed pre-check register is OK, respond **N** to **Make corrections?**, and you'll be able to update the files, and then print the checks.

There, that was worth the extra time to double check your work, wasn't it?

## Matters beyond your control

There may be times when you discover corrections to be made **after** you update the files and print the checks. How to handle them?

**Scenario 1:** You've just printed the checks and the manager calls—he forgot to tell you about an employee's raise. You have a couple of choices:

- A. Calculate the amount of the raise (less taxes) and give the employee an advance, which you'll deduct in the next paycheck when you pay him the back pay. This choice is the easier of the two.

You can even have *PayMaster* print the advance check which automatically enters it in the employee's YTD special advance field. Choose CALCULATE/SELECT/STRAIGHT from *PayMaster's* main menu. Enter the employee code at the prompt. Respond **Y** at the **Advance?** prompt. (Please see pp. 3-111 to 3-114 in the *PayMaster* manual for more detail.)

Continued on page 5.

Adjustments continued from page 4.

If you hand-write the check, go into DISPLAY/PAYROLL/YTD for the employee and manually enter the advance in the **advances received** field.

*PayMaster* will automatically deduct as much as possible each pay period until the advance is completely repaid. To deduct only part each pay period, enter the amount in the employee's **advance** field via DISPLAY/EMPLOYEE. *PayMaster* will deduct that amount until the year-to-date advances repaid is equal to year-to-date advances received.

OR

- B. If the employee's paycheck has not yet been distributed, or if you can get it back, you can use *PayMaster* to void the paycheck (from your check register **and** from the pay files) and issue a select check to replace it. Please see the *PayMaster* manual (pp. 3-131 to 3-137) for step-by-step instructions.

Then issue a select check for the correct amount.

Remember that voiding a check from the pay files and/or issuing a select check affects your federal tax deposit. And, if you use *PayMaster* Version 7.0 to transfer to your General Ledger, you'll be pleased to know you can transfer void and/or select checks separately.

**Scenario 2:** The printer messes up the last three checks.

Reprint only the three checks that messed up. (Please see the shaded "Oops" box on page 3-66 of the *PayMaster* manual for instructions.).

Reprinting checks does **not** affect the pay files at all, so there is no need to void them from the pay files.

If you use the check register, check history file (**Xtra** users), or transfer to the GL, you want to void the three mangled checks from the check register **only**, not from the pay files. Do not, REPEAT DO NOT, void them from the pay files. Please see the *PayMaster* manual pp 3-131 to 3-137 for instructions.

**Scenario 3:** An employee loses his check.

- A. Stop payment at the bank. Handwrite a new check. Make a note somewhere that check # ... was replaced by check # ... If you use the check register to reconcile your bank statement (**Xtra** users), mark the original check number when the new check number clears the bank.

OR

- B. Void the check from the pay files and issue a select check. This will put the corrected check number in the check register and check history file.

## Xtra users—*PayMaster* Version 7.0 prints form 941, including Schedule B.

*PayMaster* Version 7.0 will actually print your 941 form, including Schedule B, on laser or dot matrix forms.

Void and select checks will be included on Schedule B **if** you include them in the next payroll's pre-check register.

You can manually enter any void and select check tax liability amounts to the Schedule B screen if you don't want them included along with the next payroll. Just select REPORTS/941/DAILY TAX LIABILITY from *PayMaster*'s menu.

## Tax Law Changes

All changes effective 1/1/95 unless otherwise noted.

### Federal

Federal tax forms can be downloaded from a new IRS bulletin board: 703-321-8020.

### State Child Support

At least 22 states have laws requiring compliance with support orders received directly from out-of-state agencies. Be very careful if you're not in one of these states: If you accept the order and begin withholding wages, you may be open to litigation by the employee whose wages were withheld or by the agency that sent the order if you do not withhold according to the rules of the issuing state. Instead, return any support orders received directly from the out-of-state agency or forward them to the agency in your state. Be sure to check with your accountant.

These are the 22 states we know of so far:

AZ	KS	NM	VA
AR	ME	OK	WA
CO	MN	OR	WI
DE	MT	SC	WY
ID	ND	SD	
IL	NE	TX	

### New Hire Reports

- GA Report requirement extended until 5/1/97. Deadline extended from 5 to 10 days.
- OR Report requirement extended indefinitely.
- WV Employers required to report hiring or rehiring of any employee within 14 days, effective 1/6/95.

### Unemployment

- CA New Quarterly Wage report (Form DE 6), which is also used to report quarterly income tax withholding.
- IL New mag media format for employers with more than 250 employees.
- NC Taxable wage base for 1995 decreases to \$11,300.
- NJ Mag media required for employers with more than 250 employees.

## Wage & Hour Law

- VT Tip credit increases from \$1.91 to \$2.02 per hour, 45% of the minimum wage of \$4.50 per hour.

## Withholding

These states have new withholding tables:			
CA	MD	NJ	RI
CT	MI	NM	SC
ID	MN	NY	UT
ME	NC*	OK	VT
* Retroactive to 1/1/95. New tables to be issued later this year.			

Six states have **Medical Savings Accounts** (MSA's), but federal law does not recognize them. MSA's are contributions which are free of state taxes, come from either employees or employers, and go into a medical savings account. The states and the amount exempt from state withholding are:

- AZ \$2,000 individual; \$4,000 family
- CO Up to \$2,500
- ID Up to \$2,500
- IL Up to \$3,000
- MI Tax credit of 2.2% of deposits instead, with a limit of \$3,000
- WV Up to \$2,000, effective 6/9/95.

## User spotlight

### End-of-quarter

Don't forget to process end-of-quarter at the end of each quarter. This zeroes out quarter-to-date information so you start the new quarter fresh. Then *PayMaster* will be able to print the information needed for next quarter's SUTA, 941, and other reports. Forgot to print your reports before you processed end-of-quarter? You can print "Last Quarter's" reports.

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Q&A will return next issue.

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***“Downloading hours, tips and receipts into PayMaster is wonderful. Payroll takes one hour from start to finish. I scoot through it, where before the bookkeeper used to go home to work on payroll for two days.”***

*Pam Hunt, owner, Rosa’s Restaurant*

Rosa’s Restaurant in Portsmouth, New Hampshire, was established in 1927 and is the oldest restaurant in the area. It was bought by Pam Hunt’s husband, Joe, an airline pilot, in 1981, before they were married. After they were married in 1985, Pam, a former airline stewardess with no restaurant experience, took over the management of Rosa’s.

With her chef and the original restaurant’s cook, Pam is able to offer her customers food for most every taste. Rosa’s specializes in Italian food offering items including their famous chicken parmigiana. Their menu includes seafood, prime rib, vegetarian items such as vegetable lasagne, and pizza. Desserts feature mouth-watering pastries made in Rosa’s own kitchen.

In July of 1994, the bookkeeper at Rosa’s Restaurant left without notice. He had been using DacEasy, which required many manual calculations. Even with the help of a large accounting firm and Rosa’s General Manager Jerry Stellmach and Assistant Manager Gail Summe, it took Pam hundreds of hours and thousands of dollars to get everything together after her bookkeeper left.

Pam made a resolution to never be dependent on anyone else again—she decided to do all of the bookkeeping and payroll herself. From Mike Wolfe of HDS New England, she bought Digital Dining both as her point-of-sale system and her time clock. Mike recommended *PayMaster* from Computer Aid to integrate with Digital Dining so she bought that as well. All of a sudden, Pam’s life was pleasant again.

“Digital Dining makes records easy to maintain. Even when I’m in Florida, all I need is a modem to see what the restaurant is doing. At the end of the evening, the servers’ report shows all charges and tips. It takes off the employee discount for meals and shows exactly how much they owe us. And, it shows all voids. We get figures fast and they are accurate. I sleep well at night, confident that the information is correct.”

“Now I put in schedules, and if employees are early or late, they have to get a manager to clock them in. Punctuality has greatly improved!”

“Downloading hours, tips, and receipts from Digital Dining into *PayMaster* is wonderful. Payroll takes one hour from start to finish. I scoot through it, where before the bookkeeper used to go home to work on payroll for two days! I took great delight in doing my own W-2s. And, I sailed through my worker’s compensation audit.”

**Pam and Joe Hunt, owners of Rosa’s Restaurant**

“I can’t say enough about Computer Aid’s support. Before, whenever I called DacEasy, I was on hold forever, and they talked in computer language, not in plain English. When I called Computer Aid, the staff was never condescending, even when I was a complete computer novice. And, they answered all of my questions.”

Everything was going well until early this year when the IRS moved in on the restaurants in Portsmouth, including Rosa’s Restaurant. Pam’s employees were reporting 18% charge tips and 11% cash tips, averaging 14%. The IRS agent wanted Pam to sign a Tip Rate Determination Agreement (TRDA) saying she would get her employees to report tips averaging 13%. The fact that they were already reporting 14% didn’t matter. If she didn’t sign, the IRS threatened to audit Rosa’s for prior years’ tips, and also to audit the individual employees. But if she signed, the IRS would apply this new percentage back only six months.

Fortunately, just hours before signing, Pam was able to get an IRS internal memo that told field auditors about a possible alternative to the TRDA. The memo suggested, until the alternative is approved, allowing a restaurant to postpone signing the TRDA **if the restaurant requested it**, and also suggested concentrating on non-filers of Form 8027. Pam requested a postponement, and the auditors went away!

Editor’s note: Please see the front page article on the new TRAC.

## ***PayMaster* handles new state quarterly filing requirements:**

*PayMaster* Version 7.0 prints the new CA DE6 for unemployment **and** state income tax withholding right on the form, shown at right.

*PayMaster* also does mag media filing on diskette for CA, IL, and NJ's new requirements.

June 1995

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### **Build your IRS audit defense!**

Easily train your employees to report their tips to the newly enforced IRS requirements.

Save \$100 with our pre-publication price on our new training video: "Tip Reporting to IRS Requirements". Order today for only \$150. Price will be \$250 after August 1. Multiple copy discounts available. To order, or for more information, please call 1-800-327-4AID.



for book

transfer/selects/voids??

Book wrong: regular version of payroll -- can include in next payroll. But when you process end of month, they're gone.

XTRA for easy adjustments.

Digital Dining interface

IRS follow-up

Mailing to Digital Dining dealers: June BP and cover letter. Dual spotlight: Dealer Mike Wolf

July '94 -- report that saved Pam Hunt having to calculate by hand; IRS letter kept IRS from her door. They went away when she showed them the letter.