

Make sure you take your tax credit on excess tips. Tio Leo's of San Diego has a credit of \$29,926.

Last year, Congress passed a law allowing a business income tax credit for food & beverage establishments. This credit is for the employer FICA paid on the tip income in excess of the minimum wage.

The IRS is not making any great effort to notify you that you can take this credit.

How do you take it? For any tax period ending after December 31, 1993, complete IRS Form 8846 shown here, as part of your tax return.

How do you calculate the credit? The IRS estimates it will take you six hours and 13 minutes for record

Continued on page 2.

PayMaster automatically tracks this tax credit and gives you a report.

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Has the IRS come knocking at your door?

Please turn to page 3 to see how you prepare. Use *PayMaster* to track cash and charge tips separately. *PayMaster* will allow you to pay charge tips in the paychecks, so you have an accurate record of them. Then, your payroll charge tips will match exactly your credit card records. This is great to have if you are audited.

Tax credit on excess tips

Continued from page 1.

keeping. Obviously they were not using *PayMaster*. We estimate one minute for recordkeeping. If you're on a calendar fiscal year, that's all the time it will take you to print the report. Choose REPORTS from *PayMaster's* main menu, then OTHER/FICA CREDIT. Couldn't be easier.

To fill out the form, look at TOTAL (tips) on *PayMaster's* report, shown below. Enter that amount on line 1 of Form 8846. Tip credit goes on line 2 (Tips not subject to the credit provisions). Tips in excess of

minimum wage go on Line 3 (Creditable tips). Credit for FICA should match your calculated amount on line 4 of Form 8846 (current year credit). [Note that the instructions tell you to reduce your employer FICA income tax deduction by this amount.]

Not on a calendar year basis? You don't have to go back to each pre-check register and subtract the total tip credit from the total reported tips and then add each payroll's amount together. There is an easier way. Print the report at the end of each calendar year and at the end of your fiscal year. Then do some simple calculations. Example, Flora Enterprises is on a fiscal year ending March 31, 1995. So they can take the credit for the period April 1, 1994, through March 31, 1995. Since *PayMaster* zeroes everything out when you process end-of-year, they print the report three times: after the last payroll in March '94, after the last payroll at the end of '94, and after the last payroll in March '95. Then they subtract the Jan-March '94 figures from the '94 total, and add to that the Jan-March '95 figures.

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.

THE BLUE PAGES

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Computer Aid Corporation
P.O. Box 1074
Vienna, Virginia 22183
703/281-7486
FAX 703/281-3461
Sales: 800/327-4AID

You can run but you cannot hide.

Has the IRS visited your neighborhood yet? Their new enforcement offices are concentrating right now on restaurants in certain areas of the country (NY—60 restaurants, AZ, IL, DC, CA). If they haven't gotten to your neighborhood, don't breathe a sigh of relief yet. They are on their way.

What are they doing? They are, in their belief that tipped employees are not reporting all the tips they make, putting employers on the spot.

How? By approaching companies and "asking" them to sign a Tip Rate Determination Agreement under which the company agrees to get their employees to report a specific percentage (higher than they had been reporting) of receipts as tips, and the IRS agrees not to audit the company for prior years' tips. (Although they make you apply this new percentage back six months.)

How do they decide which companies to approach? Right now, they use Form 8027 to spot discrepancies between *total tips reported* and *total charge tips reported*. If you filed an 8027 with more charge tips than total tips, you're on their list.

What happens if the IRS asks you to sign an agreement and you respectfully decline? You can count on an audit of prior years' tips.

How do they determine how much they think your employees should report? They have a formula. Yes, the IRS uses the McQuatters Formula (based on a 1993 tax court case) to calculate what they think your employees make in cash tips. They calculate tips for both directly and indirectly tipped employees, as a percentage of receipts or as an average per hour.

Whatever can they base their calculations on? They have no way of knowing, right? Wrong. Or at least they say "wrong." They base it on the percentage earned on charge receipts. Well, you may say, "Charge customers usually tip better than cash customers." "True," says the IRS, "maybe 2 percent better." So, if your charge tips run 18% of charge receipts, the IRS says your employees should report cash tips as 16% of cash receipts.

What happens when you sign an agreement with the IRS? What are you agreeing to? You're agreeing to make sure your employees report whatever percentage you and the IRS end up negotiating, and that 75% of your employees participate in this agreement. You are agreeing that you will report to the IRS the names and

social security numbers of employees who are not participating. You are agreeing that you will continue to ensure your employees report this percentage.

What to do if the IRS approaches you?

1. Don't be in a hurry to sign. Ask for extensions. Things may change (see last paragraph below).
2. Consult with your attorney and/or accountant.
3. Don't take what the IRS says as the final word. If your attorney or accountant asks questions, they may get different answers. Employers have negotiated lower percentages.

What can you do even if the IRS does not approach you? Write to your Senators and Representatives.

What should you do while you're waiting for the IRS to approach you?

1. Try to collect realistic data about cash tips.
2. Ditto about tips to indirectly tipped employees.
3. Let your employees know what is going on. Make sure they know the importance of complying with the legal obligation to declare all tips. Keep your employees on your side. Tell them you're in this together and that this is a fact of life.
4. The IRS is no longer going to be satisfied with 8%. Encourage your employees to report all charge tips and to bring the percentage up on cash tips. If they don't, it may be done for them by the IRS.
5. Have a written tip-out policy, written job descriptions, and employee manual.
6. Assess your past exposure.
7. Keep in mind the FICA business tax credit (please see the article on pages 1-2).

And more bad news:

If you have to pay back FICA taxes, those FICA taxes probably cannot be used as part of the FICA business tax credit.

Although the statute of limitations is three years, the IRS is going back to 1983 on the tip audit.

But possible good news:

The IRS is considering replacing this "Tip Rate Determination Agreement" with a "Tip Reporting Alternative Contract." This latter agreement has terms by which the IRS must first prove employee fault in tip under-reporting before the IRS will bill an employer for FICA taxes on unreported tips. Also, it does not require employee participation; nor does it require that employers report tips at certain rates.

Uncollected taxes on tips

With the IRS enforcers spreading throughout the country, your employees will probably be reporting more tips. This means that their non-tip wages may not be enough to cover their taxes—social security, Medicare, federal, state, local, and SDI, or their miscellaneous deductions, such as health insurance. What does this mean? No, you do not have to pay their taxes for them (the IRS isn't that cruel). But, you do have to report uncollected FICA (social security and Medicare) on an employee's W-2. And they must pay it when they file their taxes, and make up any shortfall in federal, state, or local taxes.

Sound like a
paperwork nightmare?
It doesn't have to be.
PayMaster tracks
uncollected taxes for
you. You get an
uncollected tax report
for each employee as
part of the pre-check
register.

The totals page of
the pre-check
register shows
uncollected taxes,
taxes paid
voluntarily, and
taxes paid this
pay period.

Pre-check Register Totals Page

Use this state
amount in the
"Taxes Paid This
Pay Period"
column to make
your state
withholding
payment.

What to do about uncollected taxes? As you process each additional payroll in the current year, *PayMaster* will collect those uncollected taxes from the employee if there is enough in net pay. If your employee consistently makes so much in tips that there is not enough for taxes, your employee can make a voluntary payment to you. You include it in payroll so it's part of your federal tax deposit. Each employee's paycheck stub will show OASDI (social security) and Medicare owed for the current pay period, and year-to-date. You may want to give your employee a copy of their uncollected tax report, so they will know that the federal, state and local taxes were uncollected as well. They can then make voluntary tax payments based on this information.

Steve Server's paycheck stub

Federal Tax Deposit Report

PayMaster gives you a field in which to record these voluntary payments as you're processing payroll. The voluntary payment is then part of that payroll's federal tax deposit . What could be easier?

Notice that the employer pays all employer FICA, even if employees have uncollected FICA that pay period.

Uncollected deductions

How does *PayMaster* decide what to deduct—taxes or miscellaneous deductions—when there is not enough money to go around? If you do not have a cafeteria plan (pre-tax) or 401(k)/deferred compensation plan, *PayMaster* deducts FICA first, then federal taxes, state taxes, local taxes, SDI, garnishment, and miscellaneous deductions such as health insurance, life insurance, advances.

If you have garnishment, answer the **Prioritize or Pro-rate (1/2)?** question with **1** in INIT/DIVISION. This tells *PayMaster* to prioritize (rather than pro-rate) your miscellaneous deductions. *PayMaster* will then deduct them in the order in which they are entered on your Division screen. Garnishments normally should be first. You may want to check with your accountant to determine the correct order.

Does *PayMaster* track uncollected deductions as well as uncollected taxes? As part of the pre-check register, you can print a report showing uncollected deductions. *PayMaster* does not track them from one pay period to the next. That's because you want to collect them immediately, since you will probably pay these amounts out during the same month.

PayMaster does tips right!

PayMaster, developed from the beginning for use by the hospitality industry, does tips right.

Cash and charge tips

To complete the annual Form 8027, you need a record of charge tips. *PayMaster* allows users to record cash and charge tips separately. Either can be included in net pay.

Tip allocation

PayMaster gives users the choice of allocating by:

- ◆ hours or receipts
- ◆ pay period or annually

Tip credit

Patricia Paul, owner of Jimmy Paul's Restaurant in Mt. Pleasant, PA, appreciates *PayMaster's* tip credit calculations. When the state Wage & Hour Law auditor visited, Patricia was asked how she paid overtime for wait staff. She responded "1½ times their hourly rate." The auditor gleefully said "I always get an adjustment—everyone does that incorrectly."

But when they checked *PayMaster*, the auditor saw that it really **was** being done correctly—1½ times minimum wage less tip credit. Patricia happily reported "it was a great disappointment to the auditor."

Deduction of credit card fee before paying tips to employees

PayMaster will calculate and deduct the employee's share of the credit card tip chargeback—the percentage your credit card company charges.

Tax law changes

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

Federal

- Federal withholding tables have changed.
- Effective 10/1/94, Q visa holders are exempt from social security, Medicare, FUTA taxes (same as J visa holders).
- New EIC tables.

If you're requested by the IRS to sign one of their "Tip Rate Determination Agreements" (please see the article on page 3), read this section:

Tips are considered to be paid when the employee gives the employer a written statement of the amount of tips received. However, if the employee does not provide such a statement, or the statement is incomplete, the employer's liability for its portion of FICA taxes arises when a "notice and demand" for the taxes is made to the employer by the IRS.

If you (the employer) get a notice and demand for taxes from the IRS, the adjustment for the FICA taxes due must be made on Form 941 for the quarter in which the notice is received.

You should write 3121 (q) next to the line for adjustments of social security and Medicare taxes (line 9). Attach a copy of the notice and demand and a Form 941c support statement to correct information, which should be marked "3121 (q)" in the top margin.

To compute your liability, use the rates and contribution bases in effect when the tips were actually received by the employee. The employer is not subject to interest on the liability if the adjustment is made in the quarter in which the notice and demand is received. If the employer fails to pay the tax by the due date of the 941 form for that quarter, interest will accrue from the due date of the return.

The employer is also required to deposit the employer FICA taxes attributed to the tips.

State disability

Wage bases:

- CA \$31,767.00 (also rate decreases to 1%).
- HI maximum weekly wage \$593.94; maximum weekly deduction for the employee is \$2.97.
- NJ \$17,600
- NY 0.5% on all wages (enter 999999.99), maximum 60¢ per week.
- PR \$9,000
- RI \$38,000, employee pays 1.1%.

State withholding

- MD New withholding tables. Also, tables no longer incorporate local taxes of less than 50%. The taxes did not change, but you must set up a local tax code to deduct these taxes (or use the MD 50% tables if your local % is close).
- MN New withholding tables.
- NJ New withholding tables.
- OH Changes in local taxes.
- OK New withholding tables.
- RI New withholding tables.
- UT New withholding tables.
- VT New withholding tables.

State unemployment

Wage base increases to:

- DC \$10,000.
 - HI \$25,500
 - KY \$8,000*
 - LA \$8,500*
 - NJ Employers with more than 250 employees must file WR-30 wage information on mag media.
- * Correction of previously published information.

Check your tax tables (INIT/TAX/UNEMP) against the wage bases shown below. We received some changes after we distributed the tax table diskettes.

Current unemployment taxable wage bases					
AL	\$8,000	LA	8,500	OK	10,700
AK	23,900	ME	7,000	OR	19,000
AZ	7,000	MD	8,500	PA	8,000
AR	9,000	MA	10,800	PR	7,000
CA	7,000	MI	9,500	RI	16,800
CO	10,000	MN	15,300	SC	7,000
CT	10,000	MS	7,000	SD	7,000
DE	8,500	MO	8,500	TN	7,000
DC	10,000	MT	15,100	TX	9,000
FL	7,000	NE	7,000	UT	16,200
GA	8,500	NV	16,400	VT	8,000
HI	25,500	NH	8,000	VI	13,900
ID	21,000	NJ	17,200	VA	8,000
IL	9,000	NM	13,100	WA	19,900
IN	7,000	NY	7,000	WV	8,000
IA	14,200	NC	13,500	WI	10,500
KS	8,000	ND	13,400	WY	11,900
KY	8,000	OH	9,000	Fed	7,000

Q & A

Q What does it mean when you say *PayMaster* is multi-state?

A *PayMaster* handles multi-state payroll **if you have:**

- 1. Employees residing in more than one state (for withholding taxes).** *PayMaster* allows up to 20 different state tax tables per company (please call if you need more). Enter your company's state withholding ID on each state's general tax table screen, so it will print on the appropriate W-2s.
- 2. Employees who move from one state to another (for withholding taxes).** Initialize the employee again (with a different employee code number) when he moves to a different state and make the original employee code inactive. *PayMaster* will print a W-2 for the employee for each state in which he resided.
- 3. Employees with SDI who move out of state.** Leave the state code as is on the employee screen, so SDI will be correct. If he moves to a different state that also has SDI, initialize the employee a second time.
- 4. Divisions in more than one state (for employment taxes).** On the division screen, enter your division's state employment number. Enter your division's percentage for employment taxes via INIT/TAX/UNEMPLOYMENT, for the appropriate code number (should be the same state code number as in INIT/DIVISION).
- 5. Employees working in two or more divisions, in two or more states (for employment taxes).** Initialize each employee in each division. You'll get one combined W-2 for the employee (if he resides in only one state). Each state's SUTA report will include the employee.

Q Can *PayMaster* automatically calculate 8% of an employee's cash receipts and record that amount as

cash tips?

A No. You really do not want *PayMaster* to calculate this for your employees. The 8% of receipts is not what employees must report as tips. That's what you, the employer, use as a threshold for allocating tips. What your employees must report as tips is 100% of the tips they receive.

You want to use the amount that your employees report to you, not an amount that you, the employer, calculate. This complies with the law.

Q We pay credit card tips out to the employees in cash each night. 1. Are these considered cash tips or charge tips? 2. If they're charge tips, what do I do if an employee reports charge tips as an amount less than our records show we paid him?

- A**
1. These are charge tips, since they are tips that were charged to a credit card.
 2. Since you, the employer, know exactly how much each employee made in charge tips, you should use that figure. You should also let your employees know you are using the figures from the credit cards.

PayMaster has separate fields for cash tips and for charge tips. Some employers include charge tips in net pay instead of paying them out in cash each night. This way, there is no question about the amount reported. If you are audited, your credit card records are a paper trail and will be looked at. You want to make sure the credit card tip amounts that your employees report and that you report on your annual Form 8027 match what your records show.

User spotlight

"PayMaster has saved us money right from the start. I didn't know about the FICA credit for our income tax

Throughout the BLUE PAGES there are references to payroll tax laws and requirements in effect as of the date specified. These references to the laws and the explanations provided are designed to familiarize the employer with said laws, but are not meant to serve either as a legal or accounting opinion, or as any indication that reference to the Internal Revenue Code or Regulations issued thereunder and appropriate administrative or court rulings interpreting same is unnecessary. All persons using this newsletter should look to and rely upon their respective legal counsel and accountants with respect to these laws and requirements.

return, and my accountant hadn't mentioned it to me. I found out from Computer Aid. To my amazement we have a \$29,926.26 FICA credit."

Angela Balistreri, Office Manager, Tio Leo's

Tio Leo's Mexican Restaurant was started by Angela's parents, Leo and Frances Sciuto, sixteen years ago. Even though they were of Sicilian descent, Leo loved Mexican food. He hired a top-notch chef and started serving great Mexican food at 6333 Mission Gorge Road in San Diego, California. Five years later they were ready to open their second restaurant on Camino Ruiz. But, their chef presented an ultimatum unacceptable to them. What to do?

Joseph, their 18 year old son, saved the day. He had been working in the kitchen every night and weekends, washing dishes and doing odd jobs. As he worked, he had been watching and writing down all of the recipes. Joseph stepped in and began to run the kitchens for both restaurants. His brother, Frank, had a wonderful business mind and started to do the promotions and advertising. Frances taught their daughter, Angela Balistreri, how to do the books. Angela's husband, Sam, is one of the four key managers who help run the two restaurants and a third they opened in 1988 on Napa Street. Tio Leo's Mexican Restaurants truly became a family affair.

Their bookkeeping, except for payroll, had been computerized earlier. Angela, who had gone to school to learn to use computers, was comfortable with it, and took over from her mother.

Payroll was done by their accountant, but that changed in 1987. Angela says, "I was thrown to the wolves when the federal government first required W-2s on magnetic media. My accountant was doing the payroll for our two stores. He said his computer couldn't do magnetic media and he wasn't going to spend the money to upgrade it."

"I was using CharterHouse Accounts Payable and General Ledger and I called about a payroll program. Once I knew *PayMaster* could handle the magnetic media, I ordered it to start doing payroll myself."

"When I first started using *PayMaster*, I knew very little about payroll. But Computer Aid's start-up help was excellent. Donna walked me through the whole thing, even explaining payroll taxes to me. The on-going support is fantastic. I've never had a problem that Computer Aid wasn't able to solve. And they never talk over my head or make me feel inferior. They realize that the average restaurant owner doesn't have time to

be a computer whiz."

"In February 1995, I updated my accounts payable program. While Donna was helping me convert to the new version, she asked if I had gotten a big FICA credit for our income tax return. I didn't know what it was and my accountant hadn't mentioned it to me. So together we ran the report and to my amazement we have a \$29,926.26 credit. My dad will be so pleased!"

Sam and Angela Balistreri, with their children Salvatore, Stephanie, Anthony, and Joseph Thomas

"*PayMaster* has saved us money right from the start. Eight years ago, the accountant was charging us \$150 per restaurant per month to run the payroll. About seven months ago, I checked on the payroll services' prices because I wanted to go on maternity leave. I found out they were charging about \$3 per check, which for half a year would have been double the cost of all support, checks, W-2s and my salary. So I just kept doing payroll, using *PayMaster*, while I took care of my new baby."

"Things are going along so smoothly now, that I'm ready to start using the Accounts Receivable program to track income from our newest venture—burritos and enchiladas in vending machines located in hospitals and other institutions."

Wait no more! *PayMaster's* Novell network version is ready to roll!

Have you been wanting to:

- Process payroll in one division while a colleague is entering new employees in another division?
- Process payroll for one company while four colleagues are processing four other companies?
- Print an actual 941, including Schedule B?

Well, now you can. Order the networked version of *PayMaster* and get all that plus more.

Call 1-800-327-4AID.

PayMaster's network version allows you to:

- Process payrolls for different divisions at the same time.
- Display and print reports while payrolls are running.
- Calculate FUTA and SUTA by department or by job for general ledger or labor costing.
- Have different SUTA codes for employees in the same division (useful for sales people who live and work out of another state).
- Print W-2s by division, or sort by division if printing all of the W-2s.
- Gross up bonus checks from a net amount.
- Duplicate an employee in the same or another division (useful also for "cloning" new employees).
- Display employee or pay screens from any division (password level 1 or 2 only).
- Post only select or void checks to the GL, if you wish.

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PayMaster is networked

Tio Leo's of San Diego has a \$29,926 tax credit.
See inside for how you can get **your** tax credit.