

Supreme Court Rules in Favor of IRS. *PayMaster*TM Can Help You Stay in Compliance for Tip Reporting.

Supreme Court Rules in Favor of IRS

On June 17, 2002, the Supreme Court ruled in a decision that has many in the restaurant and hospitality industry very concerned. In the 6-3 decision, the Internal Revenue Service won the ability to use gratuities on credit card receipts to estimate the overall amount of cash tips servers receive. If the reported cash tip income is less than the charge tip figure, that restaurant may be presented with a tax bill for the unpaid FICA (Social Security and Medicare) on these allegedly unreported tips. The case involved the Fior D'Italia restaurant in San Francisco. There, the IRS had used the estimate to determine the amount of Social Security and Medicare taxes the restaurant owed.

To make matters worse the IRS was granted the authority to go back as far as 1988 to reassess tax bills. Obviously, handing a restaurant a bill for that many years could mean putting that restaurant out of business. Officials for the National Restaurant Association said, "This decision could mean the difference between a restaurant staying in business or closing its doors."

Of course the restaurant industry does not stand to be the only industry hit by the decision. Any business with customarily tipped employees such as the cosmetology and barber industry stand to face the same scrutiny from the IRS as

the policies influenced by the decision are put into effect.

What You Can Do to Protect Yourself

Many argue that these practices put far too much pressure on the restaurant owner to enforce tip reporting rules that the IRS should in fact be responsible for. This pits restaurant owners against their own employees turning them into the "tip police." As those in the tipped industries look for strategy to manage the impact of this decision, we at Computer Aid have put together a three-part plan that will lessen the impact and give you, the employer, the ability to protect yourself from arbitrary tax bills and penalties.



1. If not already doing so, all employers must **assess the tip reporting procedures of their business**. Current *PayMaster* users have the ability to monitor cash and charge tip percentages either on a daily or pay period basis. Using *PayMaster* also gives an employer the ability to allocate tips when the minimum tip threshold percentage is not met. Remember that the IRS expects employees to report all tips, not just 8% or 12% *Continued on page 2*

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Important End-of-Quarter Steps

Be sure to process end of quarter prior to processing the first payroll of October to zero out quarter-to-date pay files for each employee. This is critical since your quarterly reports for the next quarter must be based on the employee's earnings in that quarter only.

Process end of quarter the same way you process end of month (from *PayMaster's* main menu, select PROCESS/END OF MONTH). When you enter the date of the last check distribution, *PayMaster* says whether or not the quarter-to-date file will be cleared based on the month of the last check distribution date you enter. Processing end of quarter also clears out month-to-date and moves current quarter information to the "last quarter" file. Once you process end of quarter, you can always print reports for "last quarter." (should this still be in, because distribution is after Sept 30 ??) **GO**

Supreme Court continued from page 1

as some employees wrongly assume. With a solid tip reporting procedure in place, maintain an archive of pay and tip reporting data in case of audit.

2. If tipping is customary at the establishment, food and drink are served for on-premises consumption, and you employ more than ten employees, **it is mandatory that you file form 8027**, Employer's Annual Information Return of Tip Income and Allocated Tips, with the IRS each February. Of course *PayMaster* will compile a report with all the information necessary to properly file this document. This information provides to the IRS the exact percentages for cash and for charge tips for the year for each of your establishments.

3. **Participate in a Tip Reporting Alternative Commitment** with the IRS. Known as TRAC, these programs encourage proper tip reporting through employer-based education. Employers who participate on a voluntary basis agree to (a) provide tip reporting education to employees, emphasizing that all tipped income must be reported; and (b) set up procedures to make sure all tipped employees report their cash and charge tips to their employer.

During 2000, tax payers in the food and beverage industry expressed an interest in designing their own TRAC program. This resulted in EmTRAC. Only available to employers in the food and beverage industry that have employees who receive both cash and charge tips, EmTRAC retains many of the provisions in the TRAC agreement. Along with the

the employer must establish tip reporting procedures, under which a written or electronic statement is prepared and processed on a regular basis, no less than monthly, reflecting all tips for services attributable to each employee. Under EmTRAC the employer must also maintain archives of tip data for four years from the April 15 following the calendar year to which the records relate. Upon the request of the IRS, all tip data recorded under the program must be available by quarter, per establishment. In return for these provisions the IRS agrees *not to initiate any tip examinations of the employer or an establishment included in the EmTRAC* for any period for which the EmTRAC program is in effect, except in relation to a tip examination of one or more employees or former employees.

The Supreme Court siding with the IRS can have grave consequences, as forecast by so many experts. But, restaurant owners can protect themselves by signing and complying with a TRAC/EmTRAC. *PayMaster* gives the employer the ability to properly record and report all aspects of tip income. This will afford restaurant owners the ability to operate with confidence in the harsh climate created by this Supreme Court decision. **GO**

Special Time Clock Offer Extended to November 30, 2002.



Free software to interface to *PayMaster*[™] — a \$1,250 value!

We have extended the deadline for free interface software when you purchase a Time America or Linx Time Clock From Computer Aid. You'll receive the interface to *PayMaster*[™] free — a \$1,250 value.

If you are still using a mechanical time clock or manually calculating hours from handwritten time sheets, think how much time you can save!

To estimate how much money a time clock can save you, go to our web site www.computeraid-llc.com. Click Products, Time and Attendance, and Savings Calculator. Complete the form, and click Submit to see the amount you can save.

Call us at 703-281-7486 to get more information and/or a price quote on a Time America or Linx time clock. Remember, this offers expires November 30, 2002! **GO**

THE BLUE PAGES

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Computer Aid LLC
501 Church Street, NE
Suite 306
Vienna, VA 22180-4734
703-281-7486
Fax 703-281-3461
www.computeraid-llc.com

Spotlight on Louise O'Connor, Computer Aid, LLC

We've turned the spotlight on ourselves this issue — specifically on Louise O'Connor

If you've spoken on the phone with Louise O'Connor at Computer Aid, you can probably picture her gracious smile. She's a lady who enjoys life and loves people.

Louise has worked at Computer Aid twice, arriving there in a round-about way. After majoring in English and Drama in college, and after living all over the United States as a Navy wife for 30 years, Louise took a job doing Accounts Payable for a bank, and then for a government contractor. In 1996, when the government contractor merged with another company which had its own Accounts Payable people, she was downsized.

By that time, she wanted to work part-time instead of full time, so she registered with a senior citizen placement company. Louise said "They had all these wonderful jobs. They kept telling me about the job at Computer Aid, but my experience was in Accounts Payable and I wasn't sure if I wanted to do Accounts Receivable. I finally agreed to an interview because they said the people at Computer Aid were so nice. They were right! I really liked the people I met and it seemed like they would be pleasant to work with, so I took the job. Everyone there pitched in to help me. At first it was overwhelming – there was so much to learn. But after a while I got the hang of it."

"I handled Accounts Receivable, processed check orders from clients when they needed payroll or

Accounts Payable checks, and answered the phone. It was October when I started, so I also worked on W-2 orders."

"In 1999, I reluctantly left Computer Aid. I was working three days a week, and needed more time to help my mother who was having a lot of medical problems. Over the next year, as my mother got better, I started having a few problems myself, including surgeries

Louise O'Connor

and a car accident. When Computer Aid called me to see if I might be interested in coming back to work, I said I would think about it, which I did – for half an hour! With the way the past year had been, I figured I was safer at Computer Aid. So I started working here again in October 2000. I concentrate on checks and W-2 orders, both of which I love. And I really do enjoy our customers and my friends at Computer Aid!"

"Working two days a week is nice because I have time for my family. I have five children – two daughters and three sons. One lives in Maine and the others live here. I have six grandchildren, ranging in age from 2 to 25. When we all get together — which is often — there are 18 of us. We just had five birthday parties the other day. I babysit for my 2-year-old grandson two days a week and enjoy him so much! I'm very, very proud of my family."

"I plan to retire at the beginning of next

year, after the year-end crunch. Then, I'll just work when help is needed. That way, I'll have more time to do things I used to do – like reading the classics I missed, doing crafts, gardening on my balcony, and going to the theater and concerts.

I am full-blooded Italian and love traveling, especially to Italy. My son is going to take me again next year. We're going to Sardinia, where my father was born, to delve into our roots. I'm looking forward to retirement, but I know I will miss everyone!"

GO

Q & A

Q When I run a select checks for bonuses or vacation, my employees complain that the taxes taken out are too high. *PayMaster* calculates these as if the employee made this amount every pay period. Is there a way to change this?

A Yes. In any interactive screen you can press ALT + W and you will be given the option to change the withholding period of this check. You will see: Use <1> weekly <2> bi-weekly <3> semi-monthly <4> monthly <5> annual tax tables. Enter the tax period you want and *PayMaster* will automatically recalculate the taxes withheld. Another option is to manually calculate a specific percentage, and then change the field for federal/state taxes to that withholding amount.

Q I have select and voids checks and now have to process end of quarter. Are those select and void checks going to be included in my current quarter's reports?

A Select and voids are automatically included in your NEXT payroll, but if it's time for your EOQ or EOM reporting, you might want to include them in the current quarter and month. The trick is to process a ZERO payroll. Calculate batch using ZEROES (so no one gets paid) and continue on through updating the payroll files. Your pre-check register and FTD report will include only the select and voids processed since last payroll. Make an FTD deposit based on this amount. Then generate your quarterly reports, process end-of-quarter, and you're all set for the next quarter.

Q We have three locations (each one is set up as a "division" in *PayMaster*) and one of our employees works in more than one division. What do I do?

A Initialize that employee in each division and — most importantly — with a UNIQUE employee code. Since the SSN is the same, the maximum amounts for OASDI, Medicare, federal and state unemployment will be calculated correctly.

Note however that if the employee works part of each pay period in different divisions, he receives a separate paycheck for each division. His federal and state withholding are calculated for each check separately, as if he were making only that amount on an annual basis. You may want to make adjustments and withhold more taxes in that case. (better wording??)

GO

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 there under 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.

Tax Law Changes

- Federal

- text
- text

- State Unemployment

Text.

- State Wage & Hour Law/
Minimum Wage

- State Withholding
GO

W-2 Season is Fast Approaching!

Don't Wait Until the Last Minute to Order Your W-2 Forms.

For all of us who work with payroll, the falling leaves of Autumn signify not just a change of seasons but the approach to our busiest time of year.

Ordering your W-2 forms now means you'll be able to take advantage of the discount, and you won't have to worry about it at the last minute.

Only forms ordered from Computer Aid are guaranteed to work with *PayMaster*.

Not All W-2 Forms are Alike.

All W-2 forms are required to have the same information. However, the format **can** be different. Printers may offer slightly different versions of the form — the boxes may be a different size, or spaced in a different manner.

When you order your W-2s forms from Computer Aid, you can be assured that they will work with *PayMaster*.

Order your forms today and get a 10% discount if received by October 31, or a 5% discount if received by November 30. And receive the added bonus of having that task out of the way before the busy holiday season starts!

GO

PayMaster 7.28 Scheduled for Year-End Release

Things to look forward to in 7.28!

- 1) 941 Form on PLAIN PAPER!
- 2) Windows printing for LASER Checks! Better change of checks lining up. Customers check styles 4 and 5 don't line up.
- 3) Updates for SUTA: Mag Media for LA, OH, TX. Paper forms for MI, TX, and NC.
- 4) W-2 mag media changes
- 5) Windows employee and check history viewers. Special JAVA viewers developed by Eric & Ted. Download JAVA Virtual Machine from Web. No printing, just finding. Load viewer into computer. Browse to your *PayMaster* data directory and select directory. Displays in alphabetical, social security number or employee code order. Option to display entire company or by division, then active/inactive or all.

The check history will display, for an individual check, the full detail that appeared on the stub.

“AutoUpdate sell”