

The Blue Pages

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President Discusses Tax, Healthcare Issues in State of the Union Address

President Bush called for increased economic growth, reform of immigration laws, and an update of the Social Security system in his January 20th State of the Union Address. He also discussed the recent health savings account bill and other health-care initiatives.

Taxes

"Congress has some unfinished business on the issue of taxes. The tax reductions [Congress] passed are set to expire." Bush said, urging Congress to act to ensure that taxes for individuals and small businesses do not increase. "What Congress has given, the Congress should not take away. For the sake of job growth, the tax cuts you passed should be permanent."

The president also spoke of the need for tax simplification. "Our agenda for jobs and growth must help small business owners and employees with relief from needless federal regulation, and protect them from junk and frivolous lawsuits," he said.

Bush also addressed the idea of creating personal accounts for Social Security taxes. "We should make the Social Security system a source of ownership for the American people," he said. "And we should limit the burden of government on this economy by acting as good stewards of taxpayers' dollars." *

Temporary Worker Program

President Bush mentioned the new temporary worker program in his address, stating that it is designed to "match willing foreign workers with willing employers when no Americans

can be found to fill the job." He said that "this reform will be good for our economy because employers will find needed workers in an honest and orderly system."

Important Tax Information Inside

2004 Fact Finder contains Pension Plan, Social Security, Federal Mileage rates, State Unemployment Insurance rates and limits and more.

See pages 3- 4

Health Savings Accounts

In addition, Bush discussed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, urging Congress to address rapidly rising health care costs. He called on small businesses to "band together and negotiate for lower insurance rates, so they can cover more workers with health insurance." Bush also asked Congress to give lower-income Americans a refundable tax credit that would allow millions to buy their own basic health insurance. **

New Sizes for 2004 W-2 and W-3 Forms

Forms have been reformatted to conform with the size and margins used in the substitute black and white laser Forms W-2 and W-3 in Pub 1141 on the IRS.gov website. This change will allow programmers to write universal code for data entry on both official and laser printed version of the forms.

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PayMaster will be using the new formatted forms. If you subscribe to PayMaster's Autoupdate, this change will be included at the end of the year.

Magnetic Media Filing of W-2s and 1099s

New for 2004, employers that are required to submit W-2, 1099-R, 1099-MISC, and W-2G data to the Department of Revenue may use an electronic file transfer site at www.dor.state.wi.us/eserv/w-2.html. Employers may still submit magnetic media cartridges (IBM 3480/3490 compatible) diskettes, or CD-ROM; however, 9-track magnetic reel tapes will no longer be accepted.

Scanning W-2 forms

Employers should not use carbon or NCR copied W-2 forms because the Department of Revenue uses scanner technology and they do not scan well. DOR prefers the IRS-approved format for W-2s (8.5" X 5.5"), which can be easily imaged by production scanners. Print all information on the form as large as possible within each space using black ink. (Editor's note: Copy A only)

Extra Pay Period in 2004

Those employers that have biweekly payrolls and have 27 pay periods instead of the normal 26 for 2004 and employers who pay weekly, giving them 53 pay periods instead of the normal 52 will be effected. Companies with biweekly or weekly payrolls who have a pay date on Thursday, Jan. 1, or Friday, Jan. 2, this year are being

forced to confront the issue. For most, the decision comes down to two choices: Instead of dividing the annual salary by the normal number of pay periods, 26 or 52, to compute each check, should the employer divide the yearly wage figure by the actual number of pay dates in the year, 27 or 53? Or, should the formula and the checks remain the same, not counting changes dictated by salary adjustments, deductions and other matters unrelated to the number of pay periods?

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All hourly employees must be paid as normal under the law. Workers paid monthly or semimonthly, and those workers paid biweekly but who have no check due on Jan. 1 or Jan. 25, won't be affected by the calendar quirk and will have the usual number of paychecks for the year. No one has solid statistics about how many employers are facing additional pay periods and what decisions they are making. But clearly, many firms are struggling with the issue. The unusual situation stems from the fact that the calendar year doesn't mesh neatly with any multiple of seven-day weeks. Most years, there are 52 weeks plus one day, or 26 biweekly pay periods of 14 days each plus one day. That extra day is usually not a payday, so it often gets overlooked.

This year is a leap year, so there are two "extra" days at issue. There are 53 Thursdays and 53 Fridays—popular days of the week for pay dates—hence the dilemma. There is never a year with fewer than 26 biweekly pay periods or 52 weekly pay periods, so it never comes to a wash over the consecutive years. For example, take a worker with an annual salary of \$52,000. If the worker is paid every 14 days, in most years the employer simply divides the annual salary by 26—the number of pay periods—coming up with a base pay of \$2,000 per pay period. But if a worker is due a first 2004 check on Jan. 2 and a last 2004 check on Dec. 31, that's 27 checks within the calendar year. Should the firm pay 27 times \$2,000, for a total of \$54,000 (not counting deductions)? Wouldn't that be over repaying? That's the conclusion some employers are reaching, and it's their rationale for reducing each of the 27 checks for that year so that the total of the 27 checks would be \$52,000 in this example. **

Georgia: EFT Remittance Change

Effective 4-1-04, employers that have withheld more than \$50,000 in the aggregate for the lookback period, (the 12-month period ending June 30th of the immediately preceding calendar year) are semiweekly payers and must remit taxes via electronic funds transfer (EFT). For paydays occurring on Wednesday, Thursday, or Friday, taxes must be remitted on or before the following Wednesday; and for paydays occurring on Saturday, Sunday, Monday, or Tuesday, taxes must be remitted on or before the following Friday. If the remittance due date is a Federal Reserve bank holiday, the taxes must be remitted on or before the next banking day. Also effective 4-1-04, an employer that withholds more than \$100,000 in taxes for the payday must remit those taxes via EFT by the next banking day after the payday. An employer that triggers the one-day rule immediately becomes a semiweekly payer and is subject to those payment rules for the remainder of the calendar year and the entire following calendar year. *

* Payroll Currently Vol. 12. Issue #4

** SHRMOnline 10/20/03

PENSION PLAN LIMITATIONS

INTERNAL REVENUE SERVICE 2003 2004

Salary Deferral (pretax) Limits

- 401(k) /403(b)/SEP/
501© (18) (D) \$12,000 \$13,000
- SIMPLE PLANS \$ 8,000 \$9,000
- State, local gov't; tax exempts \$12,000 \$13,000
- 401(k) catchup contributions \$2,000 \$3,000
- Other catchup contributions \$1,000 \$1,500

Section 415 Annual Benefits Limits

- Defined benefits plans \$160,000 \$165,000
- Defined contributions plans \$40,000 \$41,000

Compensation Limits

- Qualified Plans \$200,000 \$205,000
- Collectively Bargained \$200,000 \$205,000
- Governmental Plans \$300,000 \$305,000

Highly Compensated Levels

- At anytime 5% owner no limit no limit
- Any employee \$90,000 \$90,000
- One of top paid employees optional optional

Key Employee Levels

- Highly compensated employee \$130,000 \$130,000
- 10 highest paid employees with
largest interest N/A N/A
- 5% owner no limit no limit
- 1% owner \$150,000 \$150,000

SEP Plans

- Mandatory plan participation \$ 450 \$ 450
- Compensation amount \$200,000 \$205,000
- - - collectively bargained \$200,000 \$205,000

ESOP

- Threshold for exception to 5-yr
Distribution requirement \$810,000 \$830,000
- Incremental amount for distribution \$160,000 \$165,000

Control employees

- Private sector board or shareholder-
appointed or elected official \$80,000 \$80,000
- Any employee (private) \$160,000 \$165,000
- Governmental employee \$125,400 \$127,300

SOCIAL SECURITY (OASDI)

& MEDICARE (HI) TAX

Year	Fund	Wage Limit	Rate	Max. Tax
------	------	---------------	------	----------

2003	OASDI	\$87,000	6.20%	\$5,394.00
	Medicare	All wages	1.45%	No limit

2004	OASDI	\$87,900	6.20%	\$5,449.80
	Medicare	All wages	1.45%	No limit

FEDERAL UNEMPLOYMENT TAX

Wage Limit	Rate	Maximum Credit	Deposit Rate
\$7,000	6.2%	5.4%	0.8%

TAX-FREE COMMUTING BENEFITS

Employee Parking	\$195 per month
Transit Passes	\$100 per month
Van Pools	\$100 per month

FEDERAL MILEAGE RATES

	2003	2004
Business mileage	\$0.36	\$0.375
Relocation	\$0.12	\$0.14
Charitable	\$0.14	\$0.14
Medical	\$0.12	\$0.14

FEDERAL MINIMUM WAGE

\$5.15 PER HOUR

LUXURY CAR

**Vehicles not eligible for
Cents Per-Mile Rule ***

If car placed in service in ...	Value cannot exceed ...
------------------------------------	----------------------------

2003 \$15,200

2004 \$14,800

* If the cents-per - mile method cannot be used, the employer must use the annual lease-value method or a general valuation standard to determine the value of an employee's personal use of a company-provided vehicle.

State UI Wage Base		Supplemental Rates	
STATE	2003	2004	2004
AL	\$8,000	\$8,000	5%
AK	\$26,700	\$27,100 *	N/A
AZ	7,000	\$7,000	follows federal rule
AR	\$9,500	\$10,000	7%
CA	\$7,000	\$7,000	6%
CO	\$10,000	\$10,000	4.63%
CT	\$15,000	\$15,000	(1)
DE	\$8,500	\$8,500	(1)
DC	\$9,000	\$9,000	(1)
FL	\$7,000	\$7,000	N/A
GA	\$8,500	\$8,500	2%-6%
HI	\$30,200	\$31,000 *	(1)
ID	\$27,600	\$27,600	7.8%
IL	\$9,000	\$9,800	3%
IN	\$7,000	\$7,000	3.4%
IA	\$19,200	\$\$19,700 *	6%
KS	\$8,000	\$8,000	5%
KY	\$8,000	\$8,000	(1)
LA	\$7,000	\$7,000	follows federal rule
ME	\$12,000	\$12,000	5%
MD	\$8,500	\$8,500	follows federal rule
MA	\$10,800	\$14,000 *	(1)
MI	\$9,000	\$9,000	4%
MN	\$22,000	\$22,000	6.25%
MS	\$7,000	\$7,000	(1)
MO	\$7,500	\$8,000 *	6%
MT	\$19,700	\$20,300 *	6%
NE	\$7,000	\$7,000	5%
NV	\$21,500	\$22,000 *	N/A
NH	\$8,000	\$8,000	N/A
NJ	\$23,900	\$24,300 *	(1)
NM	\$16,600	\$16,800 *	7.7%
NY	\$8,500	\$8,500	9.05%
NC	\$15,900	\$16,200 *	6%
ND	\$18,000	\$18,500*	3.92%
OH	\$9,000	\$9,000	3.5%
OK	\$11,700	\$14,300 *	7%
OR	\$26,000	\$27,000 *	9%
PA	\$8,000	\$8,000	2.8%
RI	\$12,000	\$14,000 *	7%
SC	\$7,000	\$7,000	7%
SD	\$7,000	\$7,000	N/A
TN	\$7,000	\$7,000	N/A
TX	\$9,000	\$9,000	N/A
UT	\$22,500	\$22,700 *	(1)
VT	\$8,000	\$8,000	7.2%
VA	\$8,000	\$8,000	(1)
WA	\$29,700	\$30,200 *	N/A
WV	\$8,000	\$8,000	3% - 6.5%
WI	\$10,500	\$10,500	4.6% - 6.75%
WY	\$14,700	\$15,900 *	N/A

* Increase ** Decrease *** 2004 amount not available (1) Add to regular wages, compute tax on total, and subtract tax withheld from regular wages.

Disability Wage Bases

	2003
California	\$56,916
Hawaii	Employee's weekly wage
New Jersey	\$23,900
New York	Employee's weekly wage
Puerto Rico	\$9,000
Rhode Island	\$45,300

	2004
California	\$68,829
Hawaii	Employee's weekly wage
New Jersey	\$24,300
New York	Employee's weekly wage
Puerto Rico	\$9,000
Rhode Island	\$46,800



Informational Aids

Internal Revenue Service	
General Info	1-800-829-1040
Forms	1-800-829-3676
Information Reporting	
Hotline	1-304-263-8700
EFTPS	
Customer Service	1-800-555-4477
	1-800-945-8400
Bulletin Boards (BBS)	
Forms and Pubs.	1-703-321-8020
Info. Reporting	1-304-263-2749
	(use with personal computer)
Internet Homepage	http://www.irs.gov
Social Security Administration	
General Info	1-800-772-1213
Annual Wage	
Reporting BBS	1-410-465-1133
	(use with personal computer)
Internet Homepage	http://www.ssa.gov

Q & A

Q Does *Paymaster* run on Windows 2000/XP?

A Yes.

There are two changes to be made in order for *PayMaster* to run properly on these 2 operating systems.

1) You must add two lines to a file called config.nt .

This file is usually found in your WINNT\system32 folder but it might be easier to find it by using the search feature off the start menu. Once located, right click and open with notepad. Add these two lines at the end of this file.

```
files=100
```

```
buffers=100
```

2) Once *PayMaster* is running it is often difficult to get it to run full screen properly. First start *Paymaster* in a window and then right click on the top bar to the left and select Properties. Select the Font tab and change the default font to Lucida Console 20 pt. Next select the Layout tab and make sure both the screen buffer and windows size both read 80 for width and 25 for height. Then from the Options Tab select Full Screen. Click OK. You will then be prompted and select the second option “ Modify the shortcut that started this window.”

Q What is tip credit and how is it calculated?

A Employees such as waitresses or bartenders typically earn tips in addition to their wage. In such cases, the employer might be able to reduce the minimum wage to \$2.13. The **TIP CREDIT** can be used to reduce the minimum wage only if the employee regularly earns more than \$30 per month in tips. So, actual tips received plus the cash wage must equal the required minimum wage.

EXAMPLE:

Federal Minimum Wage =Tip Credit + Minimum Cash Wage
\$5.15 per hour = \$3.02 per hour + \$2.13 per hour

Q How does *PayMaster* calculate overtime for tipped employees? Why isn't it 1½ times their hourly rate?

A The overtime rate for tipped employees is not, as many people think, 1½ times their hourly rate. Instead, it's 1½ times the minimum wage, less the dollar amount of the hourly tip credit. This amount varies by state and can be different for each employee (some are paid at a higher rate). No need for you to worry about the calculation —

PayMaster does it for you as long as you have correctly entered your state and federal minimum wage and your state's tip credit percentage in INIT / DIVISION / DIVISION and in INIT / COMPANY / COMPANY.

Example: A server in Virginia, where the tip credit percentage allows a tipped pay rate of \$2.125 has a tip credit of \$3.025. Overtime is calculated by *PayMaster* as \$4.70:

Minimum Wage	\$5.15
Times 1½	<u>x 1.5</u>
Equals	\$7.725
Minus tip credit	<u>- 3.025</u>
Equals overtime rate	\$4.70

For a server in the same state earning \$2.75/hour, the overtime rate would be \$5.325 — \$7.725 minus that server's tip credit of \$2.40.

Q What does the term SUTA stand for?

A The term SUTA is generally used to refer to the state unemployment insurance system and state unemployment taxes. It is commonly heard these days when discussing SUTA dumping — a way for employers to manipulate experience ratings so that they pay lower state unemployment insurance taxes than they should based on their benefit experience (see Payroll Guide Newsletter ¶ 14.5 7/11/2003). Contrary to popular belief, the letters in SUTA do not stand for State Unemployment Tax Act. There is no State Unemployment Tax Act. It is referred to as SUTA simply because the acronym for the Federal Unemployment Tax Act is FUTA.

PENNSYLVANIA

In March 2003, Gov. Edward Rendell proposed a "Plan for a New Pennsylvania" to raise \$2.8 billion for reductions in local property taxes and increased spending on education. As part of his plan, the state income tax rate would have increased to 3.75% a 34% increase. On September 16, 2003, the Pennsylvania House of Representatives rejected the governor's tax plan by a vote of 199 to 0. The governor then indicated to lawmakers that he would be willing to accept a smaller tax increase. After negotiations, the governor signed a compromise state budget on December 23, 2003.

Effective January 1, 2004, the state income tax rate increased to 3.07% from 2.8%, a 9.6% increase.

Garnishment. Effective 12-23-03, the Department of Revenue is authorized to collect unpaid state taxes by garnishing wages. No more than 10% of the wages may be collected at one time. An employer (or other entity) that fails to withhold and remit the taxes must pay the amount owed plus a penalty.

MICHIGAN

Michigan rate remains 4% until July 1. On December 10, 2003, the Michigan Senate approved legislation to delay a scheduled reduction of 0.1% in the income tax rate from January 1 to July 1, 2004. However, the Michigan House of Representatives rejected the legislation on December 16, 2003, by a vote of 61 to 45. Two days later, Gov. Jennifer Franholm and House Speaker Rick Johnson reached an agreement and the legislation sent back to the House. On December 29, 2003, Gov. Granholm approved the budget-balancing agreement.

Since the scheduled decrease in the rate to 3.9% has been delayed until July 1, 2004, employers should continue to use the 2003 wage-bracket and percentage method withholding tables until that time. The supplemental wage tax rate remains 4% until July 1, 2004. Effective July 1, 2004 it will decrease to 3.9%. *

* PayState Update Vol. 6 , Issue 1

See New Tax
Rate Changes
For 2004