

Social Security Administration

Internal Revenue Service

Inside this Issue...

"e-Connecting" Employers and States with eTerm!

Page 2

FastTrack Settlement Program Available Nationwide; Time-Saving Option Helps Small Businesses Under Audit

Page 2

E-Verify Adds Email Notifications - A Benefit for Employers and Employees

Page 2

American Payroll Association's Preparing for Year-End and Into 2014

Page 3

IRA 2013 Year - End Reminders

Page 4

Common Errors on Form W-2 Codes for Retirement Plans

Page 5

Notifying the IRS when there is a Change of Responsible Party

Page 6

IRS Wants Your Help to Reduce Taxpayer Burden

Page 6

IRS News is Just a Click Away

Page 6

EITC and Employers

Page 6

Reporter

Winter 2013

A Newsletter for Employers

Small Business Health Care Tax Credit and Estimator

If you are a small business or tax exempt organization, you may be eligible for a Small Business Health Care Tax Credit. The Taxpayer Advocate Service developed an Estimator to help you find out whether you're eligible and estimate how much you might receive.

Who is Eligible for the Credit?

The tax credit is designed to help you provide health insurance coverage to your employees. You're an eligible employer for the tax year if:

- In general, you paid at least half the cost of premiums for single coverage for your employees.
- You had fewer than 25 full-time equivalent employees for the tax year.
- You paid average annual wages for the tax year of less than \$50,000.00 per FTE.

For tax years 2014 and later, you must pay your share of your employees' premiums based on a qualified plan offered through the Small Business Health Options Program Marketplace. Also, for tax years beginning in 2014, the credit is available to you as an eligible employer for two consecutive years.

Because this is a credit against your income tax, it could mean money in your pocket!

What is the Estimator?


The Estimator is an online tool to help you determine your eligibility for the credit and to help estimate it. It is primarily for employers that pay a portion of their employees' health insur-

ance premiums and are unsure if they qualify. The tool automates many of the steps needed to estimate whether a small business qualifies for the credit, and helps determine certain items, including:

- The number of FTEs;
- The average annual wages based on the FTEs;
- If the employer's insurance plans potentially meet the qualifying arrangement requirement;
- The credit phase-out if the employer has more than 10 FTEs;
- The credit phase-out if more than \$25,000 average annual wages was paid; and
- The approximate amount of the credit.

To use the estimator, you'll need certain information, including:

- Total hours your employees worked
- Total wages you paid to employees
- The costs of health insurance you paid on behalf of your employees

TAS placed the Estimator and complete instructions on its Tax Toolkit at taxpayeradvocate.irs.gov/ where small businesses and tax professionals can access it easily. You can also find the Estimator on IRS.gov, sba.gov, and the [Kaiser Permanente site](http://KaiserPermanente.org). You can get more information on the SBHCTC at the [Small Business Health Care Tax Credit for Small Employers](http://SmallBusinessHealthCareTaxCreditforSmallEmployers) page on IRS.gov. 

“e-Connecting” Employers and States with eTerm!

Employers that implement the federal Office of Child Support Enforcement’s (OCSE) electronic Income Withholding Order (e-IWO) process get their child support Income Withholding for Support orders (IWO) electronically from 31 states. This spring, they will also be able to electronically notify the other 23 states and territories about terminations using the existing e-IWO process.

All employers will also be able to notify states electronically about terminated employees using an

application on OCSE’s portal called eTerm. OCSE worked with employers and states to develop eTerm, which will allow employers to provide termination information using an online application on the portal either by entering them one by one or in batch through file uploads. After employers provide eTerms, OCSE generates an e-mail to the state child support agency letting them know that there is termination information available on the portal. States can view and download the eTerms, update their systems, and

take the necessary next action in a timely manner. No paper!

eTerm goes live in May 2014, so look forward to more information early next year!!

We encourage employers to participate in e-IWO. Currently 31 states, representing 75 percent of the national child support caseload, use the e-IWO system. There is NO cost to employers for participating in e-IWO.

For more information, contact Robyn Large at

robyn.large@acf.hhs.gov. 

Fast Track Settlement Program Available Nationwide; Time-Saving Option Helps Small Businesses Under Audit

The [Fast Track Settlement](#) program is designed to help small businesses and self-employed individuals who are under examination by the [Small Business/Self Employed Division](#) of the IRS.

Jointly administered by SB/SE and the IRS [Appeals](#) office, FTS uses alternative dispute resolution tech-

niques to help taxpayers save time and avoid a formal administrative appeal or lengthy litigation. As a result, audit issues can usually be resolved within 60 days, rather than months or years. Plus, taxpayers choosing this option lose none of their rights because they still have the right to appeal even if the FTS process is unsuccessful.

For more information on taking advantage of the Fast Track Settlement program, please view the short [FTS video](#). Additional background is available on the IRS.gov [Alternative Dispute Resolution](#) Web page.



E-Verify Adds Email Notifications - A Benefit for Employers and Employees

[E-Verify](#), the free online service that allows employers to verify the employment eligibility of their new hires, now uses email to concurrently notify the employee of important information concerning their E-Verify case results. E-Verify’s email notifications benefit employees and employers alike by improving transparency, ensuring timely notification to the employee of a record mismatch, and encouraging timely resolution. E-Verify respects the privacy of both employers and employees. As such, the emails do not contain personal information.

Since 1986, employers have been required to complete the Form I-9, [Employment Eligibility Verification Form](#), for every new hire. In early 2013, U.S. Citizenship and Immigration Services published a revised Form I-9 that features new fields, including an optional field for the employee’s email address. Following this improvement, E-Verify added a new email address field and now offers employee notification emails.

One Field, Four Email Opportunities

There are now four possible [emails](#) an employee may receive.

1. [Notification](#) from E-Verify of a Tentative Nonconfirmation. A tentative nonconfirmation (TNC) occurs if the information an employer entered in E-Verify from an employee’s Form I-9 did not match Department

of Homeland Security (DHS) or Social Security Administration (SSA) records. A [TNC](#) case result does not necessarily mean that an employee is not authorized to work in the United States.

2. An [email](#) confirming that an employee has decided to contest the TNC and that the employer referred the case to DHS or SSA. This email also states the date by which the employee must contact DHS or SSA to begin to resolve the TNC.
3. An additional [email](#) will be sent if the employee decided to contest the TNC but has not contacted DHS or SSA within four days of the date that the case was referred.
4. This email is not related to a TNC. When E-Verify confirms employment eligibility for a naturalized citizen according to DHS records, but also finds that records with SSA have not been updated since the employee naturalized, the email will advise the employee to visit an SSA field office to update the record.

Email Doesn’t Replace Employer Responsibilities


On the Form I-9, the [email](#) address field is optional. However, employers who use E-Verify must now enter the email address if the employee chooses to include it on [Form I-9](#). This enables E-Verify to communicate directly with employees via email.

Moreover, these enhancements do not change an employer’s responsibility to adhere to E-Verify’s rules and respect employees’ rights. Employers still have the responsibility to notify the employee of a TNC and follow the [TNC](#) process.

Streamlined TNC Process

E-Verify recently simplified its [TNC](#) process by streamlining the documentation process. The TNC process involves two documents:

1. The [Further Action Notice](#) appears when an employee receives a TNC, explains the reason for the TNC and the employee’s right to contest it. The Further Action Notice replaced the former Tentative Nonconfirmation Notice and Referral Letter by condensing the content of two lengthy documents into one plain language notice.
2. The one-page [Referral Date Confirmation](#) appears after the employee decides to contest the TNC and the employer has referred the case. It gives the date by which the employee must visit SSA or contact DHS to begin resolving the TNC.

In addition, E-Verify users may notice fewer screens to click through, resulting in clearer process and decreased processing time. [E-Verify](#) is now used by about half a million employers at 1.4 million hiring sites. Learn more about enhancements to [E-Verify](#) and how to enroll at www.dhs.gov/E-Verify. 

American Payroll Association's Preparing for Year-End and Into 2014

Determining full-time employee status to meet health insurance reporting requirements, FUTA credit reduction states, and fringe benefit taxation's impact on W-2 and 941 reporting – all of these will dramatically affect your payroll in the coming months.

Are you prepared for these changes and what is required for a successful year end? The American Payroll Association offers the following proven checklist to help you complete a penalty-free year-end processing. Many of the items contained in this checklist come from our most popular seminar, *Preparing for Year-End and 2014*, which can also be viewed as a webinar.

To view this time saving and educational information, visit [Preparing for Year-End and 2014](#) and register today. If you are involved in payroll processing for the government, public sector, or Canadian payroll, the APA also has you covered by offering year-end courses for these topics. Visit [Government/Public Sector Year-End and 2014](#) and [Canadian Payrolls Preparing for Year-End and 2014](#) to learn more.

The following checklist provides a broad overview of common year-end topics for payroll administrators. In addition to this checklist, each state has separate regulations affecting payroll and should also be consulted.

In December

- Remind employees to review all information (i.e., name, address) on their pay stub to verify that it is correct. This will help reduce returned Forms W-2.
- Before issuing an employee's original W-2, inform employees if you intend to charge a fee for a replacement Form W-2.
- Remind employees to review the marital status and number of withholding allowances claimed on Form W-4 and to make changes if needed, (i.e., employee gets married, including same-sex marriages, employee gets divorced, or employee needs to change number of dependents).
- Remind employees who anticipate liability for the additional Medicare tax that they may ask the employer to withhold an additional amount of income tax by adjusting their Form W-4.
- Remind employees claiming "exempt" from withholding to submit a new Form W-4 in time for

the processing of paychecks dated after February 18, 2014, if the employee wants to continue to claim "exempt" and is qualified to do so.

- Notify employees who have no income tax withheld that they may be able to claim a refund because of the Earned Income Tax Credit (EITC).
- Collect benefit and payroll adjustment information and post to employees' payroll, including relocation assistance, educational assistance, group-term life insurance, third-party sick pay, company cars, off-cycle checks, and void checks.
- Remind employees of the \$2,500 salary reduction limit for health FSA contributions for plan years beginning in 2014.
- Remind employees if your health FSA has a grace period for early 2014 claims or a carryover provision for up to \$500 of 2014 medical expense claims.
- Schedule any special bonus payrolls for the current year.
- Order Forms W-2 and Forms 1099-MISC from the IRS [here](#) for all employees and independent contractors who have worked for your company this year, as well as some extra to allow for any mistakes. Also consider preparing, printing, and filing your Forms W-2 online at [SSA's Business Services Online](#). Remember that electronic filing is required if you have 250 or more Forms W-2 to file.
- Verify your employees' names and Social Security Numbers (SSNs) at SSA's [Social Security Number Verification Service](#).
- Check to see if Congress renewed any tax provisions. If Congress does not act by December 31:
 - o The excludable amount for qualified transportation fringe benefits will increase to \$250 per month for parking benefits and decrease to \$130 per month for mass transit benefits (i.e., transit passes and vanpools).
 - o The Work Opportunity Tax Credit for hiring certain employees, such as a qualified veteran, will expire.

In December and January

- Obtain new forms, withholding tables, and publications from IRS.
- Review the Social Security wage base (\$117,000 for 2014), deferred compensation limits, mileage rate (56.5 cents per mile for 2013), and state unemployment wage bases [here](#).

- Notify employees of applicable changes and any actions they must take.
- Verify the employer's state unemployment insurance tax rate and taxable wage limit for each state where the employer has workers.
- Compute uncollected Social Security and Medicare taxes for retirees and former employees.
- Calculate the cost of employer-provided health coverage, if required, and verify it will appear on Form W-2 in Box 12 using Code DD.
- Large employers (at least 50 full-time employees) should consider voluntarily collecting and reporting information for 2014 that will need to be reported under Code Section 6056 for 2015.

In January

- Reconcile W-2 and W-3 totals against Forms 941 for 2013.
- Run a report to verify W-2 information before printing the forms for each employee.
- Verify that you have a SSN for each employee.
- Review employees' Forms W-2 who have wages higher than the Social Security wage base (\$113,700 for 2013), who have benefits that must be reported in box 10 or box 12, or who have statuses that must be checked in box 13.
- Purchase postage for mailing Forms W-2 and 1099-MISC if they are not provided electronically.
- If your company offers any pre-tax deductions, prepare a notice for delivery to employees that explains the calculations of the numbers in boxes 1, 3, and 5 on Form W-2.

By January 31

- Deliver or mail Forms W-2, Wage and Tax Statement, to all 2013 employees and Forms 1099-MISC to all 2013 independent contractors.
- File Form 941, Employer's Quarterly Federal Tax Return, Form 943, Employer's Annual Federal Tax Return for Agricultural Employees, or Form 944, Employer's Annual Federal Tax Return, and Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return.
- The normal deadline for filing Forms 940, 941, 943, and 944 is January 31. If all taxes have been deposited when due, the deadline for filing is extended to February 10.

(continued page 4)

(continued from page 3)

February 18

- For any employee who claimed “exempt” from withholding in 2013, but has not submitted an exempt 2014 W-4, begin withholding based on the most recent, valid, non-exempt W-4 from that employee. If you do not have one, withhold based

on a marital status of “single” and zero withholding allowances.

By February 28

- File paper Forms W-2 (Copy A) and W-3 with the Social Security Administration by February 28, 2014. If you file electronically, the deadline for submitting these forms is extended to March 31, 2014.

Editor’s Note: The American Payroll Association’s strong partnership with the IRS and SSA allows it to prepare its classes and publications, such as *The Payroll Source*®, with the most accurate and up-to-date information to educate employers. More APA information is available at www.americanpayroll.org.

APA

IRA 2013 Year - End Reminders

IRAs are a great way to save for retirement. Here are some reminders for 2013.

Contributions

■ Limits

Review the 2013 [IRA contribution and deduction limits](#) to ensure you’re taking full advantage of the opportunity to save for retirement. You can contribute up to \$5,500 or your taxable compensation, if less (\$6,500 if you are age 50 or older by the end of 2013) to a [traditional or Roth IRA](#).

However, you may not be able to [deduct](#) your traditional IRA contributions if you or your spouse is covered by a [retirement plan at work](#) and your income is above a certain level. If you file a joint return, you and your spouse can each make IRA contributions even if only one of you has taxable compensation. You have until April 15, 2014, to make an IRA contribution for 2013.

■ Excess contributions

If you’ve exceeded the 2013 IRA contribution limit, you should withdraw the excess contributions from your account by the due date of your 2013 tax return (including extensions). Otherwise, you must pay a 6% tax each year on the excess amounts remaining in your account.

Tax credit

You may be able to take a [retirement savings contribution tax credit](#) (saver’s credit) of up to \$1,000 (\$2,000 if filing jointly) for your contributions to either a traditional or Roth IRA. The amount of the credit you can get is based on the contributions you make and your credit rate. Your credit rate can be as low as 10% or as high as 50%. Your credit rate depends on your income and your filing status. See [Form 8880](#) to determine your credit rate.

Required minimum distributions

If you’re 70½ or older, you must take a required minimum distribution from your traditional IRA by December 31, 2013 (April 1, 2014, if you turned 70½ in 2013). You can calculate the amount of your RMD by using the [RMD worksheets](#). You must calculate the RMD separately for each of your traditional IRAs, but can withdraw the total amount from any one or more of them. You face a 50% excise tax if you don’t take your RMD on time. If you own only Roth IRAs, you don’t have to worry about RMDs because you aren’t required to take RMDs from Roth IRAs held in your name.

Charitable donations

You can exclude from gross income up to \$100,000 of a 2013 qualified charitable distribution, which is:

1. a distribution paid directly from your IRA (not an ongoing SEP or SIMPLE IRA),
2. to a qualified charity,
3. after you’re 70½, and
4. by December 31, 2013.

You can use a qualified charitable distribution to satisfy the RMD for your IRA for the year. However, you can’t deduct this amount as a charitable contribution on your tax return.

Additional resources

- [FAQs: IRAs](#)
- [FAQs: Required Minimum Distributions](#)
- [Publication 590, Individual Retirement Arrangements \(IRAs\)](#)
- [Publication 4703, Retirement Savings Contributions](#)

Credit 

Form 8955-SSA...

Does your retirement plan have participants who have separated from service and have deferred vested benefits? List them on Form 8955-SSA ([Resources](#)).



SSA/IRS Reporter is published quarterly, Spring (March), Summer (June), Fall (Sept.), and Winter (Dec.) by the IRS Small Business/Self-Employed Communications Office.

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Common Errors on Form W-2 Codes for Retirement Plans

You must ensure that the information on [Form W-2](#), Wage and Tax Statement, and [Form W-3](#), Transmittal of Wage & Tax Statements, you issue to your employees contains correct retirement plan information because:

- employees need accurate information to determine the correct deductions and credits on their tax return, and
- IRS agents use the information from these forms to determine whether employers are complying

with income and employment tax reporting requirements.

Common mistakes

During Form 5500 examinations and [EPCU projects](#), IRS agents found employers using incorrect codes in Box 12 of Form W-2, for example:

- code D for 401(k) elective deferrals incorrectly included 403(b), 457, or non-qualified amounts.
- code E for 403(b) contributions but did not have a 403(b) plan.

- code H to incorrectly report health benefits; code H is for elective deferrals to a 501(c)(18)(D) tax-exempt organization plan. (In fact, a recent Employee Plan Compliance Unit project found that only 6 % of employers who used this code actually contributed to a 501(c)(18) plan.)

- code S for a SIMPLE 401(k); the correct code for a SIMPLE 401(k) is code D.

See the [Instructions for Forms W-2 and W-3](#) for a complete list of codes.

Common codes used for Box 12

Letter code:	Used for:	Description:
D	401(k) contributions	Elective deferrals to a 401(k) cash or deferred arrangement, including SIMPLE 401(k)s
E	403(b) contributions	Elective deferrals made under a 403(b) salary reduction agreement
F	408(k)(6) contributions	Elective deferrals made under a SARSEP
G	457(b) contributions	Elective and nonelective deferrals made to a 457(b) deferred compensation plan
H	501(c)(18)(D) contributions	Elective deferrals to a Section 501(c)(18)(D) tax-exempt organization plan (Included in the "Wages, Tips, Comp." amount in Box 1)
S	408(p) SIMPLE contributions	Deferrals made under a SIMPLE IRA plan
AA	Roth contributions	Designated Roth contributions under a 401(k) plan
BB	Roth contributions	Designated Roth contributions under a 403(b) plan
EE	Roth contributions	Designated Roth contributions under a governmental 457(b) plan (a tax-exempt organization's 457(b) can't have a designated Roth account)

Form W-2, Box 13

The "Retirement plan" indicator in Box 13 shows whether an employee is an active participant in your company's plan. If this box is checked, it lets the recipient know that depending on their filing status and modified adjusted gross income, they may not be entitled to a full deduction for their traditional IRA contributions. You should check the retirement plan box if an employee was an "active participant" for any part of the year in:

- a qualified pension, profit-sharing, or stock-bonus plan under Internal Revenue Code Section 401(a) (including a 401(k) plan).
- an annuity plan under IRC Section 403(a).
- an annuity contract or custodial account under IRC Section 403(b).

- a simplified employee pension (SEP) under IRC Section 408(k).
- a SIMPLE retirement account under IRC Section 408(p).
- a trust described in IRC Section 501(c)(18).
- a plan for federal, state, or local government employees or by an agency or instrumentality thereof (other than a 457(b) plan).

Active participant

Generally, an employee is an active participant if covered by a:

- defined contribution plan (for example, a 401(k) plan) for any tax year and is credited with any contributions or forfeitures, or
- defined benefit plan for any tax year that the employee is eligible to participate.

Don't check the retirement plan box if your company only has non-qualified or 457(b) plans.

Form W-3, Box b

Form W-3, Box b has checkboxes to specify the type of employer filing the form. You should check the appropriate box if you are a:

- non-governmental tax-exempt 501(c) organization;
- state or local government or instrumentality;
- state or local government or instrumentality and have received a determination letter from the IRS indicating that you are also a 501(c)(3) tax-exempt organization; or
- federal government entity or instrumentality.


Otherwise, you should check the "None apply" box.

Only check **one box**. 


Notifying the IRS When There is a Change of Responsible Party

Beginning January 1, 2014, any entity with an Employer Identification Number (EIN) must file Form 8822-B, Change of Address or Responsible Party – Business, to report the latest change to its responsible party. Form 8822-B must be filed within 60 days of the change.

If the change in the identity of your responsible party occurred before 2014, and you have not previously notified the IRS of the change, file Form 8822-B before March 1, 2014, reporting only the most recent change. A responsible party is the individual or entity that controls, manages, or directs the disposition of funds and assets of the entity with the EIN (see the instructions for Form 8822-B). Learn more about Form 8822 -B [here](#).


The purpose of this change is for the IRS to have updated information about who owns and controls an entity with an EIN. This will ensure that the IRS knows who to contact when there is a tax problem and does not contact responsible parties that are no longer affiliated with the entity. 

IRS Wants Your Help to Reduce Taxpayer Burden

Did you know IRS would like your ideas on how to reduce taxpayer burden? Perhaps you have thoughts on how to simplify reporting requirements, streamline IRS procedures or shorten forms – IRS wants to hear them! Use [Form 13285A](#), Reducing Tax Burden on America's Taxpayers for ideas that identify meaningful taxpayer burden reduction opportunities affecting a significant number of taxpayers. More information can be found on the Taxpayer Burden Reduction [website](#). 

IRS News is Just a Click Away

Get IRS news in your inbox by subscribing to free e-newsletters including:

- [e-News for Payroll Professionals](#) for information about federal payroll reporting such as legislative changes, news releases, special announcements and employment tax procedures.
- [e-News for Small Businesses](#) for information of interest to small business owners and self-employed individuals such as important tax dates, reminders and tips, news releases and special announcements. 

EITC and Employers

Are your employees getting the credit they earned?

Many workers may be eligible for The Earned Income Tax Credit.

Employees could be eligible to get more money back from the IRS this year - as much as \$6,000. If you have workers who earn less than \$51,000 from wages, self-employment, or farming in 2013, they may be eligible for the [Earned Income Tax Credit](#) - or EITC.

EITC can be a benefit for working people, their family and community. This year, millions of workers will qualify for the first time as a result of a change in financial, marital or parental status. Several workers may get back even more if your [state](#) also has an EITC.

Eligibility is based on [several factors](#), including the amount of earned and other types of income, or combined income if married and whether your employees have one or more qualifying children. Workers without children may also qualify for the Earned Income Tax Credit.

To receive EITC employees must file and claim the credit. The IRS offers a free online tool, the [EITC Assistant](#), to help individuals calculate an estimate of the amount of the Earned Income Tax Credit they may be entitled to claim. The online EITC Assistant tool is accessible in both [English](#) and [Spanish](#).

The IRS offers several free options for employees to claim EITC, such as FreeFile and the over 14,000 volunteer sites across the country. FreeFile allows workers to prepare and e-file their own tax return. Free help preparing EITC tax returns is also available at many volunteer income tax assistance sites. Employees can locate volunteer sites near them on IRS.gov and selecting the [VITA Locator tool](#) or call the IRS at 1-800-906-9887.

Some employers are required to notify their employees about EITC. Make certain your employees take the credit they're due. Visit the [IRS EITC Info Center for Employers](#) to learn more about employer requirements as well as the latest tools, tips and information on the Earned Income Tax Credit.

Link Information:

- Earned Income Tax Credit – www.irs.gov/eitc
- [EITC Information for Employers](#)
- The online [EITC Assistant](#) calculator
- States and [Local Governments with Earned Income Tax Credit](#) 