



West Valley Chapter

The Scoop

Tax Update

**October/November
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Annual Changes for 2005

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Social Security Wage Base for 2005 has increased to \$90,000.00. The maximum withholding for Social Security tax is \$5580.00.

Pension Plan Limitations for 2005 include: highly compensated employees are defined as earning \$95,000.00; control employees are defined as earning \$85,000.00; and, key employees in a "top heavy plan" as \$135,000.00.

Limitations on exclusions for elective deferrals under 401(k), 408(k), 501(c), salary reducing SEPs, 403(b), 457 all are increased to \$14,000.00 for 2005. 401(k), 403(b), 457 and SEP "Catch-up" contributions increased to \$4,000.00.

Per Diem Reimbursement in "High Cost" Localities has decreased to \$199, down from \$207 in 2004. The 2005 per diem rate for travel to any other locality within the continental US is \$127. The high-low substantiation method rates remain the same at \$46 for high-cost localities and \$36 for any other locality within the continental US.

"Reasonable Cause for Form W-2 Name/Number Mismatches

According to the IRS, an employer's solicitation of the employee's correct Social Security Number on Form W-4 for use on the W-2 is the "most important" factor in determining "reasonable cause" to abate potential filing penalties for name/number mismatches.

IRS officials announced that they would not be pursuing an across-the-board penalty program for W-2 mismatches, and would instead focus on the most "egregious" offenders.

Publication 1586, Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TINs, outlines the employers' responsibilities and the appropriate procedures for addressing mismatches. This publication can be accessed at <http://www.irs.gov/pub/irspdf/p1586.pdf>.

**IRS Merger and
Acquisition using
Schedule D**

The new Form Schedule D (Form 941) will allow employers that are experiencing a merger, acquisition or consolidation to report and resulting tax discrepancies in a more consistent manner so that the IRS can resolve them more efficiently. The new form will apply to all qualifying mergers after December 31, 2004. A draft of the new Schedule D is available at <http://www.irs.gov/pub/irs-dft/d941sd.pdf>.

**SUTA Dumping Bill
Signed by
President**

On August 9, 2004 President Bush signed the SUTA Dumping Bill that will require states to enforce penalties on employers that try to evade their unemployment insurance obligations, as well as expand the access to employer new hire reports for use in the detection and prevention of the overpaying of unemployment benefits.

**IRS changes
addresses for tax
returns and
payments**

The IRS is urging tax professionals to be aware of the address changes that will affect where they send tax returns and payments starting in 2005.

For tax year 2004, the changes will affect returns, with or without payments from Connecticut and Virginia. For Arizona and Utah, only returns with payments will be affected.

Tax professionals should send:

- Returns from **Connecticut** without payments to the IRS in Kansas City, MO.
- Returns from **Connecticut** with payments to the IRS in St Louis, MO.
- Returns from **Virginia** without payments to the IRS in Fresno, CA.
- Returns from **Arizona, Utah** and **Virginia** with payments to the IRS in San Francisco, CA.



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News from other states



Arizona

Arizona has released its new withholding rates for 2005. The lowest percentage for employees remains at 10% but the higher rates have all increased. If an employee does not choose a new rate of withholding, the employer can automatically increase the rate of withholding to the newer, higher rates. The following shows the old vs. the new rates for 2005.

Current Rates	New Rates for 2005
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10%	10%
18.2%	19%
21.3%	23%
23.3%	25%
29.4%	31%
34.4%	37%

New York

New York employers will be the first in 12 years to pay an extra surcharge—or credit reduction—in Federal Unemployment Tax Act (FUTA) contributions. The state is not going to pay off a federal loan used in 2003 to help shore up the state's unemployment trust fund account, and this will trigger federal action to recoup the loan directly from employers through the filing of the 2004 Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return.

This will result in that employers having employees in the state will pay an extra 0.3 percent in FUTA taxes (or an extra \$21 per employee with wages up to the federal \$7,000 wage base) in January 2005 along with any other FUTA tax due for the fourth quarter 2004. Instead of the normal 5.4 percent credit toward the total 6.2 percent federal tax employers get for contributing to state funds, New Yorkers will only be able to credit 5.1 percent of the payments made to that state towards the federal tax.

