



West Valley Chapter

The Scoop

Tax Update

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2005 Facts & Figures

Filing Season Facts and Figures

The 0.2% FUTA surtax remains in effect for 2005. The tax rate still is at 6.2% of covered wages up to \$7,000. Employers may take a maximum 5.4% credit for state unemployment taxes paid, bringing the net FUTA tax rate to 0.8%. The IRS recently increased the accumulated FUTA tax deposit threshold from \$100 to \$500. The \$500 threshold applies to FUTA tax deposits required for taxes reported on Forms 940, 940-EZ, and 940-PR for tax periods beginning after December 31, 2004.

Wage and tax reporting changes

Electronic Federal Tax Payment System (EFTPS). Employers with at least \$200,000 in total federal depository taxes during 2003 are required to use EFTPS for all deposits in 2005. For information about enrolling in EFTPS, call 1-800-555-4477 or 1-800-945-8400 or visit the EFTPS web site at www.eftps.gov. The IRS recommends allowing 10 weeks for the enrollment process to be completed. If you are not required to make deposits using EFTPS, you may continue to make deposits by coupon at an authorized financial institution.

Income Tax Withholding

For 2005, the income tax withholding rates, which were reduced by the Jobs and Growth Tax Relief Reconciliation Act of 2003, are 10%, 15%, 25%, 28%, 33%, and 35%. The withholding rate for supplemental wage payments up to \$1,000,000, such as bonuses and commissions, is 25%. The rate is 35% for supplemental wages over \$1,000,000. The backup withholding rate on payments to independent contractors who haven't provided a correct taxpayer identification number is 28%.

Tax Credits

Both the Work Opportunity Tax Credit (WOTC) and the Welfare-to-Work Tax Credit were extended through December 31, 2005 by the Working Families Tax Relief Act of 2004.

SSA Announces National Rollout of Online SSN Verification Service

The Social Security Administration (SSA) has announced plans to implement its Social Security Number Verification Service (SSNVS) nationally subject to "clearance by the Office of Management and Budget." Under IRS regulations, employers are obligated to provide wage and tax data to SSA using Form W-2, Wage and Tax Statement. As part of this process, the employer must furnish employee names and SSNs. This information must match SSA's records in order for an employee's wage and tax data to be properly posted to his or her Earnings Record.

If incorrect information is provided to SSA, it must be corrected by the employer using Form W-2c, Corrected Wage and Tax Statement, which is a labor-intensive and time-consuming process for both the employer and SSA. To help ensure that employers provide accurate name and SSN information, SSA piloted SSNVS with 100 employers.

This service allows employers to perform advance verification of employee name and SSN information against SSA records. SSA uses the information collected through the SSNVS to verify that employee name and SSN information, provided by employers, matches SSA records. SSA informs the employer only of matches and mismatches of submitted information.

DOL Issues Revised, Updated Child Labor Regulations

The Department of Labor has issued final regulations revising and updating the child labor regulations under the Fair Labor Standards Act in response to recent legislation and other initiatives. The revised regulations are effective February 14, 2005.

- The rules prohibiting 16-17 year olds from working in roofing operations are revised to also prohibit all work on or about roofs.
- The Drive for Teen Employment Act is implemented. The act prohibits minors under 17 from driving automobiles and trucks on public roadways on the job, and establishes the conditions and criteria under which they may drive on public roadways on the job.
- The Compactors and Balers Safety Standards Modernization Act has set conditions under which 16 & 17 year old workers may be permitted to load, but not operate or unload, certain scrap paper balers and paper box compactors, and provides that civil money penalties may be assessed for violations.
- The definitions of the terms "explosives" and "articles containing explosive components" in the prohibition on employment of minors in establishments that manufacture or store explosives are updated.



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News from other states



Pennsylvania

The Governor's Center for Local Government Services has answered frequently asked questions about the imposition and withholding of the Emergency and Municipal Services Tax (EMST) on its Web site at www.inventpa.com. Municipalities and school districts, except for the City of Philadelphia and the Philadelphia School District, are permitted to impose on persons employed within their jurisdictions an EMST of up to \$52 a year beginning on and after 1-1-05. The EMST replaces the occupational privilege tax (OPT). New EMST rates are available on the Department of Community and Economic Development's (DCED) Register at www.inventpa.com/default.aspx?id=49.

The City of Pittsburgh to levy a payroll tax on employers effective for 2005 at a rate of 0.55% of gross payroll. This tax is separate and distinct from the earned income tax that employers deduct from the salary of employees. The tax will be payable quarterly with the first installment due February 28th.

New York

Effective 1-1-05, the minimum wage will increase to \$6 an hour from \$5.15. It will increase again to \$6.75 an hour, effective 1-1-06, and to \$7.15 an hour, effective 1-1-07.

Also effective on 1-1-05, the tip credit that an employer may take for a food service worker receiving tips will increase to \$2.15 an hour from \$1.85. On 1-1-06 it increases to \$2.40 and on 1-1-07 it increases to \$2.55 an hour.

Indiana

Beginning in January 2005, employers may file withholding returns and pay taxes via the Internet using a new program from the Department of Revenue (DOR) called INTax. Online registration begins in January at www.in.gov/dor/intax. The new program will allow employers to view their tax payment histories by their next online transaction and schedule automatic payments from their banking accounts. INTax will eliminate the need for paper withholding tax coupons.