

**Social Security
Administration**

**Internal
Revenue Service**

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Reporter

Spring 2003

**A Newsletter
for Employers**

Tax Changes For Business Taxpayers Fewer Tax Forms for Small Businesses to File

Starting with the 2002 tax year, companies with less than \$250,000 of total receipts and less than \$250,000 in assets no longer have to complete Schedules L, M-1 and M-2 of Form 1120; Parts III and IV of Form 1120-A; and Schedules L and M-1 of Form 1120S.

Small businesses will be able to use recordkeeping based on their checkbook or cash receipts and disbursements journal instead of creating additional records just for tax purposes. The companies must still maintain records detailing assets, liabilities, equity accounts and adjustments used to arrive at taxable income.

Self-Employed Health Insurance Deduction

Self-employed taxpayers generally may deduct 70 percent of their 2002 medical and long-term care insurance payments for themselves and their families as an adjustment to income. They may include the remaining costs with their other medical deductions if they itemize deductions. In 2003, they generally will be able to deduct the full cost of such insurance without itemizing deductions on Schedule A.

Special Depreciation Allowance

Businesses that acquire and begin using new qualified equipment after September 10, 2001, may deduct an additional 30 percent of the depreciable basis in the first year of use. This Special Depreciation Allowance is figured after first reducing the basis by any Section 179 deduction taken. The allowance, in turn, is subtracted from that basis to determine the basis remaining for depreciation. This tax break will be available for property acquired before September 11, 2004 and placed into

Hints for Preventing Resubmission Notices from SSA

Whether you're finishing up your 2002 annual wage report or looking to make your 2003 report even less error prone, you'll want to check for these seven common errors. Statistics show that filtering for these errors may reduce the possibility of receiving resubmission notices by more than 90 percent. These checks apply to original W-2 submissions formatted according to SSA's Magnetic Media Reporting and Electronic Filing (MMREF)-1 standard.

1. To avoid balancing errors:

- Compare this year's RT and optional RU record totals with prior year totals to identify possible errors;
- Disallow negative numbers and non-numeric characters in RW, RO, RT and RU record money fields;
- Check that all employee wage records begin with the letters RW or RO; and
- Ensure that money field totals in RT and optional RU records are re-initialized for every report. *Example: The calculation of RT and RU money fields for Report #2 should not involve Report #1 money amounts.*

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Internal Revenue Service

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Reporter

2003 Tax Calendar and Electronic Marketing Card

The New Tax Calendar is here! The New Tax Calendar is here! Introducing the *2003 Tax Calendar for Small Businesses and Self-Employed* (Publication 1518) and the *Small Business/Self-Employed Electronic Marketing Card* (Publication 4115). And for the first time, both of these products will be available in one convenient package.

The tax calendar is filled with useful information on general business taxes, IRS and SSA customer assistance, electronic filing and paying options, business publications and forms, common tax filing dates and federal legal holidays. Each page highlights a different tax issue relevant to the small business and self-employed community. (A Spanish version of the tax calendar will be available soon.)

Packaged with the calendar is an electronic marketing card containing key dates and information that can be downloaded onto Microsoft Outlook calendars. The bilingual card is an exciting, innovative product the size of a business card that works like a full-sized CD. It contains—in addition to the calendar dates—our mission statement, interactive information on outreach products, IRS *e-file* and *e-pay*, stakeholder groups, contacts and live links to our Web site on www.irs.gov.

To get a copy of these publications, call 800-829-3676 or order online at www.irs.gov/businesses/small/article/0,,id=101169,00.html. 

Small Business Community Web Site on IRS.gov

Still working on your 2002 tax return? We're here to help you! The Small Business Community on IRS.gov (www.irs.gov/smallbiz) has made a number of significant content changes in order to help businesses with filing their taxes this season. Here are just some of the changes we've made in preparation for this tax season:

Where-to-File Addresses—We've added the new filing addresses for this tax year and made them easier to access. Up-to-date Where-to-File addresses for businesses are now available from every page on the site by clicking on the "Where to File" link on the left navigation bar. www.irs.gov/file/content/0,,id=105081,00.html

Allowable Expenses—We've also updated all of the National Standards for Allowable Expenses so that businesses can be sure that they are using the correct standards in claiming expenses. www.irs.gov/individuals/article/0,,id=96543,00.html


Small Business Tax Calendar—We've added the new Small Business Tax Calendar with significant dates and actions necessary to comply with your business tax filing requirements. www.irs.gov/businesses/small/article/0,,id=104682,00.html

Headliners Page—Tax Practitioners will be happy to know that we have created a new page for key messages known as "Headliners." The Headliners page provides access to all of the headliners by either number or title. This new page will make it much easier to find current and past headliners with information on important tax topics. www.irs.gov/businesses/small/article/0,,id=102669,00.html

Tax Practitioner Institute Textbook—We have also included the new *2002 Tax Practitioner Institute* textbook for use in teaching tax topics. www.irs.gov/businesses/small/article/0,,id=105650,00.html

Offers in Compromise—We've included comprehensive information explaining the Offers-in-Compromise program and how to make use of this important option. www.irs.gov/businesses/small/article/0,,id=104593,00.html

International Taxpayer Information—International taxpayers will find that we've increased the amount of information available for their specific tax needs. This will help both overseas taxpayers and foreign taxpayers in this country to meet their unique tax obligations. www.irs.gov/businesses/small/international/index.html

Virtual Small Business Workshop—We are making use of video streaming technology in order to deliver the Small Business Workshop via our Online Classroom on the Web site. This allows the businessperson to take advantage of this helpful workshop, whenever and wherever it is most convenient. www.irs.gov/businesses/small/article/0,,id=97726,00.html 

Reporter

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Comments may be sent to Joel R. Klein, Editor

Address e-mail to: *SSA.IRS.REPORTER@irs.gov
Fax to: 202-283-0075

Send mail to: Internal Revenue Service – SSA/IRS Reporter, Small Business/
Self-Employed Communications, S:COM C3-438, 5000 Ellin Road, Lanham, MD 20706

Hints for Preventing Resubmission Notices from SSA continued from page 1**2. To avoid Medicare-related errors in RW records:**

- Ensure that the sum of *Social Security Wages* and *Social Security Tips* is nonzero if *Social Security Tax* is nonzero;
- Ensure that *Medicare Wages and Tips* is nonzero if *Medicare Tax* is nonzero; and
- If the sum of *Social Security Wages* and *Social Security Tips* is nonzero, ensure that *Medicare Wages and Tips* is greater than or equal to that sum.

3. To avoid errors related to tax year:

- Ensure that the value provided in the RE record *Tax Year* field is a number between 1978 and the most recently completed tax year, not the current calendar year.

Exception: If you are submitting a report for an employer who is going out of business and are intentionally submitting it before the tax year has ended, please label the physical media "Terminating Business— Future Tax Year Report" and do not include reports for other tax years in the same submission.

4. To avoid errors caused by missing or misidentified records:

- Ensure that all records begin with the letters RA, RE, RW, RO, RS, RT, RU or RF;
- Check that submissions contain exactly one RA and one RF record;
- Check that every RE record is followed by one or more RW records;

- Check that every RE record has exactly one corresponding RT record (and, if the report contains any optional RO records, one corresponding RU record); and

- Check that all records are in the proper MMREF-1 order (RA, {RE, [RW, RO (if any), RS (if any)], RT, RU (if any RO)}, RF – where { } and [] denote multiple iterations).

5. To avoid formatting errors:

- If using physical media, execute a "test read" and examine the data read from the media to verify that the media is reliable and that no write errors occurred;
- If using a recycled tape, ensure that no extraneous data is left after the RF record from a previous write; and
- If using tape or cartridge, ensure that the block size is an even multiple of 512 and that the blocking factor does not exceed 45.

6. To avoid errors related to Employer Identification Number (EIN):

- Enter the submitter EIN in the RA record and the employer EIN in the RE record;
- Disallow non-numeric characters in the RE record *Employer/Agent EIN* field;
- Disallow 00, 07, 08, 09, 17, 18, 19, 28, 29, 49, 69, 70, 78, 79 and 89 in positions 1 and 2 of the RE record *Employer/Agent EIN* field; and
- Verify that the EIN entered in the *Employer/Agent EIN* field is the EIN assigned to the

employer (not the agent) unless intentionally reporting under the agent EIN.

7. To avoid errors resulting from incorrect money amounts:

- Spot-check to ensure that RW and RO record money fields are within the expected common-sense range and verify any unusually large or small values;
- Spot-check to ensure that RW record values for *Social Security Wages* and *Social Security Tips* are limited to the correct yearly maximum subject to Federal Insurance Contributions Act (FICA) tax; and
- Spot-check to ensure that RW record values for *Social Security Tax*, *Medicare Tax* and *Federal Income Tax* are at the expected tax rates for the tax year and the taxable wage base.

See MMREF-1 and MMREF-2 for detailed file layouts. The Employer Services Liaison Officer serving your state may be able to help you develop additional strategies for preventing resubmission notices. Liaison Officer contact information is available by selecting *How to Reach Us* on www.ssa.gov/employer. SSA encourages employers and third-party submitters to use the AccuWage and AccuW2C software to verify the format of wage-data files before submitting them. AccuWage is for use with original files, and AccuW2C is for use with correction files. To download AccuWage and AccuW2C, select *Wage Reporting Software* on www.ssa.gov/employer. SSA

EFTPS Users Have Fewer IRS Tax Penalties

According to recent research conducted by the IRS, businesses that pay their taxes using the Electronic Federal Tax Payment System (EFTPS) have significantly fewer IRS penalties assessed.

The study analyzed 68,000 taxpayers and compared the penalties assessed to EFTPS users with the penalties assessed to taxpayers that used a paper check and FTD Coupon to make Form 941 payments. The study showed that non-EFTPS users were 31 times more likely to be assessed a penalty than EFTPS users.

In addition, EFTPS has the very high accuracy rate of 99.9 percent, almost 19 times more accurate than paper coupons.

This study reinforces that EFTPS provides taxpayers with a more accurate tax payment method that can ultimately help them avoid and alleviate penalties.


EFTPS is a service offered free that enables taxpayers and tax professionals to make federal tax payments electronically using EFTPS-OnLine, EFTPS-Phone or EFTPS Batch Provider software for professionals. Both individual and business federal taxes can be paid using EFTPS.

Taxpayers can enroll in EFTPS by visiting the EFTPS-OnLine Web site at www.eftps.gov, or by calling EFTPS Customer Service at 800-555-4477 or 800-945-8400. IRS



New Employment Tax *e-file* System has Arrived

It's here! In January the IRS began accepting electronically filed Forms 940 and 941 through the New Employment Tax *e-file* System. Now, whether you prepare your returns yourself (on your home or business computer) or use a tax professional (payroll service, bookkeeper, CPA, Electronic Return Originator (ERO), or other paid tax preparer), your federal employment and unemployment tax returns may be filed electronically. The new employment tax *e-file* system offers new features with greater flexibility. Additional forms accepted by the new system that were excluded from *e-file* in the past are Forms 940-PR, 941-PR, 941-SS, 941c, Schedule B and Anexo B (Spanish version of Schedule B).

Talk to your tax professional *today* about filing your Forms 940 and 941 electronically. For a list of approved Software Providers and more information about the New Employment Tax *e-file* System, check our Web page at www.irs.gov and click on the *e-file* logo. 

KEY FEATURES AND BENEFITS OF THE NEW EMPLOYMENT TAX *e-file* SYSTEM

It's Fast

- Electronic acknowledgements within 48 hours
 - Processing time is reduced to one week
 - Information is quickly available to IRS Customer Service sites
- #### *It's Convenient*
- Pay tax liability and file the tax return at the same time
 - Tax preparation work is automated with return preparation software that does calculations and highlights needed forms and schedules
 - Allows tax professionals, including Electronic Return Originators (ERO's), to file your business 940 and 941 returns

It's Safe

- Tax information is secure
- Only authorized users have access to the system

It's Paperless

- Personal Identification Number (PIN) is used as the business filer's signature


Update to the 1120/1120S Corporate Tax Return *e-file* Project

The 1120/1120S *e-file* Project that the IRS has been reporting on since 2001, is now known as "Modernized *e-file*" (MeF). MeF utilizes a new architecture for processing returns and will accept and validate tax returns in Extensible Markup Language (XML) format.

The MeF Project has redesigned the *e-file* Reject Codes into an easier to understand format in broad categories like Missing Document or Multiple Documents. An example of these restated business rules can be found on the IRS Web site at www.irs.gov/taxpros/providers/article/0,,id=97626,00.html.

During the past several months, software developers have collaborated with the IRS on several issues including reject conditions, attachments to returns, consolidated returns and Internet filing. It is important to note that the input and feedback received from our external stakeholders is invaluable. The time and energy they have spent, even during their busiest times of the year, is greatly appreciated and we wish to publicly acknowledge them for their efforts and offer our thanks.

There is also a general information Fact Sheet for the MeF programs at www.irs.gov/efile/article/0,,id=103797,00.html.

Further information can be obtained by contacting the project by e-mail at 1120@irs.gov. 

NOTE FROM THE EDITOR

Your feedback can identify the type of information you like and need in this publication. Send your comments to the editor via e-mail at *SSA.IRS.REPORTER@irs.gov, by phone to 303-446-1664 or by fax at 303-446-1764.

The *SSA/IRS Reporter* is available online at www.irs.gov or www.ssa.gov/employer/pub.htm. Do a search for the *SSA/IRS Reporter*.

The Winter 2002 edition reported that electronic filers would not receive Package 941 in the mail therefore would not receive the *SSA/IRS Reporter*. We have made it possible for electronic filers of Form 941 to receive a stand-alone edition in the mail.

We are also pleased to announce the *SSA/IRS Reporter* is now being translated into Spanish for Hispanic business owners and practitioners. The edition will be mailed to Hispanic businesses owners in Puerto Rico in the Package 941PR. Additional copies may be obtained by calling the IRS Distribution Center at 800-829-3676 and asking for Publication 1693(SP), Catalogue Number 35587K or searching on the IRS and SSA Web site for the *SSA/IRS Reporter* and clicking on the Spanish edition.

Tax Changes For Business Taxpayers continued from page 1

service by the end of that year. Taxpayers may choose not to claim this allowance by attaching an appropriate statement to their tax returns.

Section 179 Deduction Higher for Enterprise Zone and Renewal Community Businesses

The maximum Section 179 deduction for these businesses is increased by \$35,000 (to \$59,000) for 2002.

Five-Year Carryback of Net Operating Losses

Taxpayers with net operating losses (NOLs) for tax years ending in 2001 or 2002 will generally carry them back five years, rather than two (three, for certain casualty, theft and disaster-related losses). However, they may choose to use the two- or three-year period instead, or to carry the entire NOL forward for up to 20 years. Taxpayers waiving the five-year rule must do so by their filing deadline (including extensions).

Electric and Clean-Fuel Vehicles

The maximum amounts for the clean-fuel vehicle deduction and the electric vehicle credit, which were scheduled to begin dropping by 25 percent per year in 2002, will remain unchanged until 2004, when the three-year phaseout will begin.

Credit for Pension Plan Start-up Costs

This new tax credit helps small businesses offset the costs of setting up and administering a new qualified employer plan and educating employees about it. The credit is 50 percent of these costs, with a maximum amount of \$500 per year. After the first year the credit is claimed, it may be claimed again only in the following

two years. To qualify, a business must have had no more than 100 employees who received at least \$5,000 in pay during the preceding year. The plan must include at least one non-highly compensated employee.

Credit for Employer-Provided Child Care

This new credit is 25 percent of the qualified expenses paid for employee child care, plus 10 percent of the qualified expenses paid for child care resource and referral services. The maximum credit amount is \$150,000 each year.

Welfare-to-Work and Work Opportunity Credits

These credits, which were scheduled to end in 2001, have been extended to cover qualified wages paid to individuals who begin work before 2004.

New York Liberty Zone

Businesses in the Lower Manhattan area designated as the New York Liberty Zone have several tax breaks to aid in their recovery from the September 11, 2001, terrorist attack. Among these are:

- A special Liberty Zone Allowance similar to the 30 percent Special Depreciation Allowance for property placed in service before 2007 that does not already qualify for that allowance. This includes used property that the taxpayer is the first to place in service in the Liberty Zone. Taxpayers may also elect not to claim this allowance.
- An additional Section 179 deduction of up to \$35,000, for a maximum amount of \$59,000. Generally, this limit is reduced by the cost of qualifying Section 179 property in excess of

\$200,000. For Liberty Zone property, only 50 percent of the property's cost is taken into account when figuring this reduction.

- A new targeted group for the Work Opportunity Credit, consisting of new or existing employees who perform substantially all their services in the Liberty Zone, or elsewhere in New York City for a business that relocated from the Liberty Zone due to 9/11 attack damage.
- Classification of qualified Liberty Zone leasehold improvement property as five year property, for which the straight-line depreciation method must be used.
- Extension of the usual two-year replacement period for a tax-free replacement of involuntarily converted property to five years for Liberty Zone property converted as a result of the 9/11 attack. **IRS**

250 Threshold Imposed on Forms W-2C

The Internal Revenue Service announced in Internal Revenue Bulletin 2002-29 dated July 22, 2002, that all submitters (employers, service bureaus, CPAs, etc.) must use magnetic or electronic media if they file 250 or more Forms W-2c, Corrected Wage and Tax Statement, Copy A with the Social Security Administration during a calendar year. Specifications for filing Forms W-2C electronically or on magnetic media are contained in SSA's *Magnetic Media Reporting and Electronic Filing of W-2c Information (MMREF-2)*. Submitters can access the MMREF-2 publication by selecting *Forms and Publications* at www.ssa.gov/employer. **SSA**

HELP Telephone Numbers and Web Addresses to use When You Have Questions:**Internal Revenue Service****Business and Specialty Tax Line** **NEW!**

800-829-4933

For Small Businesses, Corporations, Partnerships and Trusts who need information and/or help related to their Business Returns or Business (BMF) Accounts. Services cover Employer Identification Numbers (EINs), 94x returns, 1041, 1065, 1120S, Excise Returns, Estate and Gift Returns, as well as issues related to Federal tax deposits.

Electronic Federal Tax Payment System (EFTPS) Hotline

800-555-4477 or 800-945-8400

For taxpayers who want to pay business or individual taxes through electronic funds transfer. The EFTPS Toll-Free numbers can provide callers with EFTPS enrollment forms, instructions and customer assistance.

Employee Plans Taxpayer Assistance Telephone Service

877-829-5500 (toll free)

Employer Identification Number (EIN) Request Number

866-816-2065 (toll free)

Form SS-4 may be faxed to Brookhaven, NY at 631-447-8960, Cincinnati, Ohio at 859-669-5760, or Philadelphia, PA at 215-516-3990.

Form 941 and Form 940 Filing On-Line Filing Program / Austin Submission Center

512-460-8900 (not toll-free)

Forms (IRS)

Forms may be ordered at 800-829-3676.

Forms and help information is also available on the IRS Digital Daily Web Site at www.irs.gov and the Social Security Web Site at www.ssa.gov/employer

General IRS Tax Law Questions and Account Information

800-829-1040

Information Reporting Program Customer Service Section

866-455-7438 (toll free)

304-263-8700 (non-toll free)

Monday through Friday, 8:30 a.m. to 4:30 p.m., ET.

Telecommunications Devices for the Deaf (TDD)

may be reached non-toll free at 304-267-3367.

Taxpayers can contact this unit via e-mail at mccirp@irs.gov.**Information Reporting Program Web Page**www.irs.gov/taxpros

Scroll down to "Quick Links" and click on "Information Returns Reporting Program" in the right column.

IRS Tax Fax

703-368-9694 (non-toll free)

This service offers faxed topical tax information.

National Taxpayer Advocate's Help Line

877-777-4778 (toll free)

For taxpayers whose tax problems have not been resolved through normal channels. Taxpayer Advocate Service (TAS) provides an independent system to assure that tax problems are promptly and fairly handled. TAS operates independently of any other IRS office and reports directly to Congress through the National Taxpayer Advocate.

Social Security Tax Questions

Social Security Tax questions should be referred to the IRS at 800-829-1040.

Taxpayer Advocacy Panel

888-912-1227 (toll free)

For citizens who want to provide ideas and suggestions on how to improve IRS services or who want to make recommendations for improvement of IRS systems and procedures.

Telephone Device for the Deaf (TDD)

800-829-4477

For hearing impaired taxpayers who need tax law and/or procedural information relating to filing their returns or who need information and/or assistance relating to their accounts.

Tele-Tax System

800-829-4477

For individuals who need to check the status of their current year refund or who want to listen to recorded tax information. Available 24 hours a day, seven days a week.

Social Security Administration**Copy A / Form W-2 Reporting**

Questions about wage reporting (submitting Copy A of Form W-2 to SSA) should be referred to the SSA's Employer Reporting Service at 800-772-6270.

General SSA Benefit Questions

General Social Security benefit questions should be referred to SSA's Tele Service Center at 800-772-1213.

FEDERAL
PAY^TAXES ELECTRONICALLY

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Dear Taxpayer:

In an effort to save the cost of printing and mailing a tax package to electronic filers of Form 941 (that they may not need), we are sending this information as part of the *SSA/IRS Reporter*.

If you need forms or instructions, see the information below. For "HELP" telephone numbers and Web addresses, see page 6 of this issue of the *SSA/IRS Reporter*.

Bob Wenzel
Acting Commissioner, Internal Revenue Service

How To Get a Tax Package or Other Forms and Instructions

You can get these items 24 hours a day, 7 days a week, by...



Personal Computer

Go to **www.irs.gov**, select the **Forms and Publications** option and follow the directions or other forms and instructions.



Phone

Call **1-800-TAX-FORM** (1-800-829-3676).
You should receive your order within
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Internal Revenue Service

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