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Keeping First Nations Informed

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IN THIS ISSUE

Message from the Director
Introducing Form 944
Customer Satisfaction
Survey Results
Reporting Employee Theft and Embezzlement
W-2, W-3, W-2c Entries
Paper Form W-2 Filers
Tax Calendar for the 1st Quarter
Federal Unemployment Tax Refunds (FUTA Tax)
Year-end Reconciliation Worksheet

Message from the Director

We recently completed our initial Consultation Listening meeting which was held on November 30th in Anchorage. I want to thank all of the participants who provided input on pending federal tax issues and discussed various concerns involving federal tax administration. This meeting was part of our commitment to meet at least once every three years with interested tribal leadership in each of the 12 BIA regions.

We have scheduled the next Consultation Listening meeting in conjunction with the United South and Eastern Tribes (USET) as part of their Impact Week meeting. The specific date and location for this meeting is:

Tuesday February 7th - 11:00am-1:00pm
Crystal Gateway Marriott
1700 Jefferson Davis Highway
Arlington, Virginia 22202

Those who are unable to attend this meeting can participate in similar meetings in other areas of the country. These meetings which will be announced in future issues of ITG News and on our web site. In addition, tribal representatives can submit written input or inquiries at any time through the e-mail link on the bottom of our Consultation web page or by writing to me at:

Internal Revenue Service
SE:T:GE:ITG
1111 Constitution Avenue NW
Washington, DC. 20224

In addition to the Listening meetings, an Indian Tribe or group of Indian Tribes may invoke consultation on any issue or IRS action that may impact or is impacting them. A Tribe may also request consultation where it desires to seek the input of the IRS on the potential federal tax consequences of economic opportunities, local laws, agreements, or similar matters that may affect, or be of interest to, the Indian Tribe. All such requests may be submitted at any time via e-mail to tege.itg.consultation@irs.gov.

As always, if you would like to discuss any issue, please feel free to contact me at Christie.Jacobs@irs.gov or via telephone at (202) 283-9800.

Christie Jacobs

Introducing Form 944 – Employer’s Annual Federal Tax Return

To reduce the burden on small employers, the IRS has simplified the rules for filing employment tax returns. Starting with calendar year 2006, certain employers will file Form 944 Employer’s *Annual* Federal Tax Return instead of Form 941 Employer’s *Quarterly* Federal Tax Return. The new Form 944 must be filed by employers whose liability for social security, Medicare, and withheld federal income taxes for the calendar year is \$1000 or less, except if:

You file Form 941 electronically,
You expect to pay annual wages totaling more than \$4000,
You expect your annual liability for social security, Medicare, and withheld federal income taxes to be more than \$1000,
You have only farm employees (required to file Form 943, Employer’s Annual Tax Return for Agricultural Employees), or
You have only household employees (required to file Form 942, Employer’s Quarterly Tax Return for Household Employees).

The IRS will directly notify employers who are required to file Form 944. If you believe you are eligible but are not notified, you can contact the Internal Revenue Service at 1-800-829-0115 to determine your eligibility. Do NOT file Form 944 unless directed to do so by the IRS.

We will be posting links to the new Form 944 and instructions on our web site at www.irs.gov/tribes. In addition, we will be updating Publication 4268, Employment Tax Desk Guide for Indian Tribal Governments, to include specific

information on this new form. As always, you can also contact your local ITG Specialist if you have any questions concerning this new provision.

Reporting Abuses/Schemes

We continue to work with tribes and tribal officials to address financial abuses and schemes being promoted in Indian country. Working together can help ensure the integrity of tribal finances, and eliminate the threats posed by individuals with schemes that appear “too good to be true” and often are.

If you are aware of financial impropriety or of a promoter advocating a scheme that appears highly suspect, you can contact the ITG Abuse Detection and Prevention Team at (716) 686-4860 or via e-mail at tege.itg.schemes@irs.gov

Publication 4268—Employment Tax Guide for Tribes

Our on-line Employment Tax Guide continues to receive a very positive response from tribal payroll and finance employees. You can download this comprehensive guide from a link on our landing page at www.irs.gov/tribes

Customer Satisfaction Survey Results Published

The Office of Indian Tribal Governments recently completed its third annual customer survey obtaining feedback from our customers that will allow us to measure customer satisfaction with our products and services and to determine areas where we need to effect operational changes.

We want to thank everyone who participated. We received input from 187 of the 564 federally recognized Tribes, representing a 33% response rate. This was a slight decrease from 2004 but is a major improvement from the initial survey completed in 2003. While the overall level of satisfaction is a key measure, ITG tabulates the responses to each question and analyzes them by subject area and the geographic location of the respondents. The following chart provides a general summary:

Level of Burden on Tribes/ Delivery of Information to Tribes:

Eastern/Oklahoma Area

Satisfied 69%

Neutral 23%

Dissatisfied 7%

Great Plains/Great Lakes Area

Satisfied 75%

Neutral 16%
Dissatisfied 9%

Southwest Area
Satisfied 64%
Neutral 18%
Dissatisfied 18%

California/Nevada Area
Satisfied 71%
Neutral 20%
Dissatisfied 10%

Pacific Northwest Area
Satisfied 59%
Neutral 32%
Dissatisfied 8%

Alaska Area
Satisfied 58%
Neutral 34%
Dissatisfied 8%

Proper Collaboration with Tribes:
Eastern/Oklahoma Area
Satisfied 64%
Neutral 26%
Dissatisfied 10%

Great Plains/Great Lakes Area
Satisfied 65%
Neutral 33%
Dissatisfied 2%

Southwest Area
Satisfied 46%
Neutral 23%
Dissatisfied 30%

California/Nevada Area
Satisfied 64%
Neutral 23%
Dissatisfied 13%

Pacific Northwest Area
Satisfied 45%

Neutral 45%
Dissatisfied 10%

Alaska Area
Satisfied 50%
Neutral 37%
Dissatisfied 13%

Adherence to Proper Protocol/All Tribes Treated Equally:
Eastern/Oklahoma Area
Satisfied 70%
Neutral 24%
Dissatisfied 6%

Great Plains/Great Lakes Area
Satisfied 71%
Neutral 27%
Dissatisfied 3%

Southwest Area
Satisfied 63%
Neutral 29%
Dissatisfied 9%

California/Nevada Area
Satisfied 71%
Neutral 28%
Dissatisfied 1%

Pacific Northwest Area
Satisfied 49%
Neutral 48%
Dissatisfied 3%

Alaska Area
Satisfied 53%
Neutral 44%
Dissatisfied 3%

Recognition of Tribal Status and Sovereignty Issues:
Eastern/Oklahoma Area
Satisfied 77%
Neutral 13%
Dissatisfied 10%

Great Plains/Great Lakes Area

Satisfied 82%
Neutral 13%
Dissatisfied 5%

Southwest Area
Satisfied 63%
Neutral 20%
Dissatisfied 18%

California/Nevada Area
Satisfied 73%
Neutral 23%
Dissatisfied 5%

Pacific Northwest Area
Satisfied 62%
Neutral 34%
Dissatisfied 3%

Alaska Area
Satisfied 53%
Neutral 40%
Dissatisfied 8%

Accuracy/Timeliness/Honesty in IRS Actions:
Eastern/Oklahoma Area
Satisfied 58%
Neutral 33%
Dissatisfied 9%

Great Plains/Great Lakes Area
Satisfied 50%
Neutral 47%
Dissatisfied 3%

Southwest Area
Satisfied 52%
Neutral 36%
Dissatisfied 13%

California/Nevada Area
Satisfied 71%
Neutral 23%
Dissatisfied 5%

Pacific Northwest Area

Satisfied 48%
Neutral 43%
Dissatisfied 10%

Alaska Area
Satisfied 46%
Neutral 45%
Dissatisfied 9%

Overall Level of Satisfaction:
Eastern/Oklahoma Area
Satisfied 78%
Neutral 17%
Dissatisfied 4%

Great Plains/Great Lakes Area
Satisfied 87%
Neutral 7%
Dissatisfied 7%

Southwest Area
Satisfied 71%
Neutral 14%
Dissatisfied 14%

California/Nevada Area
Satisfied 82%
Neutral 15%
Dissatisfied 3%

Pacific Northwest Area
Satisfied 68%
Neutral 24%
Dissatisfied 8%

Alaska Area
Satisfied 60%
Neutral 36%
Dissatisfied 4%

A report on the survey is posted to our web site at www.irs.gov/tribes. The Office of Indian Tribal Governments will be developing and implementing actions to effect improvements with a particular focus on Collaboration and Timeliness

concerns expressed by respondents. We look forward to input at the ongoing Consultation Listening meetings (see Message From the Director) to further assist in determining improvements.

Reporting Employee Theft and Embezzlement

Unfortunately, all businesses and governmental entities can be victimized by employee theft and embezzlement. While most Tribes have enacted a system of internal controls that significantly minimizes the risk, virtually everyone has encountered this issue.

In most cases, the offending employee is terminated by the Tribe. In some cases, the Tribe may attempt to recover the stolen funds through tribal court action or by referral to local, state, or federal authorities for possible prosecution or issuance of a judgment. This is not always possible since the amount may be insufficient to warrant legal action or the employee may have fled the area.

The Office of Indian Tribal Governments is interested in these cases because monies obtained illegally through theft or embezzlement are subject to federal taxation. Whether the offending individual is prosecuted or not, we can tax their illegally obtained gain, meaning that they will never completely “get away” with their criminal activity.

If you encounter a theft or embezzlement perpetrated by an employee, please provide us with the specific information by contacting us at tege.itg.schemes@irs.gov or by calling Randy Johnson at (405) 297-4407.

Federal Unemployment Tax Refunds (FUTA Tax)

Are you a federally recognized tribe or an enterprise of a federally recognized tribe?

Are you current with the filing and paying of your Alaska Quarterly Contribution Reports (ESC tax)?

Are you still filing Form 940 Federal Unemployment Tax Return?

If your answer to all three of the above questions is yes, you are exempt from FUTA taxes for years ending after December 20, 2000. You are entitled to a refund of all Federal Unemployment Taxes (FUTA) that you paid for tax years 2002, 2003, and 2004. The statute has expired for refunds for 2000 and 2001.

Contact your local Indian Tribal Government Specialist to obtain instructions for claiming your refund of FUTA. The name of your local Specialist is provided

below.

Any claims for the 2002 tax year must be filed before January 31, 2006.

Any claims for the 2003 tax year must be filed before January 31, 2007.

Any claims for the 2004 tax year must be filed before January 31, 2008.

!! ALERT !!

Claims for refunds of FUTA taxes paid for tax year 2002 must be received by the IRS before January 31, 2006. See above for further information.

W-2, W-3, W-2c Entries

Q. Is it mandatory to show the name sequence as first name, middle initial and last name in the "Employee's Name" Box of the W-2?

A. Yes. Enter the name as shown on the employee's social security card (first, middle initial, last). Do not enter "Jr.", "Sr.", etc. even if such a suffix appears on the card. Do not show titles or academic degrees, such as "Dr.", "RN", or "Esq." at the beginning or end of the employee's name.

Q. What entry, if any, should be made in the "Control Number" box of the W-2?

A. Employers do not have to use this box, but may use it to help identify individual Forms W-2 for their records. Entries in this box may hinder processing of the form; therefore, unless absolutely necessary for control purposes, do not use this box.

Q. There are boxes on the W-2 that do not apply to my employees. Do I put in lines, zeroes, or asterisks?

A. No. If an item on a W-2 does not apply, then leave it blank.

Q. In money amount fields of the W-2, do I show dollar signs (\$), commas (,) and decimals (.)?

A. Do not use dollar signs or commas. The decimal point should appear and the money amount should be shown as XXX.XX in all cases. Cents must be shown; for even dollar amounts, show cents as ".00".

Q. Can I submit both W-2's and W-2c's under one W-3?

A. No. There must be a W-3 for the original W-2s and a W-3C for the W-2Cs. Be sure the W-3C reflects only the totals for the related W-2Cs.

Q. Where on the W-2 can I show additional information I want to give my employees?

A. Use the "other" box on the Form W-2 (Box 14). Remember: notate Rev Rul 59-354 here for Tribal Council payments, i.e., meeting fees, stipends, etc.

Q. The printer on our computer skipped a line when printing the W-2's and most of the information is below the designated boxes. Can I send them in anyway or must I do them over?

A. The W-2s should be reprinted. They cannot be processed by optical scanner unless the information is printed within the designated boxes.

Paper Form W-2 Filers

Do you wait until the last minute to file your paper Forms W-2 with Social Security? Do you use a typewriter or maybe even a pen to complete the forms? Are you tired of the paper that inundates your desk every January? Well, you're not alone.

Each year, businesses send 48 million paper Forms W-2 to Social Security. That's 230 tons of paper delivered during January and February each year! It is a labor-intensive, costly task to process each one of the forms.

Over the years, Social Security has implemented improvements to the paper filing process; e.g., scanners, laser printed forms, etc. But those solutions do not reduce the paperwork burden or costs to businesses and taxpayers.

That is why Social Security created an electronic filing option specifically for the paper filer. It's called W-2 Online and it was designed for the small employer who may have limited computer skills. It's a fast, secure alternative to all those paper forms. All you need is a computer with Internet access, Adobe® Acrobat Reader™ software (available free from Adobe Systems Web site), and a printer.

Here's a brief snapshot of how it works:

First, you'll need to register with Social Security for a PIN and password. Next, you can log on to the Businesses Services Online Web site and fill in up to 20 Forms W-2 on your computer screen. Social Security will prepare the transmittal Form W-3 for you – calculated from your W-2's.

Third, review the information and print copies for your employees and your records.

And finally, with one click you can submit the whole file electronically.

That's all there is to it. And don't worry if you have more than 20 W-2's to file. When you use W-2 Online, you can submit multiple sets of 20.

There are many advantages to filing electronically:

You get a later filing deadline (electronic filers have until March 31 to file – a full month later than paper filing).

You are provided with an electronic receipt that you can print as proof of timely

filing.

You can track the status of your W-2 report as it's processed.
And best of all, it's free!

Call Social Security's Employer Hotline at 800-772-6270 and ask for a copy of the Business Services Online Handbook. It contains complete step-by-step instructions for getting your PIN and password and using W-2 Online. Also ask for "The Expert" serving your State for one-on-one assistance with filing electronically.

ITG Specialists for Alaska:

Judy Pearson
Anchorage, AK
907-271-6949
Judy.M.Pearson@irs.gov

Mary Jo Audette
Anchorage, AK
907-271-6874
MaryJo.Audette@irs.gov

Joe Kincaid, Manager
Portland, OR
503-326-2381
Joe.Kincaid@irs.gov

Federal Tax Calendar for First Quarter 2006

January 2006

Sunday, January 1 - Stop advance payments of EITC for any employee not filing a new Form W-5

Thursday, January 5 - * make a deposit for 12/28-12/30

Friday, January 6 - * make a deposit for 12/31-1/3

Tuesday, January 10 - Employees report December tip income to employers if \$20 or more

Wednesday, January 11 - * make a deposit for 1/4-1/6

Friday, January 13 - * make a deposit for 1/7-1/10

Tuesday, January 17 - ** Make a deposit for December if under the monthly deposit rule

Thursday, January 19 - * make a deposit for 1/11-1/13

Friday, January 20 - * make a deposit for 1/14-1/17

Wednesday, January 25 - * make a deposit for 1/18-1/20

Friday, January 27 - * make a deposit for 1/21-1/24
Tuesday, January 31 - Give employees copies of their Forms W-2 for 2004, and give annual information statements (Forms 1099, 1098, 5498, and W-2G) to all recipients of reportable payments

February 2006

Wednesday, February 1 - * make a deposit for 1/25-1/27
Friday, February 3 - * make a deposit for 1/28-1/31
Wednesday, February 8 - * make a deposit for 2/1-2/3
Friday, February 10 - * make a deposit for 2/4-2/7
Employees report January tip income to employers if \$20 or more
Wednesday, February 15 - * make a deposit for 2/8-2/10
** Make a deposit for January if under the monthly deposit rule
Friday, February 17 - * make a deposit for 2/11-2/14
Thursday, February 23 - * make a deposit for 2/15-2/17
Friday, February 24 - * make a deposit for 2/18-2/21
Tuesday, February 28 - File W-3/W-2s with SSA; file 1096/1099s and 1096/W-2Gs with IRS

March 2006

Wednesday, March 1 - *make a deposit for 2/22-2/24
Friday, March 3 - * make a deposit for 2/25-2/28
Wednesday, March 8 - 3/1-3/3
Friday, March 10 - *make a deposit for 3/4-3/7
Employees report February tip income to employers if \$20 or more
Wednesday, March 15 - *make a deposit for 3/8-3/10
**Make a deposit for February if under the monthly deposit rule
Friday, March 17 - *make a deposit for 3/11-3/14
Wednesday, March 22 - *make a deposit for 3/15-3/17
Friday, March 24 - *make a deposit for 3/18-3/21
Wednesday, March 29 - *make a deposit for 3/22-3/24
Friday, March 31 - *make a deposit for 3/25-3/28

* = Make a Payroll Deposit if you are under the semi-weekly deposit rule.

** = Make a Monthly Deposit if you qualify under that rule.

NOTE: Deposits made through EFTPS are due one day prior to the dates listed.

Return Filing Dates

January 3rd

File Form 730 and pay the tax on applicable wagers accepted during November.

January 31st

File Form 941 for the 4th quarter of 2005. If all deposits paid on time and in full, file by February 10th.

File Form 940 for 2005 if liable for Federal Unemployment Tax (not participating or current with state unemployment tax). If all deposits paid on time and in full, file by February 10th.

File Form 730 and pay the tax on applicable wagers accepted during December. File Form 945 for 2005. If all deposits paid on time and in full, file by February 10th.

File Form 943 for 2005 (agricultural entities). If all deposits paid on time and in full, file by February 10th.

February 28th

File information returns for all payments reported to recipients on Forms 1099, 1098, 5498, and W-2G using Form 1096 as a transmittal. If filing these forms electronically, file by March 31st.

File Form W-3 along with copy A of Forms W-2 you issued for 2005. File by March 31st if filing electronically.

File Form 730 and pay the tax on applicable wagers accepted during January.

File Form 8027 if you are a large food and beverage establishment. File by March 31st if filing electronically.

March 31st

File Form 730 and pay the tax on applicable wagers accepted during February.

Reconciliation of Returns Saves Time and Money

Before filing your end of the year employment tax returns, reconcile all the data to insure that not only is the information correct but also that you will not receive a bill in future years from the IRS due to a mismatch of the data filed. Failure to reconcile the data may also result in employees not receiving proper credit for federal income taxes withheld or for social security and Medicare wages.

Reconcile Forms 941, Employer's Quarterly Federal Tax Return, Form W-3, Transmittal of Wage and Tax Statements, and Forms W-2, Wage and Tax Statement. Suggested steps in reconciling the data are listed below.

Determine annual amounts reported on Forms 941 for 2005 by totaling selected lines from all four quarters for the year. For example, total the amounts from line 2 on all four returns to determine the annual wages, tips, and other compensation.

Compare those annual totals from Forms 941 to the totals reported on Form W-3. For example, the annual total from line 2 on Forms 941 should match the total in box 1 for "Wages, tips, other compensation" reported on Form W-3 .

Separately verify the total of amounts shown in all boxes on Forms W-2 and compare those totals to the amounts reported in the same boxes on Forms W-3.

For example, the total amount shown in box 1 for “Wages, tips, other compensation” for all Forms W-2 should equal the amount reported in box 1 on the Form W-3.

Note that for social security and Medicare taxes, the annual Form 941 amounts should be approximately twice the amounts shown on Form W-3. This is because the Form 941 includes both the employer and the employee share of social security and Medicare taxes.

If there is a discrepancy in the reconciliation, determine the cause of the discrepancy and make appropriate adjustments. Some common causes of discrepancies include failure to include tribal council pay on line 2 of the Forms 941, missing Forms W-2, and incorrect reporting of third party sick pay. If amounts do not match for valid reasons, keep your reconciliation in case there are inquiries from the IRS or Social Security Administration.

Also remember to include employee bonuses on both Forms 941 and Form W-2. For further information on reconciling employment tax data, refer to Publication 15, Employer’s Tax Guide, and the instructions for Forms W-2 and W-3. See the article on page 4 on Interest Free Adjustments if corrections are needed for prior quarter Forms 941.
