

Social Security Administration

Internal Revenue Service

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Department of the Treasury
Internal Revenue Service

www.irs.gov

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Reporter

Winter 2007

A Newsletter
for Employers

New Online Employer Identification Number Application Processes Requests in Minutes

Taxpayers can now request an Employer Identification Number (EIN) through a Web-based system that instantly processes requests and generates identification numbers in real time. This new and improved online application at <http://www.irs.gov/businesses/small/article/0%2C%2Cid=102767%2C00.html> will reduce the time it takes taxpayers to get an EIN. Essentially they can get one while they wait—within minutes.

How It Works

A taxpayer accesses the Internet EIN system through IRS.gov and enters the required information. If the information passes the validity checks, the IRS issues a permanent EIN to the taxpayer. If the information does not pass the validity checks, it is rejected. The taxpayer then has an opportunity to correct the information and resubmit the application. The Internet EIN application at

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Small Employers: Look for Form 944 Notices in February

If you are an employer whose annual employment tax liability is \$1,000 or less, watch your mail for a notice from the IRS in early February advising you to file Form 944, *Employer's Annual Federal Tax Return*, for Tax Year 2008.

Form 944 Saves Time

The notices will alert newly eligible businesses to begin filing Form 944, *Employer's Annual Federal Tax Return*, for Tax Year 2008. Form 944 makes filing easier and saves time for the many small businesses

that are eligible to file employment tax returns once a year instead of quarterly.

Like most tax forms, Form 944 can be e-filed, and most employers can make a single payment with the return, unless their businesses grow and they are required to make federal tax deposits.

Because the IRS has changed the filing requirement for these employers, those who receive Form 944 notices should immediately discontinue filing Form 941, *Employer's Quarterly Federal Tax Return*, in calendar year 2008 and file Form 944

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Social Security Announces 2008 Wage Base Increase

Social Security has announced the increase in 2008 for the maximum amount of earnings subject to the Social Security tax. The Social Security wage base will be \$102,000, up from \$97,500 in 2007. Beginning January 1, 2008, employers should withhold Social Security taxes (6.2 percent) from employees' wages up to \$102,000 and withhold the Medicare tax (1.45 percent) on all wages. Employers must match the Medicare tax payments withheld from employees' wages.

In 2008, employees will earn one Social Security credit for each \$1,050 in earnings, up to a maximum of four credits for the year. Social Security also announced that benefit amounts will increase in 2008 by 2.3 percent.

The full retirement age for people born in 1942 is now 65 years and 10 months. There is no limit on employees earnings beginning with the month they reach full retirement age. When they reach full retirement age, they can work and receive unreduced Social Security retirement benefits.

If your employees are less than full retirement age when they begin to

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Treasury, IRS Release Report on Improving Voluntary Compliance

The Treasury Department and the Internal Revenue Service (IRS) have released an IRS report addressing the agency's implementation of the 2006 strategy to improve voluntary compliance with federal tax laws.

The IRS report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* at http://www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf, details steps currently being taken by the IRS, as well as those under development, to address key elements of the "tax gap." The report builds on the seven components of the Comprehensive Strategy for Reducing the Tax Gap at http://www.treas.gov/press/releases/reports/otptaxgapstrategy_final.pdf, which the Treasury Department released in September 2006. **IRS**

Related Links:

- IRS Updates National Research Program for Individuals <http://www.irs.gov/newsroom/article/0%2C%2Cid=171023%2C00.html>
- The Tax Gap <http://www.irs.gov/newsroom/article/0%2C%2Cid=158619%2C00.html>

New Online EIN Requests Processed in Minutes continued from page 1

<http://www.irs.gov/businesses/small/article/0%2C%2Cid=102767%2C00.html> is interactive and asks questions tailored to the type of entity the taxpayer is establishing. This is similar to popular tax processing software packages on the market.

The system provides "help" screens throughout the application process. This means taxpayers will no longer have to print the EIN instructions and separately search for answers while requesting an EIN.

When the EIN application process is complete, a taxpayer has the option to view, print, and save his or her confirmation notice, as opposed to waiting for the IRS to mail it. Third parties authorized by the taxpayer can also be provided with the EIN, but the

third party cannot view, print or save the confirmation notice. Instead, the confirmation notice is mailed to the taxpayer.

An EIN assigned through Internet submission is immediately recognized by IRS systems. Taxpayers can begin using the EIN immediately for most business purposes. **IRS**

Related IRS Links:

- Publication 1635, EIN, at <http://www.irs.gov/pub/irs-pdf/p1635.pdf>
- Employer ID Numbers (EIN) at <http://www.irs.gov/businesses/small/article/0%2C%2Cid=98350%2C00.html>

Form 944 Notices Coming in February continued from page 1

instead. The due date for 2008 Form 944 returns is February 2, 2009.

It is important that businesses who qualify to file Form 944 file the annual form as expected, to avoid any processing problems. Remember to tell your tax preparer about your new filing requirement and adjust your EFTPS payments accordingly.

However, some small employers may:

- Exceed the Form 944 threshold. If you believe your tax liability will exceed \$1,000 (approximately \$4,000 or more in wages) in calendar year 2008, call the IRS before April 1 at the number shown on the notice and ask to remain a Form 941 quarterly filer for 2008; or
- Prefer e-filing Form 941 quarterly. If you would rather e-file quarterly Forms 941 than file Form 944 annually, call the IRS before April 1 at the number shown on the notice, ask to remain a Form 941

quarterly filer for 2008, and receive confirmation that the IRS has changed your filing requirement back to Form 941 before you file any more quarterly forms.

The IRS sends the February notices to newly eligible businesses only. Employers already filing Form 944 will not receive notices. If you did not receive a notice but believe you are eligible to file Form 944, or if you have questions, call the IRS' Business and Specialty Help Line at (800) 829-4933. **IRS**

Related Links:

- Taxpayer Burden Reduction Projects: <http://www.irs.gov/businesses/small/article/0%2C%2Cid=146223%2C00.html#944>
- Form 944: <http://www.irs.gov/pub/irs-pdf/f944.pdf>
- Form 944 Instructions: <http://www.irs.gov/pub/irs-pdf/i944.pdf>

IRS Announces Online Fill-in Form 8809, Application for Extension of Time to File Information Returns

If you need to request an extension of time for Forms W-2 series, W-2G, 1042-S, 1098 series, 1099 series, 5498 series or 8027, the IRS encourages you to complete the request online via the FIRE (Filing Information Returns Electronically) system at <http://fire.irs.gov> in lieu of the paper Form 8809. No more filling out paperwork and waiting to receive your approval/denial letter in the mail.

This option becomes available the first week of January 2008 for the current (2007) tax year. There is no limit on how many extensions you can enter; however, you must complete the request by the due date of the return.

Established FIRE Users

If you already have a User ID on FIRE, at the Main Menu click 'Extension of Time Request', click 'Fill-in Extension Form' and follow the menu. An automatic 30-day approval will be displayed online as long as you provide the requested information and submit the request by the due date of the return. You should print the screen for your records.

New Accounts

If you have never established an account on FIRE, click 'Create New Account' on the opening page and it takes about 5-10 minutes to create your User ID, password and PIN. After creating the account, follow the instructions above.

For more information, go to <http://www.irs.gov> and search on 'Tax Topic 803' or refer to Publication 3609 at <http://www.irs.gov/pub/irs-pdf/p3609.pdf>, *Filing Information Returns Electronically (FIRE)* or Part E of Publication 1220 at <http://www.irs.gov/pub/irs-pdf/p1220.pdf>, *Specifications for Filing Forms 1098, 1099, 5498, and W-2G Electronically or Magnetically*. You can also call 1-866-455-7438 if you have additional questions. **IRS**

Caution: Do not use this option to request an extension of time to (1) provide statements to recipients, (2) file Form 1042 (instead use Form 7004), or (3) file Form 1040 (instead use Form 4868).

Proactive Steps for Employees to Safeguard Their 2007 Returns When e-Filing

Once again for the 2007 tax filing season, many taxpayers will qualify to e-file their federal returns for free through Free File. For 2008 (the 2007 tax filing season), those who make an adjusted gross income of \$54,000 or less can use the program to prepare and file their Federal return. Free File offers the same benefits as e-file and 70% of taxpayers are eligible to use it.

To access the program, employees must visit IRS.gov and click on the "Free File" logo on IRS.gov at <http://www.irs.gov>. Otherwise, they may be charged a fee if they go directly to the website of a software provider. For those who used Free File last year and are still eligible to use the program, they will still need to access it again through the IRS website, IRS.gov, to avoid any unscrupulous look-a-like sites that may be attempting to steal your personal information.

e-Filing is Safe

History has shown e-filing to be very safe, so long as employees apply a few standard safety measures:

- Use software programs and vendors approved by the IRS. A list at <http://www.irs.gov/app/freeFile/jsp/index.jsp?ck#Company1> is maintained at IRS.gov for their reference, including approved software companies who offer Free File.
- Make sure employees are on a secured computer with current anti-virus and anti-

spyware software. They should perform frequent virus scans, download updates, and install firewalls to protect their computer while on the Internet. They are also advised to install anti-adware software.

- Avoid using shareware or peer-to-peer (P2P) software on any computer where personal, identifiable information is stored, including tax returns. P2P software is used to share music files or videos across the Internet. If employees choose to run this software, they should make sure that their personal data is in an encrypted directory or one that the peer-to-peer community can't access.

- Look for a "closed lock" icon on the computer screen when using online software or transmitting personal data. Employees should also see an "s" at the end of "http" in the address line. These icons show that they have a secured link between themselves and the vendor. If they don't see these security indicators, they shouldn't reveal or transmit their data.

- Beware of suspicious e-mail from the "IRS": The IRS doesn't send emails to taxpayers. So if you get such an email, even if it has the IRS logo on it, don't be fooled. It's not from the IRS.

By following the recommendations outlined here, employees can feel confident in using Free File and in e-filing their returns to the IRS. **IRS**

IRS Issues Pub 4557, Safeguarding Taxpayer Information

Data security should be a top priority for all individuals, tax practitioners, businesses and organizations. Putting safeguards in place helps prevent fraud and identity theft, and enhances customer confidence and trust.

Pub 4457 (<http://www.irs.gov/pub/irs-pdf/p4557.pdf>) will help non-governmental businesses, organizations, and individuals that handle taxpayer data to understand and meet their responsibility to safeguard taxpayer information. This guide references a growing number of laws, regulations, standards, and best practices that cover the privacy and security of taxpayer data:

- Confidentiality and privacy of taxpayer data by restricting access and disclosure;
- Integrity of taxpayer data by preventing improper or unauthorized modification or destruction; and
- Availability of taxpayer data by providing timely and reliable access and data recovery. **IRS**

2008 Social Security Wage Base Increase continued from page 1

receive benefits, they can earn more in 2008 without their benefits being reduced:

1. Social Security beneficiaries who haven't reached full retirement age can earn \$13,560 before their benefits are reduced. For every \$2 they earn over \$13,560 before the year of their full retirement age, \$1 is withheld from their benefits.
2. In the year employees reach full retirement age, \$1 in benefits is deducted for each \$3 they earn above \$36,120

until the month the employees reach full retirement age.

3. Benefits are not reduced when employees are full retirement age or older, no matter how much they earn.

Employees receiving Social Security disability benefits must report all wages, no matter how little they earn.

For more information on wage base and benefit increases, see the Social Security press release at <http://www.socialsecurity.gov>. **SSA**

SSA/IRS

Reporter

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SSA.IRS.REPORTER@irs.gov

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CHANGE OF ADDRESS? OUT OF BUSINESS?

Notify the IRS. Submit Change of Address Form 8822 available at <http://www.irs.gov/pub/irs-pdf/f8822.pdf> to the IRS center to which you sent your business returns. Please include your Employer Identification Number (EIN).

Cincinnati IRS Center
Cincinnati, OH 45999
Ogden IRS Center
MS:6273
Ogden, UT 84207
Attn: BMF Entity Control Unit

Outside US:
Philadelphia IRS Center
Philadelphia, PA 19255

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IRS and SSA "Help" Phone Numbers, Web Addresses, and Additional Resources Now on IRS.gov

IRS and SSA "Help" telephone numbers, Web addresses, and additional resources are now posted on IRS.gov at <http://www.irs.gov/businesses/small/article/0%2c%2cid=109886.00.html>.

W-2 Replacements and Corrections: Best Practices



As you read this, you might not have even given your employees their Forms W-2 (Wage and Tax Statement; due to employees by January 31). Whatever the situation, it's not too early to strategize how you'll handle requests for replacements or corrections.

Make it easy on yourself. Devise a form for employees to complete to request a replacement or correction. This will decrease your time on the phone, taking details, such as an employee's new mailing address. In such a case, you may send a copy of the original W-2; you don't need to correct the address on the W-2.

If you are replacing a W-2 that the employee lost, destroyed, or never received due to an address change, you are allowed to charge a fee! The IRS has not set a limit on the amount you may charge, but be sure to be consistent among your employees.

Corrections

If something was reported incorrectly on a W-2, you'll need to prepare a W-2c, *Corrected Wage and Tax Statement*, and give copies to the employee and the Social Security Administration (SSA). The W-2c is at <http://www.irs.gov/pub/irs-pdf/fw2c.pdf>.

You must complete Boxes a-b and d-g (tax year and basic employer/employee information). The numbered boxes (1-20) correspond to the box numbers on the W-2. For example, "Wages, tips, other compensation"

goes in Box 1 on the W-2, and any corrections go in the two boxes for Box 1 on the W-2c, indicating the "Previously reported" amount and the "Correct information." Any boxes for which no correction is necessary should be left blank.

Can You Correct Tax Amounts?

If you have over-withheld Social Security or Medicare tax from an employee, you must refund the excess to the employee and correct the wage and tax amounts on Form W-2c. (You'll also make an adjustment to your next Form 941, *Employer's Quarterly Federal Tax Return*, to get that money back, along with the employer-matching taxes, from IRS).

However, once federal and state income taxes have been deposited, you generally cannot correct those amounts via a W-2c. If an employee was over-withheld, he or she will get those taxes back after filing a personal income tax return.

Submitting Your Forms W-2c

Send your Forms W-2c to the SSA along with a Form W-3c, *Transmittal of Wage and Tax Statements*. Boxes a-e (basic employer information) are mandatory. The numbered boxes correspond to the numbered boxes on the Forms W-2c. Insert totals of any amounts reported on Forms W-2c. However, for Box 12, "Coded items," you'll enter a total of only the amounts for codes D through H, S, AA, and BB.

Follow-up Steps

For each W-2c, you need to consider whether you need to:

- Make an adjustment on your next Form 941, and whether that adjustment needs to be supported by a Form 941c, *Supporting Statement to Correct Information*;
- File an amended Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*;
- Send copies to the state revenue agency, along with a corrected annual reconciliation (if only state and local data is corrected, the W-2c does not go to SSA); and
- Amend your state unemployment insurance return.

Prepare W-2c Online!

You can prepare and file Forms W-2c (as well as Forms W-2) on the SSA's Business Services Online (BSO) website (<http://www.ssa.gov/employer/how.html>). It also allows you to print copies for your employees and any state agencies.

BSO doesn't work for some situations, however, such as when you are changing only state or local information. Then you may use the W-2c on the APA website (<http://legacy.payrollannex.org/news/formW2c.html>). **APA**

*The American Payroll Association's strong partnership with the IRS and SSA allows it to include the most accurate and up-to-date information in its classes and publications, such as its book, *The Payroll Source*®. More information about the APA is available at <http://www.americanpayroll.org>.*

Redesign of Form 990 for Tax-Exempt Organizations

In June 2007, the IRS released a discussion draft of the redesigned Form 990, *Return of Organization Exempt from Income Tax*, filed by many public charities and other exempt organizations (<http://www.irs.gov/newsroom/article/0%2C%2Cid=171329%2C00.html>).

The discussion draft is a significant redesign of the form, which has been revised only on a piecemeal basis since 1979. The IRS anticipates using the redesigned form for the 2008 tax year (returns filed in 2009). The proposed redesign does not affect the other forms in the IRS Form 990 series; however, through this process, we requested comments on filing thresholds with respect to some of these forms.

Questions and comments concerning the redesigned form and instructions were accepted through September 14, 2007. The IRS is working with partners and stakeholders to ensure that the redesigned form meets three guiding principles:

- Enhancing transparency
- Promoting compliance
- Minimizing the burden on filing organizations

Additional information about the redesigned Form 990 is available on the IRS web site at: <http://www.irs.gov/charities/article/0%2C%2Cid=171216%2C00.html>. **IRS**

Telephone Survey of Small Tax Exempts Required to Electronically File Form 990-N

Russell Research, an independent national survey research firm, will be conducting a telephone survey of a random sample of small tax-exempt organizations that may be required to electronically file Form 990-N (e-Postcard) beginning in 2008 (see IR-2007-129 at <http://www.irs.gov/newsroom/article/0%2C%2Cid=172258,00.html>).

The objective of the survey is to gain insight into the effectiveness of IRS's communications efforts and to determine the readiness of these small organizations to electronically file the e-Postcard.

The survey will take place during the Winter of 2007; participation in the survey is voluntary and no identifying information will be shared with the IRS. Additional information about this new filing requirement is available at <http://www.irs.gov/charities/article/0%2C%2Cid=169250%2C00.html>.

IRS has several electronic resources available for exempt organizations. The online workshop Stay Exempt—Tax Basics for 501(c)(3)s is available at <http://www.stayexempt.org>. Exempt Organizations are also encouraged to subscribe to the *EO Update* at <http://www.irs.gov/charities/content/0%2C%2Cid=154838%2C00.html>, an electronic newsletter with information for tax-exempt organizations. **IRS**

TEST YOUR KNOWLEDGE

Household Employers

Situation: Alex was reviewing the tax returns of a new client and noted a Schedule H (*Household Employment Taxes*) attachment. Having limited exposure to the “household” rules, Alex wanted to research the issue more.

Question: What procedures might assist Alex in keeping the client’s filings current?

Answer: A household employer may need to withhold and pay social security and Medicare taxes, pay federal unemployment tax (FUTA), or both for individuals providing household help.

Household Employer: Publication 926, *Household Employer’s Tax Guide* (<http://www.irs.gov/pub/irs-pdf/p926.pdf>), and the examples and references it provides, may assist in reviewing when an individual (e.g. cleaning person, cook, gardener, babysitter, etc.) is a household employee. In general, a household worker may be an employee if the employer has the right to control what and how work is done, regardless of whether the worker is provided the freedom of action in carrying it out.

Schedule H: A household employer generally attaches Schedule H (<http://www.irs.gov/pub/irs-pdf/f1040sh.pdf>) to their individual income tax return (for example, *Form 1040 U.S. Individual Income Tax Return*), if (in 2007):

- **Social Security and Medicare:** Any household employee is paid cash wages of \$1,500 or more in the *calendar year*; or
- **Federal income tax** is withheld from wages; or
- **FUTA:** The total combined cash wages paid to all household employees are \$1,000 or more in any *calendar quarter* of the current or preceding year.

The **calendar year** wages subject to Schedule H reporting are adjusted annually; for the current year’s wage threshold, see the Social Security Administration’s electronic fact sheet on household workers (<http://www.ssa.gov/pubs/10021.html>). Cash wages include payments by checks, money orders, etc., and do not include payments to certain individuals, such as the household employer’s spouse. Schedule H can be filed as a “standalone” form if there is no income tax filing requirement.

The household employer is responsible for both the employer and employee share of social security and Medicare taxes owed.

Regarding the employee share, the employer can either: **(1)** withhold it from wages, or **(2)** “cover” (pay) the employee share without withholding. The share “covered” by the employer is counted as additional wages for income tax purposes. Federal *income tax* withholding from household wages, however, is generally not required but can be done if requested by the employee.

Other Considerations: A household employer may need to make estimated tax payments or adjust their own withholding to avoid an estimated tax penalty on its household employment tax liability. Additionally, see Publication 926 and the Schedule H instructions (<http://www.irs.gov/pub/irs-pdf/i1040sh.pdf>) for information on preparing the Form W-2, *Wage and Tax Statement*; obtaining an employer identification number (EIN); state information and agency contacts; non-cash wages; and Schedule H alternatives if the household employer also operates a business. 

EFTPS PC Software Expires January 31, 2008!

Support for the original Electronic Federal Tax Payment System (EFTPS) PC software will end on January 31, 2008.

Businesses using the EFTPS PC Software to make only their Federal tax payments should consider using EFTPS via the Internet or phone. Your business may continue to make Federal tax payments with your current enrollment online at <http://www.eftps.gov> or via the telephone voice response system (VRS) at 1 (800) 555-3453.

With these options, you can schedule business tax payments up to 120

days in advance (and individual payments up to 365 days in advance) from anywhere that you have access to the Internet or telephone.

You can continue using your current Personal Identification Number (PIN) when you make payments via the phone at 1 (800) 555-3453. You also will need your Social Security Number (SSN) or Employer Identification Number, which you used to create your original enrollment. To make payments online, you will also need an Internet password. To obtain your Internet password, please call 1 (800) 982-3526. 



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IRS and SSA News and Announcements

AccuWage Anyone?

Employers and third party submitters can use AccuWage and AccuW2C Software for filing wage reports to Social Security to test the accuracy of their wage reports prior to submitting them electronically to Social Security for processing.

The AccuWage Software checks W2 wage reports to ensure they comply with the Specifications for Filing Forms W2 Electronically (EFW2) and provides a report listing all errors found in the wage report. The AccuW2C software performs the same type of format checks for Specifications Filing Forms W2C Electronically (EFW2C). Though wage reports cannot be edited using the AccuWage/AccuW2C Software, they can be tested repeatedly until all errors have been corrected.

For information and complete instructions to download the AccuWage Software to a computer, visit <http://www.ssa.gov/employer/accuwage/index.html>. **SSA**

Updated Minimum Wage Posters Available

Effective July 24, 2007, the federal minimum wage for covered non-exempt employees increased to \$5.85 per hour. The minimum wage will increase to \$6.55 per hour on July 24, 2008 and to \$7.25 per hour on July 24, 2009. A number of federal workplace posters have been revised to reflect these changes.

All updated posters are available and can be printed from the DOL Poster Web page at <http://www.dol.gov/compliance/topics/posters.htm>. Revised posters are also available for free from the Department at 1-888-972-7332. If you are not sure which posters must be posted by your organization, please use the elaws Poster Advisor at <http://www.dol.gov/elaws/posters.htm>. **DOL**

Social Security No Longer Accepts Magnetic Media Submissions

Social Security no longer accepts magnetic media submissions. All wages must be filed either electronically or on paper. If you use off-the-shelf software to prepare your wage reports and it does not offer electronic filing, contact your software company. Visit Social Security's Vendor List (<http://www.ssa.gov/employer/vendor.htm>) for a list of companies that offer wage reporting services and/or products.

More information is available at: <http://www.ssa.gov/employer>. **SSA**

Special Web Section for Homeowners Who Lose Homes; Foreclosure Tax Relief Available to Many

A special new section for people who have lost their homes due to foreclosure is now on IRS.gov. Although mortgage workouts and foreclosures can have tax consequences, special relief provisions can often reduce or eliminate the tax bite for financially strapped borrowers who lose their homes. **IRS**

Related Links:

- IR-2007-155, Special Web Section Unveiled for Homeowners Who Lose Homes; Foreclosure Tax Relief Available to Many at <http://www.irs.gov/newsroom/article/0%2C%2Cid=174022%2C00.html>
- Questions and Answers on Home Foreclosure and Debt Cancellation at <http://www.irs.gov/newsroom/article/0%2C%2Cid=174034%2C00.html>

Enhancements to Business Services Online

Social Security has enhanced its online registration process and its electronic wage reporting services for the 2007 tax filing season. The Business Services Online (BSO) enhancements, which began on October 27, 2007, will make it easier to register and submit wage reports to Social Security for processing. BSO is Social Security's free, secure interactive suite for the business community.

To register for Business Services Online, visit <http://www.socialsecurity.gov/bsoweb/come.htm>. **SSA**

Taxpayers Can Now File Excise Form 2290 Electronically

On August 8, IRS began accepting Form 2290, *Heavy Highway Vehicle Use Tax Return*, electronically: <http://www.irs.gov/pub/irs-pdf/f2290.pdf> **IRS**

Related Link:

- Excise Taxpayers Successfully e-filing Form 2290 <http://www.irs.gov/businesses/small/article/0%2C%2Cid=173767%2C00.html>

File Forms W-2 Electronically— Free with BSO

Social Security has an easy-to-use Web site with bundles of information to help you get started filing your Forms W-2 electronically via Social Security's Business Services Online and it's absolutely free! Visit us at <http://www.socialsecurity.gov/employer>. **SSA**

Increase in Federal Minimum Wage Will Not Reduce 45 B Credit

Food and beverage industry employers should be aware of two changes to the credit for the portion of employer Social Security paid on employee cash tips known as the 45B Credit.

Recent legislation establishes that employers can use the federal minimum wage in place on Jan. 1, 2007 for computing the credit, even if the federal minimum wage increases, as it did in 2007 from \$5.15/hour to \$5.85/hour. The lower the minimum wage used to offset the 45B credit, the higher the credit.

Additionally, employers can now use the 45B Credit to offset the alternative minimum tax. Previously, the credit was not an allowable offset for AMT. **IRS**

Related Links:

- IR-2007-155 Increase in Federal Minimum Wage Will Not Reduce 45B Credit at <http://www.irs.gov/newsroom/article/0%2C%2Cid=173661%2C00.html>
- Form 8846 (<http://www.irs.gov/pub/irs-pdf/f8846.pdf>), Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
- Credit for Portion of Employer Social Security Paid with Respect to Employee Cash Tips (IRC 45 B Credit) at <http://www.irs.gov/businesses/small/industries/article/0%2C%2Cid=98463%2C00.html>