Social Security News

Employer news from the Alaska Division of Retirement and Benefits

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2010 is 75th anniversary of Social Security

A message from Social Security's Associate Commissioner for External Affairs, Aviva Sufian

On August 14, 1935, Franklin Delano Roosevelt signed the *Social Security Act* into law. For the past seventy-five years, Social Security has provided an economic safety net that has kept millions of our citizens from indigence in their old age and when they are disabled. The programs we administer are among the most important and successful in our country's history. The more than $60 billion in benefits we pay each month provide a lifeline to our beneficiaries and their families and are vital to the nation's economy.

President Barack Obama signed a proclamation in mid-August to commemorate the 75th anniversary of the *Social Security Act*.

As President Obama stated in his proclamation, "On the 75th anniversary of the *Social Security Act*, let us ensure we continue to preserve this program's original purpose in the 21st century. Together, we can give our children and our grandchildren the same protections we have cherished for decades, and in doing so, lead our nation to a brighter day."

IRS, Social Security and State of Alaska offer employer workshop in Fairbanks in December

Gary Petersen from the Internal Revenue Service (IRS), Tim Beard with the Social Security Administration (SSA), and Kay Gouyton and Robert Gregg from the Division of Retirement and Benefits Audit Section will present an educational workshop for employers in Fairbanks on December 10.

Workshop classes will cover such topics as federal reporting changes, hiring issues, excise tax, and fringe benefits. Classes are free, but attendees are responsible for their own travel and lodging. The exact location of the workshop is yet to be announced.

For more details and to register for the workshop, send an email to Kay Gouyton. If you are registering, please provide the following information:

- How many people will attend
- Name(s) of attendee(s)

Employer-provided health coverage is *not* taxable

Starting in tax year 2011, the *Affordable Care Act* requires employers to report the value of the health insurance coverage they provide to employees on each employee's annual Form W-2. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be more informed consumers. The amount reported does not affect tax liability, as the value of the employer contribution to health coverage continues to be excludible from an employee's income and it is not taxable.

Hiring employees vs. independent contractors

Seven tips for business owners

As a small business owner you may hire people as independent contractors or as employees. There are rules that will help you determine how to classify the people you hire. This will affect how much you pay in taxes, whether you need to withhold from your workers' paychecks, and what tax documents you need to file.

Here are seven things every business owner should know about hiring people as independent contractors versus hiring them as employees:

1. The IRS uses three characteristics to determine the relationship between businesses and workers:

- Behavioral Control covers whether the business has a right to direct or control how the work is done through instructions, training or other means.
- Finanacial Control covers whether the business has a right to direct or control the financial and business aspects of the

worker's job.

- Type of Relationship relates to how the workers and the business owner perceive their relationship.

2. If you have the right to control or direct not only *what* is to be done, but also *how* it is to be done, then your workers are most likely employees.

3. If you can direct or control *only the result* of the work done -- and not the means and methods of accomplishing the result -- then your workers are probably independent contractors.

4. Employers who misclassify workers as independent contractors can end up with substantial tax bills. Additionally, they can face penalties for failing to pay employment taxes and for failing to file required tax forms.

5. Workers can avoid higher tax bills and lost benefits if they know their proper status.

6. Both employers and workers can ask the IRS to make a determination on whether a specific individual is an independent contractor or an employee by filing Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, with the IRS.

7. You can learn more about the critical determination of a worker's status as an independent contractor or employee at IRS.gov by selecting the Small Business link under Businesses. Additional resources available on the IRS website include IRS Publication 15-A, Employer's Supplemental Tax Guide, Publication 1779, Independent Contractor or Employee, and Publication 1976, Do You Qualify for Relief under Section 530? These publications are also available by calling the IRS at 800-829-3676 (800-TAX-FORM).

Guidance explaining 2011 changes to *Flexible Spending Arrangements*

The Internal Revenue Service recently issued guidance reflecting statutory changes regarding the use of certain tax-favored arrangements, such as flexible spending arrangements (FSAs), to pay for over-the-counter medicines and drugs.

The *Affordable Care Act* established a new uniform standard that applies to FSAs and health reimbursement arrangements (HRAs) effective January 1, 2011. Under the new standard, the cost of an over-the-counter medicine or drug cannot be reimbursed from the account

unless a prescription is obtained. The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles. The new standard applies only to purchases made *on or after* January 1, 2011. Claims for medicines or drugs purchased without a prescription in 2010 can still be reimbursed in 2011, if allowed by the employer's plan.

A similar rule goes into effect on January 1, 2011 for Health Savings Accounts (HSAs), and Archer Medical Savings Accounts (Archer MSAs).

For details on current rules, see Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans. Updates on this and other health care reform provisions can be found at IRS.gov on the Affordable Care Act page found under Businesses. Notice 2010-59 and Revenue Ruling 2010-23, further explain this change.

We hope you find this newsletter helpful. If you have any questions or suggestions please feel free to contact us. Any feedback from you will be greatly appreciated. The following people are your contacts in the Audit Section:

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Click here for past issues back to 2008. Email your comments to Kay Gouyton or the editor, Barbara Kelly.

The Audit Section operates under the guidance of IRS Publication 963 and the *State & Local Coverage Social Security Handbook*, SSA Publication No. 16-055.

Please refer to IRS.gov and SSA.gov for further information.

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