



REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

November 14, 2007

IN REPLY REFER TO:
DFSBP 07-04

TO: Agencies Addressed

FROM: John Bennett, Chief
Bureau of State Payrolls

SUBJECT: **2007 CALENDAR YEAR-END INFORMATION**

The following payroll related information is provided to assist agencies in complying with the calendar year-end reporting and processing schedule. Information concerning upcoming payroll changes and activities is included. The following topics are covered:

1. Form W-4 – Expiration of Exemption From Withholding
2. Form W-5 – Expiration of Advance Earned Income Credit (EIC) Payments
3. Form DFS-A3-05 – Expiration of Excluded Employment
4. Vehicle Fringe Benefit Reporting
5. Taxable Tuition Waivers and Taxable Education Assistance
6. Cancellations and Adjustments
7. Refund of Current Year Salary Overpayment
8. On-Demand Payroll and Revolving Fund Reimbursements
9. State Income Taxes Deducted in 2007
10. Form W-2 & Form 1042-S Distribution
11. Duplicate Forms – W-2, W-2c and 1042-S
12. FICA Tax Changes – 2008
13. Qualified Transportation Fringe Benefit Limits – 2008
14. Pension Plan Contribution Limits – 2008
15. Non-Resident Alien (NRA) Employees – Special Instructions for Form W-4
16. Health Savings Accounts – Monthly Contribution Limits for 2008

All reports referenced in this memorandum are available through the Report Distribution System (RDS). Information about RDS is located in Volume VIII, Section 2 of the Payroll Preparation Manual. If you need assistance in viewing or printing your reports, please contact your agency RDS administrator.

FLORIDA DEPARTMENT OF FINANCIAL SERVICES
JOHN BENNETT • BUREAU CHIEF
DIVISION OF ACCOUNTING AND AUDITING • BUREAU OF STATE PAYROLLS
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0356 • TEL. 850-413-5513 • FAX 850-413-5552 • SC 293-5513
EMAIL • JOHN.BENNETT@FLDFS.COM

AFFIRMATIVE ACTION • EQUAL OPPORTUNITY EMPLOYER

1. Form W-4 – Expiration of Exemption From Withholding

A Form W-4 claiming exemption from withholding is valid for only one calendar year. Employees claiming exempt status on their Form W-4, Employee's Withholding Allowance Certificate, must file a new Form W-4 each year. Forms W-4 claiming exempt status for 2007 expire February 15, 2008. If a new W-4 is not filed, the Internal Revenue Service requires the employer to withhold tax as if the employee is single with zero allowances. On February 13, 2008, our Department of Financial Services (DFS) will update W-4's that still contain 2007 exempt status to "single" filing status and "0" allowances in the DFS payroll system. In order to continue uninterrupted exempt status for 2008, eligible employees must submit a new Form W-4 by February 13, 2008. For agency employees using the People First system, this is accomplished by updating the W-4 information in People First by **5:00 p.m.** on February 13, 2008.

Agency payroll report PW4RYX03 (RDS ID Q**T) provides a listing of employees within your agency who have claimed exempt status for 2007. This report will be available for Agency use by January 1, 2008. **These employees should be notified that a new Form W-4 is required for 2008.**

Agencies should remind employees to update their Form W-4 information if their address, marital status, allowances, or exempt status has changed since their W-4 information was last updated.

2. Form W-5 – Expiration of Advance Earned Income Credit (EIC) Payments

Agencies should remind employees that all 2007 Forms W-5 (Earned Income Credit Advance Payment Certificates) expire December 31, 2007. This includes any 2007 Form W-5 updates entered into the DFS payroll system between now and year-end. To continue uninterrupted participation for Advance EIC payments, eligible employees must submit Form W-5 for 2008 by December 24, 2007. For employees using People First, the opportunity to enter a new 2008 W-5 record and continue uninterrupted participation exists December 8, 2007 through December 24, 2007. Any 2008 W-5 entered after December 24, 2007 will be effective on the next payroll after receipt of the W-5.

Agency payroll report PW4RYX05 (RDS ID Q**W) provides a listing of employees within your agency with Form W-5's that expire December 31, 2007. **These employees should be notified that a new Form W-5 is required for 2008.**

3. Form DFS-A3-05 – Expiration of Excluded Employment

Certain specific types of employment are either exempt from federal withholding or eligible for reduced withholding under the Internal Revenue Code or income tax treaties. Most exemptions are valid for one year and must be renewed each year.

Agency payroll report PW4RX06 (RDS Form ID Q**X) lists your employees having a Form DFS-A3-05 (Reduction or Exemption From Withholding) that will expire on December 31, 2007. The report lists only those employees who have been paid since July 1, 2007.

In order for employees to continue uninterrupted excluded employment, agencies must enter a new Form DFS-A3-05 into the W-4 System no later than December 24, 2007. The form is available on the web at www.fldfs.com/aadir/bosp/BOSP_MANUAL.pdf.

Agencies and universities are responsible for monitoring the residency status of employees and time limitations under income tax treaties. When an employee is no longer eligible for the reduction or exemption from withholding, the Form W-4 should be updated as soon as possible. Refer to Volume V, Section 3 of the Payroll Preparation Manual for Form W-4 and Form DFS-A3-05 procedures.

4. Vehicle Fringe Benefit Reporting

The deadline for reporting vehicle fringe benefits for November 1, 2006 through October 31, 2007 is **5:00 p.m.** on December 24, 2007. Vehicle fringe benefits must be reported utilizing the on-line non-cash adjustments system. Agencies collecting FICA taxes through the payroll process in December should exercise care to ensure that the appropriate non-cash adjustments are entered and approved prior to the processing of their agency's last payroll of the year. On-line adjustments entered after the last payroll for 2007 has processed, or adjustments by agencies that elect to pay FICA taxes from their FLAIR accounts, must be entered and approved in the on-line system by 5 p.m. on December 24, 2007 in order to be considered as 2007 business. This is the date of the last cancellation and adjustment run of the year. Any reported benefits entered into the on-line system after that date will result in the affected employee receiving a corrected Form W-2 (W-2c) for calendar year 2007.

Instructions for completing on-line non-cash adjustments are found in Volume V, Section 7, of the Payroll Preparation Manual. Questions regarding this process should be directed to the Employee Records Section to Cynthia Murphy, (850) 413-5558, SUNCOM 293-5558, cynthia.murphy@fldfs.com or Patsy Burgess, (850) 413-5483, SUNCOM 293-5483, patsy.burgess@fldfs.com.

Elected officials and employees whose calendar year 2007 compensation is greater than \$136,200 are not eligible to use the commuting valuation method. Instead, they must use the Annual Lease Value Table. Please note there is a four-year recalculation requirement when using the Annual Lease Value Table. Refer to Volume VI, *Personal Use of State-Provided Vehicles*, of the Payroll Preparation Manual for instructions.

5. Taxable Tuition Waivers and Taxable Education Assistance

Taxable tuition waivers and education assistance must be reported in the current calendar year utilizing the on-line non-cash adjustments system. Agencies collecting FICA taxes through the payroll process in December 2007 should exercise care to ensure that the values are entered and approved prior to processing the last payroll of the year. Agencies electing to pay FICA taxes from their FLAIR accounts, or those that must enter on-line adjustments after the last payroll for 2007 have processed (and pay the FICA taxes), must enter and approve the transactions by **5:00 p.m.** on December 24, 2007 (the last daily cancellation and adjustment run of the year). Instructions for completing on-line non-cash adjustments are located in Volume V, Section 7, of the Payroll Preparation Manual. Information concerning the reporting of taxable tuition waivers is located in Volume VI, Section 3, of the Payroll Preparation Manual.

6. Cancellations and Adjustments

All cancellations and adjustments, including salary refunds, made to year 2007 earnings must be added and approved in the on-line system by **5:00 p.m.** December 24, 2007 in order to be considered 2007 business for W-2 production and withholding tax restoration. EFT Cancellations for the December 28, 2007 Supplemental Payroll warrant date and the December 31, 2007 Monthly Payroll warrant date must be entered by **3:00 p.m.** on December 24, 2007. There will be at least a 4-month delay in restoration of withholding tax for any adjustments processed after December 24, 2007.

No adjustments will be processed from **5:00 p.m.** on December 24, 2007 through January 2, 2008. Cancellations and adjustments to year 2007 earnings approved after **5:00 p.m.** on December 24, 2007 will result in the issuance of a W-2c Form. Cancellations and adjustments entered and approved after **5 p.m.** on December 24, 2007 thru January 9, 2008 will result in the message "**Employee: Please Hold for W-2c**" being printed on the employee's original Form W-2. Any employee receiving a Form W-2 with this message should refrain from filing a tax return until the Form W-2c is received. The 2007 W-2c forms will be printed after printing of the 2007 W-2 forms has been completed.

Adjustments processed after January 9, 2008 will generate a W-2c Form. However, original 2007 Forms W-2 will not display a message.

Procedures for cancellation and adjustment processes are found in Volume V, Section's 5-10, of the Payroll Preparation Manual. Questions regarding these processes should be directed to the Employee Records Section to Cynthia Murphy, (850) 413-5558, SUNCOM 293-5558, cynthia.murphy@fldfs.com or Patsy Burgess, (850) 413-5483, SUNCOM 293-5483, patsy.burgess@fldfs.com.

7. Refund of Current Year Salary Overpayment

In order to be considered in the production of the original 2007 W-2 Forms, salary refunds must be added in the DFS Payroll (PYRL) system and approved by **5:00 p.m.** on December 24, 2007 (the last Daily Adjustment Run for the year). Refunds entered in the system and approved by December 24, 2007 will have taxable gross, social security, Medicare, and federal withholding tax adjusted. The original Form W-2 will reflect the employee salary refund. The related social security, Medicare, and federal withholding tax will be restored to agency accounts.

Refunds entered in the system and approved *after 5:00 p.m.* December 24, 2007, and before the salary refund records are purged from the DFS PYRL system on January 3, 2008 (after *5:00 p.m.*), will have taxable gross, social security, Medicare, and federal withholding tax adjusted and Form W-2c issued. The original Form W-2 will be marked advising the employee not to file until the corrected form is received. The related social security and Medicare will be restored to agency accounts. Withholding tax will be restored to the agency after the IRS refunds it. This process may take up to four months.

Refunds entered in the system by December 31, 2007 but not approved by **5:00 p.m.** January 3, 2008 will be purged from the system. Records for employees who repaid overpayments in 2007 but whose on-line adjustments were not approved by **5:00 p.m.** January 3, 2008 will be purged and must be submitted to the Employee Records Section on Form DFS-A3-29 for processing.

Refunds submitted to the Employee Records Section on Form DFS-A3-29 and processed *no later than January 9, 2008* will have taxable gross, social security, Medicare, and federal withholding tax adjusted and Form W-2c issued. The original Form W-2 will be marked advising the employee not to file until the corrected form is received. The related Social Security and Medicare will be restored to agency accounts. Withholding tax will be restored to the agency after the IRS refunds it. This process may take up to four months.

Refunds submitted to the Employee Records Section on Form DFS-A3-29 and processed *after January 9, 2008* will have taxable gross, social security, Medicare adjusted and Form W-2c issued. This process restores social security and Medicare taxes to the agency accounts. *Federal withholding tax will not be adjusted.* The agency will have to collect the withholding tax from the employee. The original Form W-2 will not be marked indicating a correction is being processed.

Current year salary overpayments that have not been collected at year-end must be recalculated to include the withholding tax on subsequent collections. This can be done using the on-line salary refund system. Information concerning the processing of salary overpayment refunds can be found in Volume V, Section 6, of the Payroll Preparation Manual. Questions regarding salary overpayment adjustments should be directed to the Employee Records Section to Cynthia Murphy, (850) 413-5558, SUNCOM 293-5558, cynthia.murphy@fldfs.com or Patsy Burgess, (850) 413-5483, SUNCOM 293-5483, patsy.burgess@fldfs.com.

8. On-Demand Payroll and Revolving Fund Reimbursements

All Revolving Fund payments for wages made to employees in calendar year 2007 must be calculated and reimbursed in year 2007 **utilizing the On-Demand Payroll System**. All transactions in the On-Demand system must be approved by **5:00 p.m.** on December 24, 2007, to be considered 2007 business.

On-Demand transactions not approved by this time will be purged from the On-Demand system. If a revolving fund transaction is not reimbursed in the same calendar year as payment to the employee, an incorrect W-2 Form will be created necessitating the issuance of a W-2c Form. In addition, the unapproved On-Demand revolving fund reimbursement transaction will be deleted after **5:00 p.m.** on December 24, 2007 and will require manual processing by the Bureau of State Payrolls (BOSP). Note that revolving fund payments can only be reimbursed through the On-Demand Payroll System for the exact amount calculated by the On-Demand Payroll System in the calendar year the Revolving Fund check was paid to the employee. For additional information on Revolving Fund regulations, please refer to Chapter 69I-31.226, Florida Administrative Code, titled "Wage Payments from Revolving Funds." Also refer to Volume IV, Section 11 of the Payroll Preparation Manual for additional information on the On-Demand Payroll System.

No On-Demand transactions will be processed on December 24 (after **5:00 p.m.**) through December 27, 2007. On-Demand payrolls processed on December 28, 2006 will be warrant dated January 2, 2008.

9. State Income Taxes Deducted in 2007

Agencies electing to provide state income tax withholding deductions for their employees must assume the remitting and reporting responsibilities. Each agency must register with the appropriate taxing authority of the state or local government; obtain an agency tax identification number and the required information and forms for meeting its remitting and reporting responsibilities. BOSP must be notified when new registrations are obtained, providing the name of the state or local government taxing authority, the agency tax identification number, deduction code utilized, and the agency contact name and telephone number.

State income tax deduction amounts are reported on Form W-2, box 17. Agency reports will be available in January 2008 listing employees having state and local government income tax deductions in year 2007. Agency payroll report PSARSTAX (RDS Form ID U**K). RDS administrators should establish this report for all necessary personnel before year-end (December 31, 2007). Information about State Income Taxation is located in the Payroll Preparation Manual Volume VI, Section 9. Questions should be directed to the Taxation/Reconciliation Section, Ernest Thompson, (850) 413-5676, SUNCOM 293-5676, ernest.thompson@fldfs.com.

10. Form W-2 & Form 1042-S Distribution

Original Forms W-2 and Information Statements for calendar year 2007 will be distributed to all agencies by January 17, 2008. The design of Form W-2 has changed minimally from last year. However, the

dimension of the form and the address placement are the same as last year's Form W-2. The envelopes for mailing W-2 forms to employees can be purchased using state commodity #310-420-723-0160.

The alpha list of original W-2's will **ONLY** be available to the agencies in RDS. The RDS Form ID is U**6. RDS administrators should establish this report for all necessary personnel **before** January 9, 2008.

Original Forms 1042-S for Non-Resident aliens will be distributed to all agencies no later than March 3, 2008. The design of the Form 1042-S has not changed from last year.

11. Duplicate Forms – W-2, W-2c and 1042-S

The last day in 2007 that 2004, 2005, or 2006 duplicate Forms W-2, W-2c or 1042-S will be available via the on-line request system will be December 24, 2007. Duplicate 2005 and 2006, Forms W-2 and W-2c should be available via the on-line request system by January 18, 2008 or shortly thereafter. Duplicate W-2 and W-2c Forms for 2007 should be available by January 31, 2008. Duplicate 2005, 2006, and 2007 1042-S Forms should be available via the on-line request system in March 2007.

12. FICA Tax Changes – 2008

The Social Security wage base will increase from \$97,500 to \$102,000 in year 2008. The Social Security tax rate will remain at 6.2% and the Medicare tax rate will remain at 1.45% for both employee and employer contributions.

13. Qualified Transportation Fringe Benefit Limits - 2008

For 2008, the monthly limitation under §132(f), regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is \$115. The 2008 monthly limitation for qualified parking is \$220.

14. Pension Plan Contribution Limits – 2008

The annual additions limitation for defined contribution plans under IRC §415(c) increased from \$45,000 to \$46,000 for 2008.

The §401(a)(17) annual compensation limit increased from \$225,000 to \$230,000 for 2008.

The §401(a)(17) annual compensation limit for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under §401(a)(17) to be taken into account, increased from \$335,000 to \$345,000 for 2008.

The limitation on the exclusion for elective deferrals under §402(g) (e.g., 403(b) plans) remain unchanged at \$15,500 for 2008.

The limitation on the exclusion for §457 elective deferrals to deferred compensation plans of state and local governments remains unchanged at \$15,500 for 2008.

The limitation under 414(v) for catch-up contributions to 403(b) and 457 plans for individuals age 50 and over remain unchanged at \$5,000 for 2008.

15. Non-Resident Alien (NRA) Employees – Special Instructions for Form W-4

When completing Form W-4, Non-Resident Aliens should use the following instructions instead of the instructions on the Form W-4:

- (1) **Check “Single” on line 3 (regardless of actual marital status).**
- (2) Claim only one allowance on line 5, unless a resident of Canada, Mexico, or South Korea, or a U.S. national.
- (3) Write “Non-Resident Alien” or “NRA” above the dotted line on line 6 of Form W-4. For agencies using the People First System, a check box is provided for indicating non-resident alien status.
- (4) A non-resident alien cannot claim exemption from withholding on Form W-4. Use Form DFS-A3-05 (Reduction Or Exemption From Withholding Form) to claim a tax treaty exemption from withholding. The form is available on the web at www.fldfs.com/aadir/bosp/BOSP_MANUAL.pdf.

Non-Resident Alien employees are no longer required to request an additional withholding amount. However, like all other employees, they may request additional withholding at their option.

16. Health Savings Accounts – Monthly Contribution Limits for 2008

- Self-Only Coverage – For calendar year 2008, the monthly contribution limitation (employer and employee combined) for an individual with self-only coverage under a high deductible plan as of the first day of such month is 1/12 of \$2,900.
- Family coverage – For calendar year 2008, the monthly contribution limitation (employer and employee combined) for an individual with family coverage under a high deductible plan as of the first day of such month is 1/12 of \$5,800.
- For employees age 50 or older at year-end, the annual contribution rate for 2008 is increased to \$800.

Please contact Cindy Langley at (850) 413-3573, SUNCOM 213-3573, cindy.langley@fldfs.com if you have any questions concerning this 2007 Calendar Year-End Information memorandum.

JB/CL: ct