

2008 Guide to Information Reporting Requirements

Once again, it is time to plan for information reporting required by the Internal Revenue Service (IRS) and the Connecticut Department of Revenue Services (DRS). In this guide, we cover the information required for returns most commonly filed for amounts paid to or received from non-corporate payees such as individuals, partnerships, LLCs, LLPs, estates and trusts.

Generally, returns must be issued to payees by February 2, 2009, and mailed to the IRS and DRS by March 2, 2009. There are very specific rules for proper completion of returns. Requirements for filing on magnetic media may apply to 2008 filings even if they did not apply for 2007 filings. These requirements should not be taken lightly as severe penalties are imposed for late filing, incorrect returns and nonfiling.

Federal Reporting Changes to Note

Electronic filing has replaced magnetic media

Neither the Social Security Administration nor the Internal Revenue Service accept magnetic media for forms W-2 or 1099. Forms previously filed on magnetic media must now be filed electronically.

Internal Revenue Service Addresses

A 3 line mailing address is now required on envelopes addressed to IRS service centers where the address does not include a street address or post office box number.

The standard address is
Department of the Treasury
Internal Revenue Service Center
City, State postal code and zip code

Special Reporting Situations

Employer-Provided Educational Assistance

The \$5,250 exclusion for employer-provided educational assistance was made permanent by the Economic Growth and Tax Reconciliation Act of 2001. Please note that the exclusion is available for expenses related to graduate level courses, after December 31, 2001.

Telephone Number Requirement

You are required to include the telephone number of a person to contact on certain statements to recipients. You must include the telephone number in the filer name and address area on the following statements to recipients: W-2G, 1098, 1098-C, 1098-E, 1098-T, 1099-A, 1099-B, 1099-CAP, 1099-DIV, 1099-G, 1099-H, 1099-INT, 1099-LTC, 1099-MISC, 1099-OID, 1099-PATR, 1099-Q and 1099-S. This number must provide direct access to an individual who can answer questions about the statements.

Household Employee Reporting

Household employees who are paid less than \$1,600 (\$1,700 in 2009) in a calendar year are not subject to Social Security and Medicare taxes. Individuals who are under age 18 are not subject to Social Security and Medicare tax on pay for household services, unless household services is the principal occupation of the individual. File Form W-2 for each household employee to whom you paid \$1,600 or more in cash wages subject to Social Security and Medicare taxes in 2008. Also, file Form W-2 for any employee who did not earn at least \$1,600 but requested income tax withholding or received advance earned income credit payments. All household employers, even those with only one household employee, must file Form W-3 with their 2008 Forms W-2.

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Qualified Adoption Expenses

Amounts paid or expenses incurred by an employer for qualified adoption expenses under an adoption assistance program are not subject to income tax withholding and are not reportable in Box 1 of Form W-2. However, this amount is subject to Social Security and/or Medicare taxes and must be reported in Boxes 3 and 5.

Report the total amount in Box 12, code T.

Reporting Moving Expense Reimbursements

Qualified moving expenses an employer pays to a third party on behalf of the employee (e.g., to a moving company) and services that an employer furnishes in kind to an employee are excludable from income and will not be reported on form W-2.

Qualified moving expense reimbursements paid directly to an employee by an employer are excludable, but should be reported in box 12 with code P.

Continue to report nonqualified moving expense reimbursements in box 1. These amounts are subject to income tax withholding and social security and Medicare taxes. Reimbursements (including payments made directly to a third party and services furnished in kind) for an employee's moving expenses are treated as qualified excludable fringe benefits if: 1) the expenses would have been deductible by the employee if the employee paid them and 2) the employee did not deduct the expenses in a prior year. These reimbursements should be made under rules similar to those of an "accountable plan" where the employee must submit a request for reimbursement and attach proper documentation. In such cases, these reimbursements are excludable from wages and are not subject to withholding, Social Security or Medicare taxes. Do not include excludable moving expense reimbursements in Boxes 1, 3 or 5 of Form W-2.

Employer Paid Taxes

If you paid your employee's share of Social Security and/or Medicare, rather than deducting it from his or her wages, you must include the amount as wages, Social Security wages and Medicare wages. For household or agricultural employees, you must add such employer payments to wages only in box 1, not Social Security or Medicare wages. Contact us to obtain the formula for determining the amount to be included as wages.

Health Benefits for a Domestic Partner or Civil Union/Same Sex Marriage Partner

Health benefits provided to an employee or the employee's spouse and dependents are generally excluded from the employee's income and not reported on form W-2. However, health benefits provided to an employee's domestic partner who does not qualify as a spouse under state law, or to a same sex partner under a state civil union or same sex marriage law, will be taxable as wages to the employee, and subject to Social Security, Medicare and unemployment taxes. A same sex partner does not qualify as a spouse under Section 3 of the "Defense of Marriage Act", P.L. 104-199, September 21, 1996 (1USC7). However, a domestic partner or same sex partner may qualify as a dependent. To be a dependent, the employee must provide more than one-half of the domestic partner's support and satisfy relationship or member of household tests. The value of the benefit is the amount the domestic partner would have to pay for the fringe benefit in an arms-length transaction reduced by premium paid by the employee.

Reporting Deceased Employee's Wages

If an employee dies during the year, you must report the accrued wages, vacation pay and other compensation paid after the date of death. If you make payments in the same year the employee dies, you must withhold Social Security and Medicare taxes on the payments. These payments are reported on Form W-2 as Social Security wages (Box 3) and Medicare wages (Box 5) with the corresponding Social Security and Medicare taxes withheld reported in Boxes 4 and 6. Do not show the payments in Box 1.

If you make payments in the year after death, you should not withhold any Social Security or Medicare taxes, and do not report these payments at all on Form W-2. Whether the payment is made in the year of death or in the year after death, you must also report it on Form 1099-MISC, box 3 as a payment to the estate or beneficiary. Use the name and tax identification number of the estate or beneficiary on Form 1099-MISC.

Nonqualified Deferred Compensation Plans

Section 409A, added by the American Jobs Creation Act of 2004, provides that all amounts deferred under a nonqualified deferred compensation (NQDC) plan for all tax years are currently includible in gross income unless certain requirements are met. The Act requires reporting of the yearly deferrals (plus earnings) under a section 409A nonqualified deferred compensation plan, using Code Y in box 12. For a nonemployee, such as a director or independent contractor, this information is reported in box 15a of form 1099-MISC. Income included under section 409A from a nonqualified deferred compensation plan will be reported in box 1, and in box 12 using Code Z. For a nonemployee, such as a director or independent contractor, this information is reported in box 15b of form 1099-MISC. This income is also subject to an additional tax reported on Form 1040. For more information, see section 5 of Publication 15-A.

Charitable Organizations - Contributions of Vehicles, Boats, and Airplanes

Charitable organizations must provide a contemporaneous written acknowledgment on form 1098-C to the donor of a motor vehicle, boat, or airplane valued at more than \$500. Copies B and C must be given to the donor within 30 days after the sale, if sold, or 30 days after the donation. Copy B must be attached to the donor's form 1040 to claim a deduction for the donation.

Wage and Tax Statement - Form W-2

Box 1

Include all wages, tips, prizes, awards and other compensation paid to the employee during the calendar year (before any payroll deductions), whether cash or non-cash. "Other compensation" is any income subject to income tax withholding, Social Security and Medicare tax and may include:

- Valuation of personal use of company-provided auto
- business expense reimbursements, if not paid under an accountable plan or paid in excess of government specified rates
- Business expense reimbursements in excess of substantiated amounts paid under an accountable plan
- Dependent care expenses paid in excess of the \$5,000 annual exclusion
- Cash option payments of a Section 125 cafeteria plan
- Table I taxable fringe benefit for group-term life insurance premiums paid on more than \$50,000 of coverage
- Amounts paid for group term life insurance for a 2% or more shareholder/employee of a Subchapter S corporation
- Amounts paid for health insurance premiums for a 2% or more shareholder/employee of a Subchapter S corporation
- Value of meals and lodging provided for reasons other than for the convenience of the employer
- Accounting fees paid for the preparation of individual income tax returns of either owners or employees
- Educational assistance that is not job related (see "Employer-Provided Educational Assistance" above)
- Employee's share of taxes paid by employer (see "Employer Paid Taxes" above)
- Taxable payments for moving expenses (see "Reporting Moving Expense Reimbursements" above)
- "Golden parachute payments"
- Employee's contributions to an Archer Medical Savings Account or a Health Savings Account

Box 2

Federal income tax withheld. Do not reduce the withholding by any advance earned income credit (EIC) payments made to the employee.

Box 3

Social Security Wages - The 2008 maximum Social Security wages are \$102,000. Please note that the following items are subject to Social Security tax:

- Services in the employ of a spouse's self-employed business.
- Services by children aged 18 to 21 working for a self-employed parent.
- Taxable fringe benefits or other compensation enumerated for Box 1, except amounts paid for health insurance premiums for a 2% or more shareholder/employee of a Subchapter S corporation.
- Contributions to certain qualified cash and deferred compensation arrangements, even though not included in Box 1. See Box 12, Codes D, E, F, G and S.
- Designated Roth contributions made to a 401(k) or 403(b) plan. See box 12, Codes AA and BB.

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Box 4

Show the amount of Social Security tax withheld from employee, not the employer's share. The amount shown should not exceed \$6,324.00.

Box 5

Medicare Wages and Tips - Income subject to Social Security tax is also subject to Medicare tax, except there is no wage limit for the Medicare tax (1.45%). Amounts paid for health insurance premiums for a 2% or more shareholder/employee of a Subchapter S corporation should be excluded.

Box 6

Show the amount of Medicare tax withheld from employee, not the employer's share.

Box 7

Social Security Tips - Show the amount of employee-reported tips. Do not report more than a combined total of \$102,000 in Boxes 3 and 7.

Box 10

Show the total amount of dependent care expenses paid or incurred for the year. Include the fair market value of employer provided/sponsored day care facilities and amounts paid or incurred under a cafeteria plan in excess of \$5,000. Also include any amounts in excess of the \$5,000 exclusion in Boxes 1, 3 and 5.

Box 11

Show the total amount of distributions from a non-qualified deferred compensation plan or Section 457 plan, which is also included in Boxes 1, 3 and 5.

Box 12

The box should be completed with up to four of the codes listed below. The code should be entered as a capital letter in the code field. The amount should be entered after the pre-printed dollar sign, using decimal points and no commas. If more than four items are to be reported in Box 12, you must use a separate W-2.

A Uncollected Social Security tax on tips. Do not include this amount in Box 4.

B Uncollected Medicare tax on tips. Do not include this amount in Box 6.

C The cost of group-term life insurance in excess of \$50,000.

The amount of employee contributions made to any of the following plans (codes D – H, S, Y, AA, & BB): (Note: Total deferrals, even if in excess of the annual limit, are reported here. Any excess over the annual limit is not included in Box 1. IRS has announced that catch-up contributions allowed after 2001 will be included in the total deferrals reported in codes D – H & S. The catch-up amounts will not be separately reported.)

D 401(k) - elective salary deferral.

E 403(b) - tax deferred annuity.

F 408(k)(6) - SEP elective salary deferral.

G 457(b) - government deferred compensation.

H 501(c)(18)(D) - tax-exempt organization. Include this amount in Box 1. The employee will deduct this amount on his or her individual tax return.

J Show the amount of any sick pay NOT includable in income because the employee contributed to the sick pay plan.

K 20% excise tax on excess golden parachute payments.

L Substantiated employee business expense reimbursements. Use this code only if you reimbursed your employee business expenses using a per diem or mileage allowance and the amount you reimbursed exceeds the amount treated as unsubstantiated under IRS rules. Any reimbursements exceeding substantiated amounts are not included here but must be reported as taxable wages in Box 1.

M Uncollected Social Security tax on group-term life insurance coverage in excess of \$50,000 provided to former employees.

N Uncollected Medicare tax on group-term life insurance coverage in excess of \$50,000 provided to any former employees.

P Excludable reimbursed moving expenses paid directly to an employee.

Q Nontaxable combat pay (military employers only).

R Employer contributions to an Archer MSA (Medical Savings Account).

S Employee salary reduction contributions to a 408 (p) SIMPLE retirement account.

T Employer-provided adoption benefits.

V Income from the exercise of nonstatutory stock option(s). Include this amount in boxes 1, 3, and 5.

W Employer contributions to a Health Savings Account.

Y Deferrals under a section 409A nonqualified deferred compensation plan. Include current year deferrals and current year earnings on current and prior year deferrals.

Z Income under section 409A on a nonqualified deferred compensation plan. Show amount that was included in box 1. This income is also subject to an additional tax reported on the employee's form 1040.

AA Designated Roth contribution to a section 401(k) plan.

BB Designated Roth contribution to a section 403(b) salary reduction agreement.

Box 13

By checking the appropriate box you may report:

- *Statutory Employee* - Check for statutory employees subject to Social Security and Medicare tax but not Federal income tax withholding (see Circular E or contact us for information on statutory employees).
- *Retirement Plan* - Check if the employee was an active participant for any part of the year in a retirement plan (including a SEP or SIMPLE) maintained by the employer. Please call us if you are not familiar with the "active participant" rules. Do not check this box if you are reporting contributions made to a nonqualified plan.
- *Third-party sick pay* – Check if you are reporting sick pay payments made by a third party (insurance company).

Box 14

The lease value of a vehicle provided to your employee and reported in Box 1, must be reported here or in a separate statement to your employee. This box may also be used for any other information you want to give your employees. Examples include union dues, educational assistance payments, health insurance premiums deducted, nontaxable income and voluntary after-tax contributions.

Boxes 15-20

You may use these boxes to report state or local income tax information. If you need to report information for more than two states or localities, file a second Form W-2.

Other Information Returns

(See note below regarding substitute forms.)

Form 1098 – Used to report mortgage interest of \$600 or more received by you during the year in the course of your trade or business from an individual, including a sole proprietor. Prepare a separate Form 1098 for each mortgage on which you are reporting. Points which represent interest for the purchase of a principal residence must also be reported. There are many other complex rules relating to the preparation of this form. If you are required to file Form 1098, please call our office for assistance.

Form 1099-C – Used to report cancellation of debt for each debtor for whom a debt was canceled of \$600 or more and the creditor was a financial institution, a credit union or a federal government agency. The form must be filed even though the debtor may not be subject to tax on the canceled debt. That is, the creditor is not required to determine whether the debtor qualifies for exclusion under Internal Revenue Code Section 108. For example, debts discharged in bankruptcy are reportable.

Form 1099-R – Used to report any distributions from pensions, annuities, profit-sharing plans, retirement plans, IRAs, insurance contracts, etc., for each person to whom you have made a designated distribution, whether or not you withheld income tax. It is also used to report direct rollovers from qualified plans or tax sheltered annuities. For a direct rollover of funds that include deductible voluntary employee contributions (DECs), file only one Form 1099-R to report the entire rollover amount.

Report on separate 1099-R forms any actual distributions of DECs or distributions from deemed IRAs included in a qualified plan. Do not report payments subject to Social Security or Medicare tax withholding on this form. Report these payments on Form W-2. For payments to a beneficiary of a decedent, prepare Form 1099-R using the name and identification number of the beneficiary, not that of the decedent.

Make sure you use 2008 instructions for form 1099-R. Because there are many complex rules relating to the preparation of this form, please call our office for assistance if you are required to file Form 1099-R.

Form 1099-S – Used to report proceeds from real estate transactions for the sale or exchange of land or any residential, commercial or industrial buildings. The person responsible for closing the transaction, usually the Settlement Agent listed on the Uniform Settlement Statement, must file Form 1099-S with the IRS for each real estate transaction. If a settlement statement is not prepared or if the Settlement Agent is not listed, or if no one person is responsible for the closing of the transaction, the person responsible for filing Form 1099-S is, in the following order:

- (a) the mortgage lender;
- (b) the transferor's broker;
- (c) the transferee's broker;
- (d) the transferee.

Filers of Form 1099-S who receive an acceptable written assurance from the seller of a principal residence are not required to file Form 1099-S with the IRS nor furnish the seller Form 1099-S for any sale of a principal residence after May 6, 1997 for \$250,000 or less (\$500,000 or less if the written assurance includes an assurance that the seller is married). The written assurance must state that the property sold is the seller's principal residence and the full gain on the sale or exchange is excludable from gross income under IRC Sec 121. The assurance must be signed by each seller under penalties of perjury.

Form 1099-DIV – Used to report dividends and distributions (liquidating and nonliquidating), whether cash or noncash. Liquidating payments of \$600 or more and nonliquidating dividends and distributions of \$10 or more are reportable. This form is also to be used to report backup withholding from dividend payments regardless of amount.

Form 1099-INT – Used to report interest payments of \$10 or more. Imputed interest on below market loans should also be included. This form is also to be used to report backup withholding from interest payments regardless of amount. Interest on tax-exempt state and local bonds is reported in box 8. This includes OID on tax exempt bonds and exempt-interest dividends paid by a regulated investment company. The portion of tax exempt interest reported in box 8 that is subject to AMT (private activity bonds) is also reported in box 9.

Form 1099-MISC – Used to report other types of payments of \$600 or more. Report payment of rents in Box 1, gross royalty payments of \$10 or more (before reduction for any severance or other taxes) in Box 2, other payments not required to be reported elsewhere in Box 3, and payments of prizes, awards, fees, commissions and any other compensation for services provided by an individual (including fees paid to accountants, attorneys, directors, etc.) who is not your employee in Box 7. In Box 4, report any Federal income tax withheld from any of these types of payments, including back-up with-holding where a person has not provided you with a tax identification number. You must report payments to corporations that provide legal services. It is not necessary to report these payments to other corporate payees.

In addition, use this form to report that direct sales of at least \$5,000 of consumer products were made to a buyer for resale by checking Box 9 but you do not need to report the amount of these sales. DO NOT use this form to report PS-58 insurance costs or an employee's travel or auto allowance. These amounts are reported on Form W-2 in Boxes 1 and 12.

Box 13 is for reporting excess golden parachute payments.

Box 14 is used for reporting gross proceeds paid to an attorney, such as a payment to settle a claim. Fees paid for legal services are reported in Box 7.

Boxes 15a and 15b are used to report deferrals and income under section 409A nonqualified deferred compensation plans for nonemployees (directors and independent contractors, for example).

State tax withheld, state ID and state income for two states can be reported in Boxes 16, 17 and 18. The state information is not required to be completed for the IRS.

A contact phone number is required in the name and address box.

Note: Attorneys performing oversight and management functions in connection with payments made from client trust fund accounts (e.g., payments to expert witnesses or investigators) are required to file Form 1099-MISC to report payments in excess of \$600.

Substitute Forms

You may use substitute statements for Copy B (recipient copy) of Forms 1099-DIV and 1099-INT if they include the following information prominently displayed together in one area of the statement: tax year, form number and form name. The IRS also requires that you include a telephone number on the statements to recipients (either government forms or substitutes) so that recipients can contact you directly with questions.

Transmittal Forms - Form W-3

Mail Copy A of Forms W-2 with the entire first page of Form W-3 to the following address:

Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001

If you use certified mail, the zip code is 18769-0002.

If you use an IRS approved private delivery service the address is:

Social Security Administration
Data Operations Center
Attn: W-2 Process
1150 East Mountain Drive
Wilkes Barre, PA 18702-7997

The Social Security Administration has requested that Forms W-2 be submitted either alphabetically by employee's last name or numerically by Social Security Number. This will assist the SSA in locating specific forms to respond to individual requests. Undeliverable Forms W-2 should be retained in their mailing envelopes for four years.

Transmittal Forms - Form 1096

Used when submitting Forms W-2G, 1098 Series, 1099 Series and 5498 Series. A separate Form 1096 must be filed with each type of form and must show the total number of forms submitted, Federal income tax withheld and the total amount of payments reported. Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont filers should file with:

Department of the Treasury
Internal Revenue Service Center
Austin, TX 73301

Filers from other states should check the instructions for the correct filing address.

Due Dates

Information returns (W-2 and 1099 series) for 2007 must be prepared and furnished to the payees by February 2, 2009.

- Electronic payee statements. If your employees give their consent, you may be able to furnish Copies B, C, and 2 of Forms W-2 to your employees electronically. See Pub. 15-A for additional information.
- Undeliverable Forms W-2. Keep for four years any employee copies of Forms W-2 that you tried to deliver but delivery failed.
- Copy A of Form W-2, along with transmittal Form W-3, must be filed with the Social Security Administration by March 2, 2009.
- Extended due date for electronic filers. If you file your 2008 Forms W-2 with the Social Security Administration (SSA) electronically, the due date is extended to March 31, 2008. For information on how to file electronically, or go to their website at <http://www.socialsecurity.gov/employer/> or call the SSA at 1-800-772-6270
- Online filing of Forms W-2 and W-3. You may file a limited number of Forms W-2 and W-3 online using the SSA Web Site at www.ssa.gov/employer. The site also allows you to print out copies of the forms for filing with state or local governments, distribution to your employees, and for your records.
- Forms 1099, along with transmittal Forms 1096, must be filed with the IRS by March 2, 2009. Form 8809 may be used to request a 30-day extension of time to file Copy A. This does not extend the due date for furnishing copies to payees. If you file these forms electronically, the due date is extended to March 31, 2008.

Paper Document Reporting

If you are filing paper copies of information returns, please follow these strict IRS rules:

- Forms must be typed in black ink in using 10 pitch (pica) or 12 pitch (elite) type. For computer printing use 12-point Courier font (letter quality if dot matrix). Use decimal point to indicate dollars and cents. Do not use dollar signs, commas, asterisks or other special characters. Do not use italic font.
- Do not cut or separate the forms that are two or three to a page.
- No photocopies of any forms are allowable.
- Do not staple, tear or tape any forms. Remove pinfeed holes. Continuous feed forms must be burst.
- Mail in a flat envelope without folding the forms.
- Do not change the title of any box on any form.
- Do not submit any copy other than Copy A to the Internal Revenue Service or Social Security Administration.
- Do not use a form to report information that is not properly reportable on that form. If you are not sure which form to use, please call us.
- Do not use prior year forms or subsequent year forms to report current year information.
- If a document is not correct, void it by typing an “X” in the VOID Box. DO NOT separate pages to remove voided forms.
- If you are submitting corrected or amended returns, type an “X” in the CORRECTED Box. Do not type “Corrected” or “Amended” on the forms.

Electronic Reporting

Electronic filing requirements for:

- W-2 forms are available on the Social Security Administration web site (<http://www.ssa.gov>). Electronic filing must be used (no magnetic media).
- 1099 and other information returns filed with the Internal Revenue Service are contained in Revenue Procedure 2008-30 and IRS Publication 1220.

Who Must Use Electronic Reporting

The Internal Revenue Service requires corporations, partnerships, individuals, estates and trusts who file 250 or more information returns (Forms W-2, W-2G, 1098, 1099 series and 5498) to file electronically. The 250 or more threshold applies separately to each type of information return.

Electronic submissions are made through the FIRE (Filing Information Returns Electronically) system. Access is available on the internet at <http://fire.irs.gov>. NOTE: First time filers must file Form 4419 prior to filing electronically.

Penalties Imposed

Failure to File Electronically if Required

The penalty for failure to file information returns electronically when required is imposed only on the number of returns exceeding 250. This penalty is \$50 per return, to a maximum of \$250,000 during any calendar year (\$100,000 maximum for small businesses).

Failure to Furnish Correct Payee Statements

This penalty applies to

- failure to furnish a payee statement on or before February 2, 2009.
- failure to include all the information required to be shown on a payee statement, or
- the inclusion of incorrect information.

The penalty is \$50 for each failure, to a maximum of \$100,000 during any calendar year. In addition, when corrections are made to information returns filed with the IRS, corrections must be made to the corresponding payee statements. Failure to provide corrected payee statements will result in the imposition of penalties for intentional disregard (see below). These penalties will not apply if the failure is due to reasonable cause.

Failure to File Correct Information Returns

This penalty applies to

- any failure to file an information return with the IRS on or before the due date,
- any failure to include information that should be reported on an information return and
- any reporting of incorrect information on an information return.

The amount of the penalty is based on when the correct information return is filed.

- If a correct information return is filed within 30 days after the due date, the amount of the penalty is \$15 per return, with a maximum penalty of \$75,000 per calendar year.
- If a correct information return is filed after 30 days, but on or before August 1, 2009, the amount of the penalty is \$30 per return, with a maximum penalty of \$150,000 per calendar year.
- If a correct information return is not filed by August 1, 2009, the penalty is \$50 per return with a maximum penalty of \$250,000.

The maximum penalties are reduced for small businesses to \$25,000, \$50,000 and \$100,000, respectively. See below for the definition of a small business.

The penalty for filing incorrect returns, but not for filing late, will be excused if the filer can show that the failure is due to reasonable cause. However, if the failure is due to intentional disregard, see penalties below. There is also an exception if the number of incorrect returns is less than 10 or .5% of the total number of returns filed, and the errors or omissions are corrected by August 1, 2009. Penalties also apply for failure to report corrected forms on magnetic media subject to the same 250-form threshold that applies to the original filing.

Intentional Disregard

If the failure to file is due to intentional disregard of the filing, then the penalty for each failure is \$100 or 10% of the amount required to be shown on the statements, whichever is greater. There is no maximum limit for this penalty.

Omissions and Corrections

Inconsequential omissions and inaccuracies which do not prevent the IRS from processing returns or correlating information on returns to the payees' returns will not result in penalties for failure to furnish correct information returns.

Definition of Small Business

Small businesses are defined as businesses (including all related entities) having average gross receipts of less than \$5 million per year for the most recent three tax years (fiscal or calendar) ending before the calendar year for which the information return is filed.

State of Connecticut Reporting

Connecticut Annual Reconciliation of Wages

Form CT-W3 - Transmittal form for submitting state copies of Federal Form W-2 to the DRS.

State copies of Forms W-2 are required for all recipients even if no Connecticut income tax was withheld in 2008.

Connecticut Annual Summary and Transmittal of Information Return

Form CT-1096 - Transmittal form for submitting state copies of:

- Federal Form W-2G (even if no Connecticut income tax was withheld),
- Federal Form 1099-MISC for payments made to resident individuals or to non-resident individuals if the payments relate to services performed wholly or partly in Connecticut (even if no Connecticut income tax was withheld),
- Federal Form 1099-R (**only** if Connecticut income tax was withheld).

The following forms are no longer required to be filed:

- Federal Form 1099-S (reporting real estate transactions in Connecticut)
- Federal Form 1098 (for property taxes paid on real estate located in Connecticut).

Due Dates

Forms CT-W3 and CT-1096 must be filed by the last day of February 2009. Form CT-8809 may be used to request a 30 day extension of time to file the state copy with the Department of Revenue Services. This does not extend the due date for furnishing copies to payees.

Electronic Reporting

The Connecticut Department of Revenue Services requires corporations, partnerships, individuals, estates and trusts who file more than **25** information returns (Forms W-2, W-2G, 1099-R, and 1099-MISC) to file electronically. The more than **25** threshold applies separately to each type of information return.

Electronically filed forms are due by the last day of March 2009.

Electronic filing requirements are contained in the following information publications for:

- W-2 forms - IP-2008(17.1) Form W-2 Electronic Filing Requirements For Tax Year 2008.
- 1099 and other information returns – IP 2008(16) Forms 1099-R, 1099-MISC, and W-2G Electronic Filing Requirements For 2008

They are available on the DRS website at <http://www.ct.gov/drs>. Click on Publications & Forms (near top of page), then click on Publications (in box near top of page), then click on Electronic Filing Publications for Wage and Non-Wage Filing.

Connecticut State Penalties

Required Wage and Tax Statement

Unless due to reasonable cause, a penalty of \$5 per statement to a maximum of \$2,000 per calendar year, is imposed for failure to provide Forms W-2 and 1099 to each recipient and the DRS.

Fraud

If an employer fails to pay, deduct or withhold and pay tax, or make and sign any return or supply information, a penalty of up to \$1,000 is imposed.

Other State Reporting

If you have employees who reside in a state different from where they are employed (for example, a Massachusetts resident employed in Connecticut), you may be subject to withholding and reporting requirements for both states. If you make payments such as those reported on various Forms 1099, etc., to payees in states other than where your business is located, you may be subject to reporting requirements for the state in which the payee is located in addition to the state in which your business is located. Please contact us for information regarding reporting requirements for other states.

Minimum Wage Update		<i>Based on information available in early November 2008</i>	
	2008	Future Date and Amount	
Federal	Jan 1, 2008 \$ 5.85 Jul 24, 2008 \$ 6.55	Jul 24, 2009 \$ 7.25	
If state minimum is lower, employees subject to Federal Fair Labor Standards Act must be paid the higher Federal minimum.			
State			
Connecticut *	Jan 1, 2008 \$ 7.65	Jan 1, 2009 \$ 8.00 Jan 1, 2010 \$ 8.25	
Maine *	Jan 1, 2008 \$ 7.00 Oct 1, 2008 \$ 7.25	Oct 1, 2009 \$ 7.50	
Massachusetts *	Jan 1, 2008 \$ 8.00		
New Hampshire *	Jan 1, 2008 \$ 6.50 Jul 24, 2008 \$ 6.55 <i>Fed minimum</i> Sep 1, 2008 \$ 7.25		
New York *	Jan 1, 2008 \$ 7.15	Jul 24, 2009 \$ 7.25 <i>Fed minimum</i>	
Rhode Island	Jan 1, 2008 \$ 7.40		
Vermont *	Jan 1, 2008 \$ 7.68 <i>Automatic annual increase indexed to August CPI increase</i>	Jan 1, 2009 \$ 8.06	
*These states automatically increase minimum wage if Federal minimum wage is higher.			
<i>Please note: Some states have special rules, and sometimes lower minimum wages for students, trainees and service workers who receive tips.</i>			

Disclaimer:

The material contained in this guide is for the general information of our clients and business associates and should not be acted upon Without prior professional consultation. If we have not addressed a return that you may be required to file or if you have any questions regarding your specific circumstances and objectives, we recommend that you contact your tax advisor at Blum Shapiro at (860) 561-4000.