



The Biweekly
Payroll
Compliance
Publication
Of The
American
Payroll
Association

PAYROLL CURRENTLY

Inside Washington

May 2009

Surveys Show Direct Deposit Can Help Unbanked and Underbanked

Surveys conducted by the Federal Deposit Insurance Corporation (FDIC) and the Consumer Federation of America (CFA) suggest that workers can benefit greatly from bank services including direct deposit but that banks can do more to serve low-income populations.

CFA survey: increased individual savings

A 2008 CFA survey of 2,000 “representative adult Americans” found that 85% of employees have access to direct deposit of their paychecks. Of those with access, 78% use it. This correlates to 66% of all employees using direct deposit (Stephen Brobeck, *Access to and Use of Direct Paycheck Deposit: Findings of a 2008 Survey*, July 2008).

Those without access to direct deposit would like to have it. According to the survey, of those who “received regular paychecks but could not directly deposit them, more than three-quarters (76%) said that if they had the option they would use it.”

Of those workers using direct deposit, 59% say that they are able to split their deposits between checking and savings accounts, and 39% use that option.

The CFA says the survey “suggests that it would be useful to more aggressively explore the usefulness of [direct deposit] for promoting household saving. The high frequency and persistence of employee saving in available contributory retirement programs suggests that employees might also be persuaded to save through [direct paycheck deposits] at their primary financial institutions.”

“The most promising strategy,” the CFA says, is for banks and employers “to promote splitting directly deposited paychecks between checking and savings.”

Organizations such as the New America Foundation support that idea and cite numerous studies showing that employees using direct deposit save more money than those not using it. The Foundation promotes a concept called AutoSave, in which participating employers direct a portion of every employee’s paycheck into a savings account on an opt-out rather than an opt-in basis.

FDIC survey: banking relationships

Of course, some employees do opt out of direct deposit, which is a persistent issue for employers seeking to eliminate paper paychecks. One reason employees cite is lack of a bank account into which funds may be deposited. Reasons for not having bank accounts vary but include a desire to avoid bank fees for monthly maintenance, ATMs, etc.

According to a 2008 FDIC survey (www.fdic.gov/unbankedsurveys), 62% of banks have no minimum balance requirements and another 8% waive their minimum balance requirements if the employee has direct deposit. Ninety percent

of banks offer free check writing and 84% offer free debit card transactions. Depositors have access to free online bill payment at 64.8% of banks.

Minimum balance requirements and the availability of services vary somewhat by region. New England has, by far, the lowest minimum balance requirements, with an average of \$10. The Pacific region has the highest, with an average of \$300. Nearly all other regions have an average of \$100.

One thing that did not vary significantly by region is the fee charged to depositors for insufficient funds (NSF). While opportunities to bank at little or no cost appear readily available, those who overdraw their accounts pay significant fees. Nearly all banks (99%) charge NSF fees, with an average fee of \$25.89.

As an alternative to banks, some employees choose to visit check cashing establishments and payday loan operations to handle their financial needs. These businesses charge much higher fees than banks for their services. This simple fact has caused members of APA’s ACH Committee and Government Affairs Task Force Paycard Subcommittee to wonder why employees would choose that route.

One compelling reason might be convenience and immediate access to money. Most banks, the study shows, “will not provide same day availability for local payroll checks not drawn on the bank for established customers. Fifty percent make funds available the next day, and 17% make funds available on the second business day.” The majority (63%) of banks provide same-day availability to customers presenting checks that are drawn on that bank, with 36% making the funds available the next day.

The study notes that “banks do not know if an individual is unbanked or not, so they tend to view individuals as either customers or noncustomers.” Sixty-eight percent of banks will not cash a payroll check for a noncustomer if the check is drawn on another bank. Of the banks that will cash them, more than 90% charge a fee for the service. Thus, for noncustomers who simply want to cash their checks, banks appear to create obstacles while check cashers invite everyone to use their services.

Bank outreach. The FDIC notes that, “By directly competing against providers who conduct a significant portion, if not a majority, of financial transactions for the unbanked and underbanked and offering identical services at a lower cost, financial institutions could increase market share and improve their ability to transition customers to deposit accounts.” Accepting check cashers as competition, some community banks offer the same services, including wire transfers, check cashing, and small loans.

Many banks recognize “the challenge of making unbanked

individuals feel comfortable entering and transacting business in a bank branch.” Seventy-five percent of activities suggested in this category focus on customer service, according to the FDIC, “either by training or encouraging bank employees to treat unbanked individuals respectfully and sensitively or by

engaging in individual contact with unbanked customers through phone calls, one-on-one counseling, or personal visits. These customer service-oriented activities can help unbanked individuals develop a more personal connection with the institution and feel comfortable when engaging with bank employees.” ■

COBRA Premium Assistance Does Not Have to Be Reported on Forms W-2, 1099

Employers and other payers that front 65% of the COBRA premiums on behalf of former employees under the American Recovery and Reinvestment Act (ARRA) will not have to report those amounts on information returns (e.g., Forms W-2 or 1099), announced John Tuzynski, Chief, Employment Tax Operations, Internal Revenue Service. However, they must keep records of these payments and any supporting documentation.

In addition, it's very likely that a former employee could call their former employer's payroll department to be reminded of the amount, Tuzynski said. A taxpayer with a modified adjusted gross income of \$125,000 or more (\$250,000 for joint filers) for the year in which the assistance is received will have to “pay back” some or all of the assistance by increasing his or her tax liability on the personal income tax return. Assistance eligibility is phased out completely for taxpayers with modified adjusted gross incomes of \$145,000 or more (\$290,000 for joint filers).

This and the other updates described below were provided at meetings attended by IRS, APA, and other stakeholder representatives.

Supporting documentation. An employer could be required to show the supporting documentation if it were audited by IRS, explained Tuzynski. Employers that advance these amounts are then eligible to take a tax credit for an equal amount on Form 941, *Employer's Quarterly Federal Tax Return*. Generally, all records that support data on Form 941 must be maintained until April 15 of the fifth following tax year. The recordkeeping requirements applicable to COBRA assistance payments are described in [PAYROLL CURRENTLY, Issue No. 5, Vol. 17](#).

There may be situations where application of the COBRA subsidy tax credit on the 941 will be delayed pending receipt of more information from the employer, Tuzynski revealed. If that happens, the employer will receive a new IRS notice, CP269C, explaining that the employer's case will be assigned to an examiner and that another letter will go out within 30 days of that assignment providing the examiner's contact information and listing the information the employer needs to send or make available for review. A sample of Notice CP269C is available at www.americanpayroll.org/members/Forms-Pubs.

Reporting the ‘number of individuals’ on Form 941. Form 941, line 12b, asks for the “Number of individuals provided COBRA premium assistance” (for which the employer claims the credit on line 12a). There has been confusion as to whether that number should include only former employees or former employees plus anyone on “assisted” COBRA coverage along with the employee (e.g., spouse, dependents).

“The number will represent a count of one for each individual receiving a subsidy, regardless of the number of individuals benefiting from that policy,” said IRS. “A formal response will be provided in an upcoming release.”

The explanation promised by the IRS will be important, as there can be all sorts of variations on the situation. What if a former employee doesn't elect COBRA coverage, but the employee's ex-spouse does and the employee's child does, and

the payments are sent in separately? Does that count as one individual receiving a subsidy (the former employee) or two individuals (the ex-spouse and the child)?

Note: The COBRA credit guidance currently available might lead to a different conclusion, because it says “An assistance-eligible individual can be any COBRA qualified beneficiary associated with the related covered employee, such as a dependent child of an employee.” However, that statement is made as a more general definition of who is eligible, not in response to a question about line 12b.

Determining the subsidy portion of a combined premium. Prior to the enactment of ARRA, a former employee and spouse were participating in COBRA coverage. Under ARRA, one of them is assistance-eligible, but the other is not (e.g., because of eligibility for Medicare). They pay one premium. How does an employer determine the premium attributable to the assistance-eligible person for purposes of calculating the 35% to be paid by the individual and the 65% to be advanced by the employer and claimed on Form 941?

Notice 2005-50 [www.irs.gov/irb/2005-27_IRB/ar13.html] can provide helpful guidance in such situations, explained Russell Weinheimer, from the IRS Office of Chief Counsel. While this notice was written for issues related to the Health Coverage Tax Credit, it can be applied to the COBRA credit as well. For example, if the COBRA participation by the non-assistance-eligible individual doesn't add to the COBRA premium (i.e., the premium is the same whether or not that person is covered), then the entire premium is eligible for subsidy and credit at 65%. However, if the premium can be split, then do so. For example, if the premium for employee + spouse is \$500, but the premium for employee-only is \$300, and the spouse is not assistance-eligible, then only \$300 is eligible for subsidy and credit at 65%.

Filing a 941 for a 2008 tax period. If, during 2009, an employer files a paper Form 941 for a tax period from 2008, it should use the 2008 version of Form 941. The [February edition](#) of “Inside Washington” reported that the IRS said that, in such a case, an employer might have to use the 2009 form, because IRS systems will be expecting a value for line 13 (the total of deposits and COBRA premium assistance payments). IRS has since clarified that this “line 13 expectation” only applies in the case of e-filed returns.

PEOs – an unanswered question. The following question was raised by an APA member and has been posed to the IRS, but we do not yet have an answer. “If an employer uses a Professional Employer Organization (PEO) for wage and tax purposes, but the employer still operates the insurance plan and has responsibility for COBRA, who takes the credit? IRS's website points to the employer, but this employer doesn't have any tax liability against which to take the credit. The PEO has the tax liability (filing the 941 under its employer identification number) but doesn't operate the plan. Can the PEO take the tax credit and return the money to the client?” ■