Federal Reserve Board Issues Final Rule on Regulating Paycard Accounts

The Federal Reserve Board has issued a final rule amending Regulation E, which implements the Electronic Fund Transfer Act. Among other things, the final rule provides that paycard accounts to which electronic fund transfers of an employee’s salary, wages, or other compensation are made on a recurring basis are accounts covered by Regulation E.

The final rule is effective July 1, 2007, but institutions may begin complying September 29, 2006 (30 days after the amended rule was published in the Federal Register) [71 F.R. 51437, 8-30-06]. The complete text of the final rule is available at www.payrollannex.org/paycard/paycardportal.cfm?pageid=8 and at http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gov/2006/pdf/06-7223.pdf.

Regulation E

Regulation E provides a basic framework that establishes the rights, liabilities, and responsibilities of participants in electronic fund transfer (EFT) systems, including transfers initiated through an automated teller machine (ATM), point-of-sale (POS) terminal, automated clearinghouse (ACH), telephone bill-payment plan, or remote banking service.

Regulation E requires disclosure of terms and conditions of an EFT service, documentation of EFTs by means of terminal receipts and periodic account activity statements, limitations on consumer liability for unauthorized transfers, procedures for error resolution, and defines certain rights related to preauthorized EFTs.

Definition of ‘account’

Regulation E applies to any EFT that authorizes a financial institution to debit or credit a consumer’s asset account. The final rule revises the definition of the term “account” to include a “payroll card account” directly or indirectly established by an employer on behalf of an employee to which EFTs of the employee’s wages, salary, or other employee compensation are made on a recurring basis. A payroll card account is subject to the regulation whether the account is operated or managed by the employer, a third-party payroll processor, or a depository institution.

Included. The definition generally includes a payroll card account that represents the means by which an employer regularly pays the employee’s salary or other form of compensation, and would include, for example, card accounts for seasonal workers or employees who are paid on a commission basis. Moreover, the
fact that an employee may only remain on the job for a short period of time, even just one pay cycle, does not negate coverage, so long as the employer intended to make recurring payments to the payroll card account.

Payroll card accounts also are covered whether the funds are held in individual employee accounts or in a pooled account with some form of “subaccounting” maintained by a depository institution (or by a third party) that enables a determination of the amounts of money owed to particular employees.

Not included. The definition does not include “gift” cards issued by a merchant that can be used to purchase items in the merchant’s store. Also not included in the definition of “account” are cards used only to disburse incentive-based salary-related payments (e.g., bonuses), or cards exclusively used to disburse non-salary-related payments (e.g., petty cash or travel per diems). Note, however, that to the extent bonus payments, payments to reimburse travel expenses, or any other payments are transferred to or from a payroll card account, such transfers would be considered EFTs covered by Regulation E.

If the employer only pays the employee by adding funds to an “account” accessible by a card in isolated or limited instances – e.g., in final-paycheck situations, or only in emergency situations when the customary, non-payroll-card method of payment does not work – but otherwise intends to regularly pay the employee by another method, such as by paper check or direct deposit, such a card “account” would not be covered under the definition.

In addition, cards used solely for health-related expenses – such as cards linked to flexible spending accounts, health savings accounts, or health reimbursement arrangements – are not covered by Regulation E.

Dual function card account. Under a dual function card account, part of the account holds employer-funded “corporate expense funds,” and the remaining segregated portion of the card holds employer-transmitted wages belonging to the employee. The final rule clarifies that the segregated corporate expense portion of the account accessible by the card is not a “payroll card account” because the funds are not primarily for personal, family, or household purposes. The remaining funds that consist of the employee’s wages would qualify as funds held in a “payroll card account.”

Definition of ‘financial institution’

Regulation E applies to payroll card accounts in the same way that it applies to other types of accounts. In other words, under the final rule, employers and third-party service providers will only be covered by Regulation E as “financial institutions” if they hold funds in a “payroll card account.” Accordingly, the depository institution holding the funds will always be treated as a financial institution under the rule, but employers and service providers typically will not be covered.

To the extent that more than one party is a “financial institution” with respect to a particular payroll card account, such parties may enter into an agreement among themselves to ensure compliance with Regulation E. For example, disclosure obligations satisfied by one party, such as a service provider, for a payroll card account would satisfy any disclosure obligations for any other financial institution with respect to that payroll card account.

Disclosures

The final rule requires financial institutions to include in the initial disclosures for payroll card accounts the means by which an employee can access information about his or her account, including the telephone number that the employee may call to obtain his or her account balance, and information on how the employee can electronically obtain a history of account transactions, such as the address of the Internet Web site. Institutions must also include in their initial disclosures a summary of the employee’s right to obtain a written history of account transactions upon request, including a telephone number to call to request a history.

Additionally, financial institutions must provide an annual notice describing error-resolution rights. Note: The final rule provides model forms that financial institutions can use to facilitate compliance with these requirements.

Periodic statements

As an alternative to providing periodic statements, the final rule provides that financial institutions may instead:

- Make available to the employee the account balance through a readily available telephone line;
- Make available to the employee an electronic history (such as via an Internet Web site) of the employee’s account transactions that covers at least 60 days preceding the date the employee electronically accesses the account; and
- Provide promptly, upon the employee’s oral or written request, a written history of the employee’s account transactions that covers at least
Payroll Solutions

Q. Our company produces technical publications and offers employees one-third off the customer price on our books. I know that “qualified” employee discounts are nontaxable fringe benefits, but how can I determine if this percentage is a qualified discount?

A. The exclusion from gross income for an employee discount on qualified property is limited to the price at which the property is offered to customers in the ordinary course of the employer’s line of business, multiplied by the employer’s gross profit percentage (GPP).

The GPP is the excess of the aggregate sales price of the property sold by the employer to customers (including employees) over the employer’s aggregate cost of the property, then divided by the aggregate sales price. In general, the GPP must be calculated separately for each line of business for a representative period (i.e., the taxable year of the employer immediately preceding the taxable year in which the discount is available). For example, if the aggregate amount of sales of property in an employer’s line of business for the prior taxable year was $800,000, and the aggregate cost of the property for the year was $600,000, the GPP would be 25% (($800,000 – $600,000) / $800,000).

An employer may determine the GPP using a classification of property that is narrower than the applicable line of business, but the classification must be reasonable. An example of a reasonable classification is an employer computing GPP according to the department in which products are sold.

If an employee discount exceeds the GPP, the excess discount is includible in the employee’s income. For example, if the employer discount on employer-purchased property is 50% and the employer’s GPP for the period in the relevant line of business is 25%, then 5% of the price at which the property is being offered for sale to customers is includible in the employee’s income.

Note: There are special rules for determining the GPP where aggregated employers are involved, an employer is in its first year of existence, or where there have been substantial changes in an employer’s business that make it inappropriate to use the prior year’s GPP.

See IRS Reg. §1.132-3 for more information about qualified employee discounts.

60 days preceding the date of receipt of the employee’s request.

The account history provided under these new procedures, whether it is provided electronically or in writing, must contain the same type of information that would be provided in a periodic statement, including information about fees, account balances, and an address and telephone number for inquiries.

Note: The final rule includes a model clause that financial institutions may use to inform employees about how to access their account information.

Compulsory use

The final rule clarifies that the compulsory use provisions of Regulation E (applicable to direct deposit) apply to payroll card accounts because these accounts are established to receive EFTs of salary. In other words, an employer may not require an employee to establish a payroll card account as a condition of employment, unless:

• The employee can choose the institution that will receive the deposit; or
• The employee can choose to receive his or her salary by check or cash.

The final rule clarifies that an employer may include an unactivated payroll card with materials provided to employees about the terms and conditions of the payroll card account. Provided employees retain the option to receive compensation by means other than the payroll card account.

PRACTICAL IMPLICATIONS FOR EMPLOYERS – According to Bill Dunn, CPP, APA Manager of Government Relations, the most significant news for employers in the Regulation E final rule is that they will not be considered “financial institutions,” and therefore will not be responsible for providing payroll card account information to their employees detailing the use of paycards. Also, in what appears to be a direct response to an APA comment on the interim rules, the Federal Reserve Board said that employers can issue unactivated paycards to employees without first having the employees request them.

Court Says Taxation of Damages for Nonphysical Personal Injuries Is Unconstitutional

The U.S. Court of Appeals for the District of Columbia has ruled that IRC §104(a)(2) is unconstitutional to the extent that it permits the taxation of an award of damages for a nonphysical personal injury. Accordingly, the court ordered a refund of taxes paid by Marrita Murphy on an award of $70,000 for emotional distress and injury to her reputation because of the misconduct of her former employer. Note: Section 104(a)(2) excludes an award of damages (other than punitive damages) from gross income if it is received “on account of personal physical injuries or physical sickness” [Murphy v. IRS, No. 05-5139, 2006 U.S. App. LEXIS 21401 (D.C. Cir., 8-22-06)].

The Sixteenth Amendment “simply does not authorize the Congress to tax as ‘income’ every sort of revenue a taxpayer may receive,” said the court. The history of the Amendment shows that it does not extend to the taxation...
The Eleventh Circuit Court of Appeals has affirmed an award of more than $300,000 against an employer that violated an employee’s rights under the Family and Medical Leave Act (FMLA) by giving him insufficient time to produce medical certification for his absence and terminating his employment for failure to meet its deadline [Cooper v. Fulton County, No. 05-12318, 2006 U.S. App. LEXIS 20133 (11th CA, 8-7-06)].

**Employer’s Deadline for Providing Medical Certification Violated FMLA**

The county’s requests for medical certification were abandoned if he did not return to work under the FMLA. He advised his supervisor that he was leaving early because of illness and he followed up with a letter the next day requesting family leave. It was not necessary for Cooper to mention the FMLA or specifically assert FMLA rights in his notice.

The county’s requests for medical certification

Under the FMLA, explained the court, employers may require employees to furnish medical certification verifying their eligibility for leave. Notice of this requirement and the anticipated consequences for noncompliance must be provided every time an employee requests FMLA leave. The notice must be in writing unless the employee has been given the required written notice regarding the FMLA and the employer’s specific FMLA policies within the preceding six months, in which case oral notification is sufficient. Finally, employers must allow employees at least 15 calendar days to comply with a request for certification...
when the leave is unforeseeable.

Here, the county’s oral request for medical certification delivered to Cooper on July 13 was not sufficient notice because the county had not provided Cooper with written guidance on the FMLA or the county’s certification requirement within the preceding six months. Moreover, the county’s July 6 letter to Cooper demanding that he return to work or provide a doctor’s excuse by July 8 did not qualify as written guidance. It did not provide details about Cooper’s rights and obligations under the FMLA, and it did not comply with the FMLA because it allowed Cooper only two days to furnish medical certification. Finally, the August 4 letter was insufficient because it only allowed Cooper six days in which to provide the required medical certification.

Liquidated damages

An employer violating the FMLA is liable for liquidated damages unless it can show that its violation was in good faith and that it had a reasonable basis for believing that its conduct did not violate the statute.

Here, an award of liquidated damages was warranted because the county did not have a reasonable basis to believe its behavior was lawful. Neither the court administrator nor the county personnel director, with whom the administrator consulted, checked the FMLA or its regulations. And neither of them consulted an attorney or bothered to check the DOL’s advisory opinions concerning the FMLA before terminating Cooper’s employment. 

DOL Discusses the Use of Tips to Pay for Cleaning Restaurant Servers’ Uniforms

In a Wage-Hour opinion letter, the U.S. Department of Labor (DOL) advises that a restaurant’s proposed use of its servers’ tips to pay for cleaning their uniforms would violate the Fair Labor Standards Act (FLSA) [W-H Op. Ltr., FLSA2006-21 (6-9-06)].

A restaurant pays its tipped servers $2.13 per hour and takes a “tip credit” (see The Payroll Source®, pp. 2-32 and 2-33) toward its obligation to pay employees the minimum wage of $5.15 per hour. The restaurant asks if it may use the servers’ tips to pay for the cost of cleaning their uniforms in the following scenarios:

Scenario 1

The restaurant proposes to enter into voluntary agreements with its servers under which the first $15 of tips received by servers in each workweek would become the employer’s property, and would be used to pay the actual cost of laundering employee uniforms. If the actual laundering cost is less than $15, the difference would be returned to the employee. The restaurant would guarantee that, with tips, the servers would be paid at least the minimum wage, plus applicable overtime.

Ruling. The FLSA’s tip credit rules do not apply to a tipped employee unless all tips received by the employee are retained by him/her (although valid tip pooling arrangements are allowed). Thus, tips must become the property of the employee who receives them free and clear, and any arrangement whereby a tipped employee agrees that part of his or her tips becomes the property of the employer violates the tip credit provisions of the FLSA.

Scenario 2

Servers wear uniform shirts that they leave with the employer at the end of their shifts so that the employer can professionally clean them at a cost of $2.50 per day. May the restaurant deduct the actual cost of laundering the shirt from the server’s earnings if those earnings (direct wages paid by the employer and tips received by the server) are at least $5.15 per hour after the deduction? What are the restaurant’s responsibilities if servers elect to have their shirts laundered on their own?

Ruling. The FLSA defines a tipped employee’s wage rate as the cash amount paid (at least $2.13 an hour), plus an amount of tips sufficient to bring the employee to the minimum wage. Therefore, even if the tips received by an employee exceed the maximum tip credit the employer needs to claim toward payment of the minimum wage, these excess tips are not wages for FLSA purposes. In this situation, a server paid $2.13 an hour in direct wages and claims the full tip credit ($3.02 per hour), the tipped employee’s regular rate of pay would be $6.15 per hour, and the employer could deduct each week for uniform maintenance up to $1.00 per hour for each hour worked by the server in the workweek.

Where employee uniforms require ironing, dry cleaning, or other special treatment, employees must be reimbursed for uniform maintenance costs that reduce their wages below the minimum wage. However, where the employer notifies employees that the employer will launder or clean uniforms at no cost to the employee, 

IRS Announces Delay in Effective Date for 403(b) Regulations

The IRS has announced that the general effective date for the 403(b) regulations that were proposed in 2004 (see PAYROLL CURRENTLY, Issue No. 14, Vol. 12) will not be earlier than January 1, 2008 [IR-2006-136, 8-29-06].

Note: Originally, the IRS proposed that the regulations would apply to taxable years beginning January 1, 2006, with the caveat that they could not be relied on until their adoption in final form.
the employer is not required to reimburse employees who nevertheless choose to clean the uniforms at their own expense. And an employer is not required to reimburse employees for uniform maintenance at all when uniforms (a) are “wash and wear,” (b) can be routinely washed and dried with other garments, and (c) do not require ironing or other special treatment.

Scenario 3
The facts are the same as Scenario 2, but servers also wear an apron with a logo, which would be laundered along with the shirts.

Ruling. The answer for Scenario 2 applies. The fact that a server may also have an apron with a logo to be laundered does not change the fact that the employer cannot accept payment for this service where the deduction would bring the employee’s compensation below the minimum wage.

Employer Following IRS Withholding Instructions Was Not Liable to Employee

A U.S. District Court has ruled that an employer complying with a letter from the IRS directing it to withhold federal income tax from an employee’s wages using a single filing status and zero withholding allowances did not improperly disregard the employee’s Form W-4 (Employee’s Withholding Allowance Certificate), on which the employee claimed exempt from withholding [Heleen v. Radiation Safety and Control Services, Inc., No. 06-cv-24-SM, 2006 U.S. Dist. LEXIS 50113 (D.N.H., 6-20-06)].

Jeffrey Heleen received a letter from the IRS explaining the withholding instructions it gave his employer, Radiation Safety and Control Services, Inc. (RSCS), but he did not contact the IRS directly or appeal the determination of his tax status. Instead, he sued RSCS, claiming that it withheld federal income tax from his wages in violation of IRC §3402(n), which states that “an employer shall not be required to deduct and withhold” federal income taxes where an employee has provided a Form W-4 certifying that he or she is exempt from withholding.

Ruling. The answer for Scenario 2 applies. The DOL also cautions that employees cannot agree to waive their right to receive the minimum wage. PC

Employer Did Not Violate the FMLA by Paying Employee a Prorated Production Bonus

In order to receive a full annual bonus under The Vanguard Group’s “Partnership Plan,” employees were required to work 1,950 hours during the plan year. Employees working less than 1,950 hours during the plan year received a prorated bonus. Under the plan, the hours an employee was paid, or entitled to be paid, for vacation time, sick time, or an approved leave of absence (such as military leave) counted toward the 1,950 hours worked, but the time an employee was on a leave of absence for short-term or long-term disability did not count. Employee Robert Sommer claimed that Vanguard interfered with his right to leave under the Family and Medical Leave Act (FMLA) by prorating his bonus after he took eight weeks of FMLA leave.

The Third Circuit Court of Appeals disagreed, distinguishing between production bonus programs, which require some positive effort on the employee’s part in the workplace, and bonuses that reward the absence of an occurrence (such as qualification for a perfect attendance bonus by not being absent). An employer may not reduce an employee’s bonus based on the absence of an occurrence for which the employee is otherwise qualified but for taking FMLA leave. However, a production bonus may be prorated to account for lost production due to FMLA leave.

Here, although Vanguard’s Partnership Plan required a bonus recipient to be employed on the last day of the calendar year, on the date of the plan’s distribution, and on all the days in between, its hours-based annual production requirement qualified it as a production bonus, said the court. Accordingly, Vanguard did not interfere with Sommer’s FMLA rights by prorating his bonus under its plan.

The court said it did not matter.

News Notes...

DOL Wage & Hour Roundup

The U.S. Department of Labor’s Wage & Hour Division recently concluded the following Fair Labor Standards Act (FLSA) enforcement actions:

• BMW has agreed to pay $629,869 in back overtime wages to 1,224 auto body and paint shop workers in Spartanburg, SC. W-H investigators found that the company failed to pay the workers for time spent putting on (donning) and taking off (doffing) required safety gear and for time spent walking to and from work stations.

• Q.C. (Quick Cash) Financial, Inc., a payday loan company headquartered in Overland Park, KS, has paid $519,088 in back overtime wages to 900 employees. According to W-H officials, the company failed to pay overtime to nonexempt salaried managers and did not include bonuses in computing overtime pay for employees who were paid hourly.
that Vanguard’s plan counted vacation and sick leave as hours worked, but did not count FMLA leave. The FMLA does not require that those taking unpaid FMLA leave be treated the same as those taking some form of paid leave.

Vanguard also prorated other types of non-FMLA leave under its plan, including short-term disability, long-term disability, workers’ compensation, personal leave, and unpaid court leave. Sommer went out on short-term disability that he designated as FMLA leave; his bonus would have been prorated even if he had not designated the time as FMLA leave [Sommer v. The Vanguard Group, No. 05-4034, 2006 U.S. App. LEXIS 21658 (3rd CA, 8-24-06)].

**Unsigned Social Security Card No Bar to Employment Eligibility Verification**

Carlos Alberto Pool-Chan, a Mexican citizen caught illegally crossing into the U.S. on seven separate occasions, was arrested after entering the U.S. an eighth time with a counterfeit social security card. Pool-Chan was convicted in a U.S. District Court of knowingly possessing a counterfeit document prescribed by statute or regulation “as evidence of … authorized … employment” in the U.S. (18 USC §1546(a)). On appeal to the Eighth Circuit Court of Appeals, Pool-Chan admitted that he knowingly possessed a counterfeit social security card but argued that because the card was unsigned, there was no violation of §1546(a).

The Eighth Circuit explained that the language in §1546(a) relating to fraud in connection with documents that are evidence of authorized employment was added by the Immigration Reform and Control Act of 1986, which requires employers to verify the identity of new hires and their eligibility to work. “The critical fact for a verifying employer is whether the Social Security Administration has issued a social security account number card, which means that the Commissioner has verified that the alien may lawfully work in the United States. Whether the alien signed the card after it was issued may affect its validity for other purposes. But signing is irrelevant to a verifying employer and therefore irrelevant to whether an illegal alien subverts the employer verification system by tendering a counterfeit or otherwise fraudulent card.” The court concluded that an unsigned social security card is among the documents prescribed by statute or regulation that is evidence of authorized employment covered by §1546(a) and affirmed Pool-Chan’s conviction [U.S. v. Pool-Chan, 453 F.3d 1092 (8th CA, 7-18-06)].

**Totalization Agreement With Japan Now in Force**

Since PAYROLL CURRENTLY last reported on the subject (see Issue No. 14, Vol. 13), a social security “totalization agreement” with Japan has entered into force. Effective October 1, 2005, the new agreement relieves U.S. workers and their employers from the burden of contributing to the social security systems of two countries. U.S. employers and employees will contribute to either the U.S. or Japanese social security system, but not both. Over the first five years of the agreement, the SSA estimates that over 15,000 U.S. workers and their employers will realize approximately $630 million in tax savings.

Without a totalization agreement in place, it is possible for workers dividing their time between the U.S. and another country to fail to qualify for social security benefits from either country because they do not meet minimum eligibility requirements. Under the new agreement, it will be possible for workers and their family members to qualify for prorated U.S. or Japanese benefits, based on combined credits from both countries. Five years after the entry into force of the U.S.-Japan agreement, the SSA estimates that nearly 24,000 workers in the U.S. and Japan will be eligible to receive benefits.

**U.S.-Mexico agreement awaits approval**

An agreement between the U.S. and Mexico, signed on June 29, 2004, is still awaiting review by the U.S. Congress and approval by the Mexican Senate before it can take effect. Over the first five years of this agreement, the SSA estimates that nearly 3,000 U.S. workers and their employers will realize approximately $140 million in tax savings. After five years, the SSA estimates that nearly 50,000 workers in the U.S. and Mexico will be eligible to receive benefits.

**U.S.-Sweden supplementary agreement awaits approval**

A supplementary agreement signed by representatives of the U.S. and Sweden on June 22, 2004, revises the social security totalization agreement between the two countries that has been in effect since 1987. The supplementary agreement takes into account changes in U.S. and Swedish laws that have occurred since the original agreement was signed, especially a major reform of the Swedish social security pension system that was enacted several years ago. It must still be submitted to the U.S. Congress for review and approved by the Swedish government before it can enter into force.

**Agreements currently in effect or being negotiated**

The U.S. currently has totalization agreements in effect with 21 countries – Australia, Austria, Belgium, Canada, Chile, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, South

**News Notes…**

**DOL Web Page Lists Online References on Compensable Time**

The U.S. Department of Labor’s Wage and Hour Division has created a new Web page that compiles information on what constitutes compensable time (hours worked) under the Fair Labor Standards Act (FLSA). The amount a nonexempt employee should receive under the FLSA cannot be determined without knowing the number of hours worked. In addition to the FLSA, the material listed at www.dol.gov/esa/whd/offtheclock/index.htm includes the chapters of the Division’s Field Operations Handbook on Hours Worked and Overtime, the E-Laws “FLSA Hours Worked” Advisor, selected Fact Sheets, and Frequently Asked Questions on “Wages, Pay, and Benefits.”
Korea, Spain, Sweden, Switzerland, and the United Kingdom. Discussions on possible agreements with the Czech Republic and Denmark are currently underway.

The U.S. has negotiated and signed agreements with 8 of its 10 largest trading partners. By law, agreements with the other two (China and Taiwan) are not permitted because those countries do not have generally applicable social security systems in place that pay periodic benefits (or the actuarial equivalent).

**Benefits under a totalization agreement**

Temporary foreign assignment. Under a totalization agreement, expatriate employees working “temporarily” in the foreign country (generally up to five years) are subject to U.S. social security and Medicare taxes only, to the same extent their compensation would be subject to those taxes had they remained in the U.S. On the other hand, wages earned by employees working “permanently” in the foreign country are subject only to the foreign country’s social security taxes.

Under all but two of the agreements currently in force, a “temporary” assignment can last no more than five years. Under the agreement with Germany, the limit is nine years, while the agreement with Italy allows temporary assignments to run for an indefinite period of time.

Establishing exemption from foreign tax. To establish that an employee’s wages are subject to U.S. social security and Medicare taxes but are exempt from foreign social security tax, the employer must get a “Certificate of U.S. Coverage” from the SSA. To establish that a foreign employee’s wages are exempt from U.S. social security and Medicare taxes under a totalization agreement, the employee or the employer should get a statement from an authorized social security official or agency of the foreign country (see The Payroll Source®, p. 14-4).

**Online resources for employers**

To find out more information about totalization agreements, go to the SSA Web site (www.socialsecurity.gov), click on “International” (under “Resources”) and “International Agreements” for links to:

- **General Overview.** Look here to learn how the bilateral agreements program helps people who work in the U.S. and abroad.
- **Description and Text of Each Agreement.** Look here for online versions of SSA pamphlets describing each of the U.S. agreements, as well as the complete text of each.
- **Certificates of Coverage.** Look here to learn how to request the documentation needed to avoid social security taxes in a foreign country under an agreement and to access the SSA’s online Certificate of Coverage service, which allows employers to request certificates via the Internet.
- **Status Table.** Look here for a table showing the signing date, effective date, and legal citation for all agreements in force and the status of pending agreements.

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**STATE AND LOCAL NEWS**

For more state and local news, subscribe to APA’s PayState Update, the biweekly newsletter devoted exclusively to state and local payroll compliance. Call 210-224-6406 or visit www.americanpayroll.org for more information.

**Alabama**  The Department of Revenue (DOR) has announced tax relief for business taxpayers affected by Hurricane Katrina in the following counties: Baldwin, Choctaw, Clarke, Greene, Hale, Marengo, Mobile, Pickens, Sumter, Tuscaloosa, and Washington. Affected employers may file withholding returns and submit payments by 10-16-06 for returns and payments that had an original or extended due date beginning on or after 8-29-05 and ending on or before 10-16-06. Late filing and payment penalties will be waived, but interest will not. Employers that are eligible for this relief must write “HURRICANE KATRINA” in red ink at the top of any paper returns filed. Those filing electronic returns and seeking tax relief should contact the DOR at 334-242-1000 [Information Release, 8-28-06].

**California**  Effective 1-1-07, the state minimum wage will increase to $7.50 an hour from $6.75 an hour (this updates The Payroll Source®, p. 2-61). Effective 1-1-08, the state minimum wage will increase again to $8.00 an hour. This is the first minimum wage increase in California since 2001. Note that California law does not allow an employer to take a tip credit against an employee’s wages [A.B. 1835, L. 2006].

**New Jersey**  Effective 10-1-06, the minimum wage will increase to $7.15 an hour from $6.15 an hour (see The Payroll Source®, p. 2-61). This is the second of two increases enacted in 2005 to raise the minimum wage [S.B. 2065, L. 2005]. Because of the state minimum wage increase, effective 10-1-06, the tip credit will increase to $5.02 an hour from $4.02 an hour (see The Payroll Source®, p. 2-62).

**Pennsylvania**  Effective 1-1-07, an employer may pay a training wage of $5.15 an hour to employees who are under the age of 20 during their first 60 calendar days of employment. Employers must inform these employees at the time of hire of the training wage and the right to receive the full state minimum wage after the 60-day training period. In addition, existing employees must not be displaced or have their hours reduced by an employer for purposes of hiring individuals at the training wage [S.B. 1090, L. 2006].