



INNOVATIVE
BUSINESS
SOLUTIONS, INC.



November 2003

"Thank you!"

Preparing for Year-End

All of us at Innovative Business Solutions would like to express our sincere thanks for your continued utilization of our services. We know that other payroll companies' sales people have been aggressively seeking your business. We truly appreciate your decision to choose IBS, and we are doing everything in our power to deliver the quality and service you deserve.

We want to stress the importance of reporting all of your 2003 payroll related items prior to January 1st.

You need to notify us of any earning or tax information that is not part of your ordinary payroll, but needs to be reported on your employees' W-2's. This should be done as early as possible prior to December 31st to avoid costly backdating of payrolls after 2003 has been closed. Some of the items to consider are:

1. Employer provided life insurance in excess of \$50,000;
2. Personal use of company provided vehicles;
3. Reportable qualifying employee gifts or awards;
4. Employer contributions to a non-qualified deferred compensation or retirement plan;
5. Employer paid moving expenses;
6. Handchecks, voids or bonuses paid after your last scheduled payroll run for the year;
7. Allocated Tips;
8. Sick or disability pay reported to you by a third party administrator.

9. Any other taxable fringe benefits (Unsubstantiated Cash Payments, Health Club Memberships, Domestic Partner Health Coverage, etc).

Another reason for reporting taxable fringe items with your regularly scheduled payroll is that associated taxes can be withheld from your employee's normal payroll check. If they are reported separately, the employer will often have to fund both the employee's and employer's shares.

If you are unable to quantify any of these items before December 31st, please call us to let us know when you will have the information necessary to print your W-2's.

New W-4 Forms

Please remember that as your employees turn in new W-4 forms for 2004, you need to forward copies to the IRS for any claiming more than 10 withholding allowances, or for any claiming exempt from withholding but earning more than \$200 per week. Please visit our web site for copies of the newest forms.

Social Security Wage and California Disability Rate

The Social Security wage limit for 2004 has been increased to \$87,900. The California Disability Insurance rate for 2004 has been increased to 1.18% and the wage base increased to \$68,829. The EDD will notify you of your UI rate by mail in December. The mileage rate for 2004 is 37.5 cents.

Schedule Your Special Year-End Payroll Runs

In order to ensure the highest degree of service, we are requesting our clients to notify us in advance of upcoming special payroll runs (bonuses, taxable fringe, etc.). If you require a special year-end payroll, please give us as much advance notice as possible. Requests for special payroll runs without advance notice may result in additional processing fee premiums. Please complete the attached 'Special Unscheduled Payroll Request' Form and fax it back to IBS at (707) 586-4303.

Keep in mind that any payrolls required to be run after your first payroll of 2004 is processed will almost invariably result in a late deposit of payroll taxes, and will carry a minimum fee of \$300 to re-open a previously closed year.

Bonus Payments

Don't forget to consider statutory required withholding rates of 25% and 6% for Federal and California respectively for all supplemental payments to employees over and above their base salary. The state of California has instituted a special rate of 9.3% for separate bonus payments beginning in tax year 2003.

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