

SOLUTIONS MANUAL: CHAPTER 1 END OF CHAPTER ANSWERS

ANSWERS TO STOP AND CHECK EXERCISES

Which Law?

1. e
2. h
3. b
4. f
5. i
6. j
7. a
8. d
9. g
10. c

Which Payroll Law?

1. d
2. a
3. f
4. c
5. g
6. e
7. b

What's Ethical?

1. Answers will vary. Some concerns include data privacy and integrity in the software switchover, tax and employee pay integrity on the new software, and employee pay methods.
2. Answers will vary. Liza could choose to ignore her sorority sister's request, claiming professional responsibility. She could also discontinue active participation in the sorority. In any case, Liza must not consent to her sorority sister's request for confidential information.

Confidential Records

As a payroll clerk, your task is to protect the privacy and confidentiality of the information you maintain for the company. If a student group—or any personnel aside from the company’s payroll employees and officers—wishes to review confidential records, you should deny their request. If needed, you should refer the group to your department’s manager to discuss the matter in more depth. The laws that apply to this situation are the Privacy Act of 1974, the Freedom of Information Act, and potentially HIPAA.

Large vs. Small

Large companies have computer-based accounting packages like QuickBooks, Sage 50, and Microsoft Dynamics GP available. Additionally, they may consider outsourcing their payroll functions to companies like ADP and Paychex®, which provide companies with comprehensive payroll services and tax reporting.

For small companies, the cost of outsourcing the payroll function needs to be considered. On one hand, a small company may not have personnel who are proficient with payroll regulations and tax reporting requirements, which leaves a company vulnerable to legal actions and stringent fines. However, engaging a payroll service company may be cost prohibitive. The decision to outsource the payroll for a small company should take into account the number of personnel, locations, and types of operations in which the company engages.

What Is the Difference?

a. Manual payroll systems involve the use of paper and pencil recordkeeping or a spreadsheet program, such as Microsoft Excel. This is most appropriate for very small firms.

- b. Computerized payroll systems can be used by any company, regardless of size. Examples of computerized systems include, QuickBooks, Sage 50, and Microsoft Dynamics GP. These computer packages range in price, depending on the company size and operational scope.
- c. Outsourced payroll involves the engagement of a third party to manage a company's payroll data, issue employee compensation, and prepare tax forms.
- d. Certified payroll pertains to companies with employees who work on federal government contracts. Certified payroll ensures that a company reports payroll expenditures of contractually allocated money.

Exempt vs. Nonexempt

1. Exempt workers are exempt from the overtime provisions of FLSA. Exempt workers tend to be employees in a company's managerial or other leadership functions, in which they may need to work more than 40 hours per week to complete their tasks. Exempt workers usually receive a fixed salary per period that is not based on the number of hours worked. Nonexempt workers tend to be compensated on an hourly basis and often do not have managerial or leadership responsibilities. It should be noted that some nonexempt workers do have managerial or leadership responsibilities and may receive a fixed salary; however, these particular employees are covered by the overtime provisions of FLSA.

2. An employee is defined as a person whose work is solely for a company. Most or all work-related materials are provided by the company. Employee payroll taxes are paid by the company, and the employee may be eligible for fringe benefits. In contrast, an independent contractor may

have more than one company as a client. Independent contractors provide their own tools and materials, pay their own income taxes, and generally establish their working hours. An employee of a company is considered to be part of the payroll expense, whereas an independent contractor is a vendor of the company who submits invoices for payment.

ANSWERS TO END-OF-CHAPTER MATERIALS

REVIEW QUESTIONS

1. What is the purpose of a payroll system?
 - a. Provide for internal and external reporting of employee wages and associated taxes, payment of employee compensation, and monitoring of benefits to employees. It also serves as a means of tracking labor costs that managers use for decision-making, budgeting, and planning.
2. What are some differences between small- and large-company payroll?
 - a. Small companies would have fewer employees and reporting requirements, and would be less likely to be required to have automated payroll systems.
 - b. Large companies have more employees and greater departmentalization. This increase in employees leads to a higher level of complexity in payroll accounting, disbursements, and reporting. Larger companies may also provide Intranet portals for employee self-service options. Additionally, larger companies may need additional accuracy checks.
3. What is certified payroll? Do all companies use it?
 - a. Certified payroll is a reporting requirement for companies that work with federal contracts that are subject to Davis-Bacon wages.
 - b. Only those companies that have these types of employees would be required to complete a certified payroll.
4. Why might it be a good idea to let employees manage their pay records? What are some of the pitfalls?

- a. An advantage of allowing individuals to self-manage their payroll records would be the employee would be able to answer some simple questions on their own without having to come to the payroll accountant for answers. Employees can also change withholding allowances and voluntary deductions, and maintain certain other aspects of their employee files.
 - b. If employees have access to their payroll records, there would be the need to allow multiple access points to the confidential information. These open channels would require security settings to ensure the requirements of confidentiality are maintained.
5. What are some ways that a payroll system can protect a company in the event of a visit from a government auditor?
- a. The establishment and maintenance of an accurate payroll system can demonstrate that the company can meet its tax obligations and that the company is in compliance with government regulations.
6. What is payroll outsourcing? When might a company consider outsourcing its payroll?
- a. Payroll outsourcing is the process of contracting another company for the preparation, reporting, and filing of employee payroll.
 - b. Companies may consider this option if the company sees a benefit to the company that outweighs the cost of outsourcing. It is one way to ensure the compliance with the changing legal structure and withholding requirements. It can also offer flexibility and advanced data analysis that might be challenging for smaller internal departments to offer.
7. Give examples of federal laws that are essential to ensure legal, fair hiring practices.
- a. American with Disabilities Act

- b. Age Discrimination in Employment Act
 - c. Fair Labor Standards Act
 - d. Civil Rights Act
8. What are the major types of payroll processing methods?
- a. Manual
 - b. Computerized
 - c. Outsourced
 - d. Certified
9. What laws govern the taxes that employers must withhold from employees?
- a. 16th Amendment of the U.S. Constitution
 - b. Social Security Insurance Act
10. What are two of the main provisions of FLSA?
- a. Maximum hours that covered individuals can work
 - b. Minimum pay for covered individuals
 - c. Minimum age for workers
 - d. Mandatory break times for covered employees
11. Why was the Social Security Act of 1935 important? What did it provide?
- a. The Social Security Act of 1935 was designed to create a contribution-driven fund to achieve a level of financial stability for the worker when he or she became too old or infirm to work.
12. What are the advantages of a computerized payroll system over a manual system?
- a. A computerized payroll system can meet the tax and regulatory requirements efficiently and can typically be set to automatically update for tax law changes. Web

portals can streamline overtime reporting and other functions. Computerized payroll systems can eliminate approximately 80% of payroll processing time and errors. A recent trend in computerized processing is the issuance of employee paycards which offers the employees the flexibility of not having to wait for their paycheck to be deposited.

EXERCISES – SET A

1-1A. Anya is a candidate for the position of sales manager with the footwear department of a major retail outlet. She is going to be required to supervise several employees and can determine the direction in which she will complete the assignments given to her. What classification of employee should she be, exempt or nonexempt? Explain.

Anya will be an exempt employee since she will be supervising others.

1-2A. John is the office manager for a small mortgage brokerage. Because it is a small office, he is required to keep track of all employee records and pay both employees and contractors. What differences exist between exempt and nonexempt employees?

- a. Exempt employees are not typically covered under FLSA and will not receive overtime pay. Nonexempt employees may be covered under FLSA and may receive overtime compensation.

1-3A. Kristina is the accounting manager for a small, local firm that has full- and part-time staff. What are FLSA requirements as far as minimum wage is concerned?

- a. If the firm is not conducting interstate commerce, it is not subject to FLSA requirements of minimum wage, maximum hours worked, break requirements, or pay rate requirements.

1-4A. Jeff is an accountant for his firm, a medium-sized company with 125 employees. The firm has traditionally maintained the administration of its payroll. His coworker, the only other accountant in the firm, retires. Because of budget concerns, the firm chooses not to refill the position. What options does Jeff have regarding administration of the payroll?

- a. The company can outsource the task to any of a number of qualified, certified payroll preparation firms or Jeff could obtain a software program to fill the need.

1-5A. Consolidated Construction obtained a job working for a nearby international airport, a project contracted with the federal government for \$500,000, welding the support structures for the new extension of the terminal. What laws govern the wages Consolidated Construction pays to their welders for this project?

- a. Consolidated Construction will need to comply with the Davis-Bacon Act and the Walsh-Healey Public Contracts Act

1-6A. Juan is the office manager and payroll clerk for his company, composed of 12 employees. A former employee, Joe, stops by Juan's office and wants to view his payroll record. What privacy regulations must Juan consider before granting his former coworker access?

- a. The Privacy Act of 1974 allows an employee access to their payroll records.

1-7A. Roxie works as the payroll clerk for an agricultural firm that hires many temporary and immigrant workers on an hourly basis. What law governs the hiring or documenting of these workers?

- a. The Immigration Reform and Control Act of 1986

1-8A. A group of employees, who read on a website that income tax collection is illegal, approach Tarik, the controller for a large company. They request that he stop withholding income taxes from their pay unless he can explain what laws govern income tax collection. What should Tarik tell them?

- a. The 16th Amendment to the U.S. Constitution created the legislation to support the collection of taxes from the employees.

1-9A. Kim-Ly is a member of the hiring board for her company. As they review candidates for a position, one of the other board members wants to exclude Eric, a man in his 50s, because his age might pose an insurance risk for the company. What law protects Eric against this practice?

- a. Age Discrimination in Employment Act protects Eric against this practice.

1-10A. Sheri is a warehouse worker for a small grocery market. As she was moving some merchandise, the loading dock door unexpectedly fell and injured her. What legal provisions does Sheri have for this type of injury?

- a. In this type of situation, there would be an OSHA inspection to ensure that the working environment was not the cause of the injury. Workers compensation insurance will provide for the coverage of wage compensation for the employee and covered medical expenses should the company's work environment, and not employee error, be found at fault. Another legal provision is that she may be protected under FMLA; she may have to take unpaid leave if she does not have leave available, but her employment and medical benefits would be guaranteed.

1-11A. Ashlee is the new payroll accountant for a company. While she was exercising at the gym, she encountered Madison, the president of the company. Madison explained that he was under pressure to report certain levels of profit and asked her to meet him about payroll expenses. What ethical guidelines should Ashlee consider before agreeing to meet?

- a. Ethical guidelines based upon the AICPA Code of Ethics would include the following tenets: Responsibilities, public interest, integrity, objectivity and independence, and due care. Ashlee has an obligation to the public interest to accurately depict the finances of the company. Ensuring that the request does not violate the integrity and compromise the interests of both the company and the related parties would also be important.

1-12A. Kevin owns a new golf pro shop. As a small business owner, he has several options for payroll processing. What three options should he consider to facilitate his payroll accounting?

- a. Manual payroll, computerized payroll, or outsourced payroll would be options for Kevin. Since the business is still small, either of the first two options would be more cost effective than outsourcing the payroll.

Match the following terms with their definitions:

1-13A: h
1-14A: e
1-15A: a
1-16A: c
1-17A: g
1-18A: i
1-19A: j
1-20A: f
1-21A: b
1-22A: d

EXERCISES – SET B

1-1B. Hunter is a candidate for the position of marketing clerk with the promotions department of a film production company. What classification of employee should he be, exempt or nonexempt? Explain.

- a. Hunter should be a nonexempt worker; as such he will be eligible for overtime.

1-2B. Janet manages a regional office of a large multinational company. She maintains the records for all personnel in the region, including sales, administrative, and manufacturing workers. Which classification, exempt or nonexempt, should she apply to each of the classes of employees?

- a. As a multinational company, the FLSA regulations would apply to individuals for minimum wages; hours worked, and break requirements. Depending upon the individual job classification, the responses to this question will vary greatly. For example, individuals in sales could be nonexempt, paid hourly but partly commission based. However individuals in sales could be exempt, purely commission-based independent contractors. Administrative personnel may be exempt managers, but may be nonexempt, depending on the level of direction and supervision they receive due to their position. Manufacturing workers would probably mostly be nonexempt, paid by the hour, the number of items manufactured, or some combination thereof.

1-3B. Bernie manages a ski resort that has year-round and seasonal employees. What are the FLSA requirements as far as minimum wage is concerned?

If the ski resort is not conducting interstate commerce, it is not subject to FLSA requirements of minimum wage, maximum hours worked, break requirements, or pay rate requirements.

1-4B. Roxie is the payroll administrator for a small company. Because of economic conditions, her boss has assigned her the additional duties of office management, and Roxie is considering outsourcing her payroll duties. What are the pros and cons of outsourcing the company's payroll?

Pros: flexibility, advanced data analysis, assistance with strategic planning, and compliance with complicated payroll regulations.

Cons: reliance on another party to maintain confidentiality of the records and compliance with tax laws; costs may outweigh benefits received.

1-5B. Jim is the payroll clerk for a company based in a state where same-sex marriage is legal. One of the company's employees informs Jim that he has been in a same-sex marriage since January 2011. What actions does Jim need to take regarding prior-year taxes?

- a. The company may need examine how the individual has been taxed (married versus single) for Social Security or Medicare taxes and may need to gross up (explained in a later chapter) wages to reimburse the employee for amounts that had been inappropriately withheld.

1-6B. Carl is a military veteran who requires many absences for medical reasons. His boss has demanded that he reduce the number of sick days unless he provides his medical history. Which laws govern this situation? Should Carl provide his medical records to his boss?

- a. The Uniformed Services Employment and Reemployment Rights Act of 1994 applies in this situation to accommodate the medical leave. Carl would not have to provide medical records under the Health Insurance Portability and Accountability Act of 1996.

1-7B. Valerie is a production worker at a large automobile manufacturing plant. After working there for 10 years, she discovers through conversations with a colleague with the same title and similar seniority that her wage is 20% lower than his wage. She feels that she has been a victim of discrimination. Which laws govern her situation? What action should she take?

- a. The Equal Pay Act of 1963 provides that men and women should receive equal pay for equal work. She should gather documentation and see if her colleague could provide verification of the wage differential and speak with a supervisor to question the payment differential. If the supervisor is unwilling to comply, she should speak with an attorney.

1-8B. Rob is a military reservist whose unit has been called to active duty. He informs his boss that his orders stipulate that he will serve for 12 months. What responsibilities does his employer have as far as Rob's current civilian employment is concerned?

- a. Uniformed Services Employment and Reemployment Rights Act of 1994 applies in this situation. The employer should have a civilian position ready for the employee upon his return from active duty.

1-9B. Skylar is the new bookkeeper for a small company and was hired to replace a long-time employee who retired. Upon starting the position, Skylar notices that the prior bookkeeper used a purely manual system. The company owner has said that Skylar may update the payroll system. What options are available?

- a. Skylar can use several computerized payroll systems that have an accounting component (like QuickBooks) or use a spreadsheet system (like Microsoft Excel) that can provide the calculations.

1-10B. Jeffrey is the accounting manager for a company that provides computer-consulting services. The computer-consulting company has a staff that includes five full-time employees and eight on-call consultants. The on-call consultants provide their own tools and decide which hours they will work. Are the consultants employees of the company? Explain.

- a. With the independence of when they will work and how the consultants will perform their duties, they are more appropriately classified as independent contractors and would not be employees of the company.

1-11B. Paola is the payroll accountant for an import-export firm. Her most recent experience with accounting educational courses was when she was in college, which was eight years ago.

What ethical guideline(s) govern her professional development?

- a. Ethical guidelines based upon the AICPA Code of Ethics would include the following tenets: Responsibilities, public interest, integrity, objectivity and independence, and due care. Paola has an obligation to the public interest to accurately depict the finances of the company. Ensuring that the request does not violate the integrity and compromise the interests of both the company and the related parties would also be important.

1-12B. Nic is an accountant for a large, multinational firm. During payroll processing, he notices that the new state payroll tax updates have not been installed in the firm's software. What ethical guidelines govern his behavior in this situation?

- a. Under the Due Care ethical standard of the AICPA's Code of Ethics, Nic would need to notify his supervisor of the discrepancy and ensure the tax withholding and remittance are correct with the new state payroll rates.

Match the following items with their definitions:

1-13B: e
 1-14B: i
 1-15B: a
 1-16B: j
 1-17B: g
 1-18B: b
 1-19B: c
 1-20B: f
 1-21B: d
 1-22B: h

CRITICAL THINKING

1-1. You have been hired as a consultant for a company facing an IRS audit of their accounting records. During your review, you notice anomalies in the payroll system involving overpayments of labor and payments to terminated employees. What would you do?

- a. When the abnormalities are discovered, the management of the company should be made aware of the situation and documented attempts at collection of any material overpayments should be attempted. Since the IRS audit is imminent, documenting the date of the find and attempts to rectify the error would be advisable. If the anomalies are a result of a programming or computerized glitch, there is the possibility that discussing this with the software company could reduce the liability for the company.

1-2. Lee Chen is the accountant for a local nonprofit organization. He has been tasked with managing the costs of the payroll so that staffing levels may remain the same even if funding

levels change. He considers outsourcing the payroll to a payroll processing company. What are some factors that Lee should consider in his decision?

- a. Lee needs to consider records retention, confidentiality, compliance, timeliness, and thoroughness. Lee will also need to determine if the costs associated with outsourcing outweigh the benefits or the other way around.

IN THE REAL WORLD: SCENARIO FOR DISCUSSION

Student answers will vary.

CONTINUING PAYROLL PROJECT: PREVOSTI FARMS AND SUGARHOUSE

Form SS-4 (Rev. January 2010) Department of the Treasury Internal Revenue Service		Application for Employer Identification Number (For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.) ▶ See separate instructions for each line. ▶ Keep a copy for your records.		OMB No. 1545-0003	
				EIN	
Type or print clearly.	1 Legal name of entity (or individual) for whom the EIN is being requested Prevosti Farms and Sugarhouse				
	2 Trade name of business (if different from name on line 1)		3 Executor, administrator, trustee, "care of" name		
	4a Mailing address (room, apt., suite no. and street, or P.O. box) 820 Westminster Road		5a Street address (if different) (Do not enter a P.O. box.)		
	4b City, state, and ZIP code (if foreign, see instructions) Bridgewater, VT 05520		5b City, state, and ZIP code (if foreign, see instructions)		
	6 County and state where principal business is located Windsor County, VT				
	7a Name of responsible party Toni Prevosti		7b SSN, ITIN, or EIN 055-22-0443		
	8a Is this application for a limited liability company (LLC) (or a foreign equivalent)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		8b If 8a is "Yes," enter the number of LLC members		
	8c If 8a is "Yes," was the LLC organized in the United States? <input type="checkbox"/> Yes <input type="checkbox"/> No				
	9a Type of entity (check only one box). Caution. If 8a is "Yes," see the instructions for the correct box to check.				
	<input checked="" type="checkbox"/> Sole proprietor (SSN) 055 22 0443 <input type="checkbox"/> Partnership <input type="checkbox"/> Corporation (enter form number to be filed) ▶ <input type="checkbox"/> Personal service corporation <input type="checkbox"/> Church or church-controlled organization <input type="checkbox"/> Other nonprofit organization (specify) ▶ <input type="checkbox"/> Other (specify) ▶				
9b If a corporation, name the state or foreign country (if applicable) where incorporated		State		Foreign country	
10 Reason for applying (check only one box)		<input type="checkbox"/> Banking purpose (specify purpose) ▶ <input type="checkbox"/> Changed type of organization (specify new type) ▶ <input type="checkbox"/> Purchased going business <input type="checkbox"/> Created a trust (specify type) ▶ <input type="checkbox"/> Created a pension plan (specify type) ▶			
<input type="checkbox"/> Started new business (specify type) ▶ <input checked="" type="checkbox"/> Hired employees (Check the box and see line 13.) <input type="checkbox"/> Compliance with IRS withholding regulations <input type="checkbox"/> Other (specify) ▶					
11 Date business started or acquired (month, day, year). See instructions. 02/01/2015		12 Closing month of accounting year December			
13 Highest number of employees expected in the next 12 months (enter -0- if none). If no employees expected, skip line 14.		14 If you expect your employment tax liability to be \$1,000 or less in a full calendar year and want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be \$1,000 or less if you expect to pay \$4,000 or less in total wages.) If you do not check this box, you must file Form 941 for every quarter. <input type="checkbox"/>			
Agricultural 3		Household		Other 3	
15 First date wages or annuities were paid (month, day, year). Note. If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year) 02/16/2015					
16 Check one box that best describes the principal activity of your business.					
<input type="checkbox"/> Construction <input type="checkbox"/> Rental & leasing <input type="checkbox"/> Transportation & warehousing <input type="checkbox"/> Health care & social assistance <input type="checkbox"/> Wholesale-agent/broker <input type="checkbox"/> Real estate <input type="checkbox"/> Manufacturing <input type="checkbox"/> Finance & insurance <input type="checkbox"/> Accommodation & food service <input type="checkbox"/> Wholesale-other <input type="checkbox"/> Retail <input checked="" type="checkbox"/> Other (specify) Maple syrup harvesting/production					
17 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided. Harvesting, refining, and selling maple syrup					
18 Has the applicant entity shown on line 1 ever applied for and received an EIN? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," write previous EIN here ▶					
Third Party Designee	Complete this section only if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.				
	Designee's name		Designee's telephone number (include area code)		
	Address and ZIP code		Designee's fax number (include area code)		
Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.					Applicant's telephone number (include area code)
Name and title (type or print clearly) ▶ Tony Prevosti, Owner					(802) 555-3456
Signature ▶					Applicant's fax number (include area code)
Date ▶					()
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 16055N Form SS-4 (Rev. 1-2010)					

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9b If a corporation, name the state or foreign country (if applicable) where incorporated	State	Foreign country		
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<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">Agricultural 3</td> <td style="width: 33%;">Household</td> <td style="width: 33%;">Other 3</td> </tr> </table>			Agricultural 3	Household
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	Designee's name	Designee's telephone number (include area code) ()		
	Address and ZIP code	Designee's fax number (include area code) ()		
Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.		Applicant's telephone number (include area code) (802) 555-3456		
Name and title (type or print clearly) ▶ Toni Prevosti		Applicant's fax number (include area code) ()		
Signature ▶		Date ▶		

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 16055N

Form **SS-4** (Rev. 1-2010)