

# Tax Insights

February 2012



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- Log in from same e-mail address that you used to register
- Stay for the full hour
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- Answer the required survey questions



# Tax Insights

- **Federal changes**

- FUTA
- Payroll Tax Cuts
- WOTC Credits

- **Pennsylvania Act 32**

- **State Legislative Trends**

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## Polling Question #1

### How Many Years Have You Worked In Payroll?

- A. 0 – 1 Year**
- B. 2 – 5 Years**
- C. 6- 10 Years**
- D. 11 – 15 Years**
- E. 16 Years +**

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## Polling Question #2

What is the correct definition for the following acronym?

- A. FICA = Federal Income Control Act**
- B. FICA = Federal Insurance Contribution Act**
- C. FICA = Federal Interest Calculation Act**
- D. Don't Know**

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**“Those who cannot  
remember the past are  
condemned to repeat it.”**

George Santayana (American Philosopher)





## 2011: A Wild Ride

**S&P downgrade from AAA to AA+**

**Debt ceiling reached, increased**

**Deficit “Super Committee”**

**Foreclosures hit 983,000**

**European Financial Crisis**

**...With Record Deficits**



**NATIONAL  
DEBT**

**\$14.7**  
Trillion

**NATIONAL  
BUDGET  
DEFICIT**

**\$1.3**  
Trillion

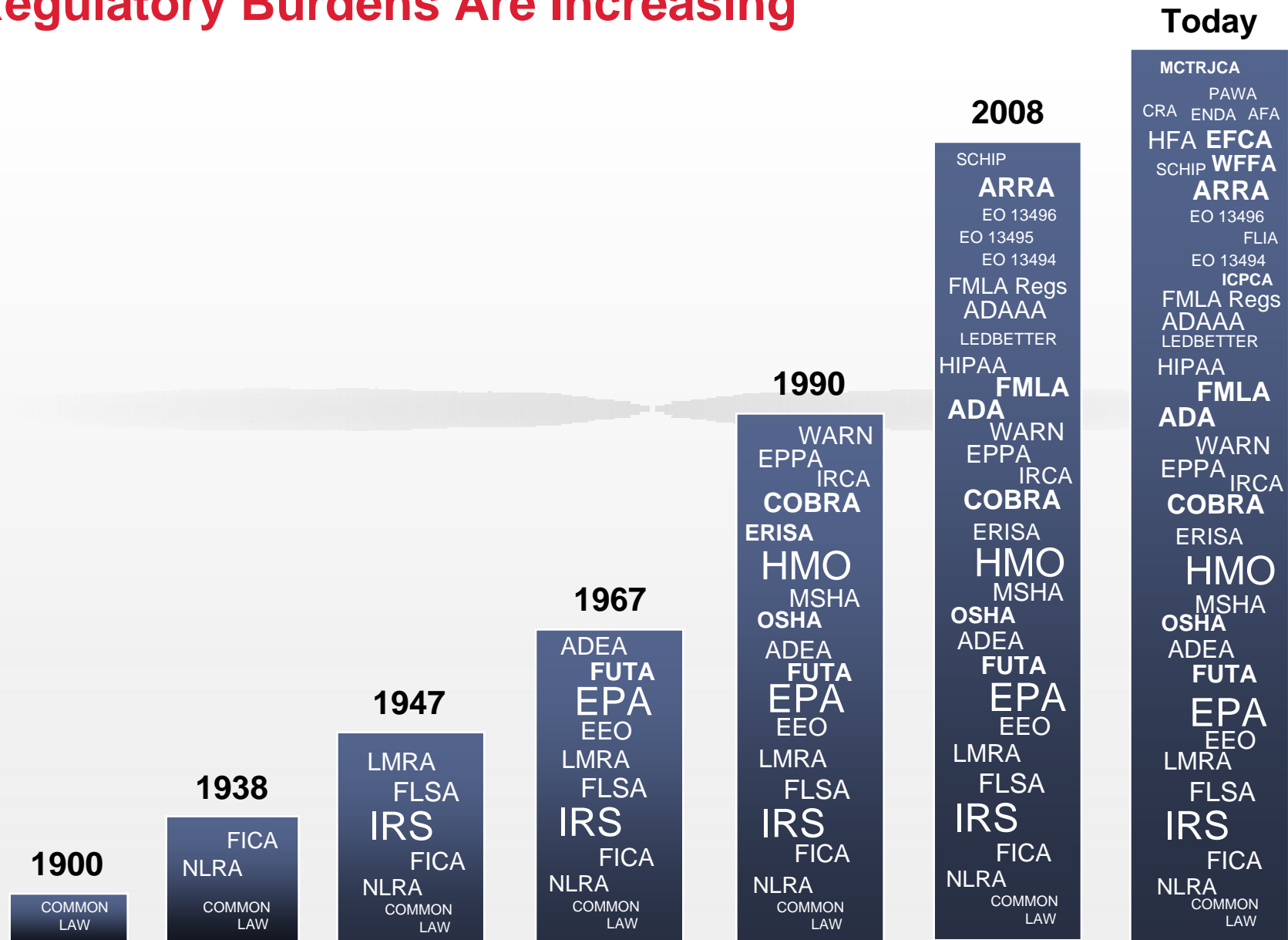
**STATE  
DEBT**

**\$1.2**  
Trillion

**LOCAL  
DEBT**

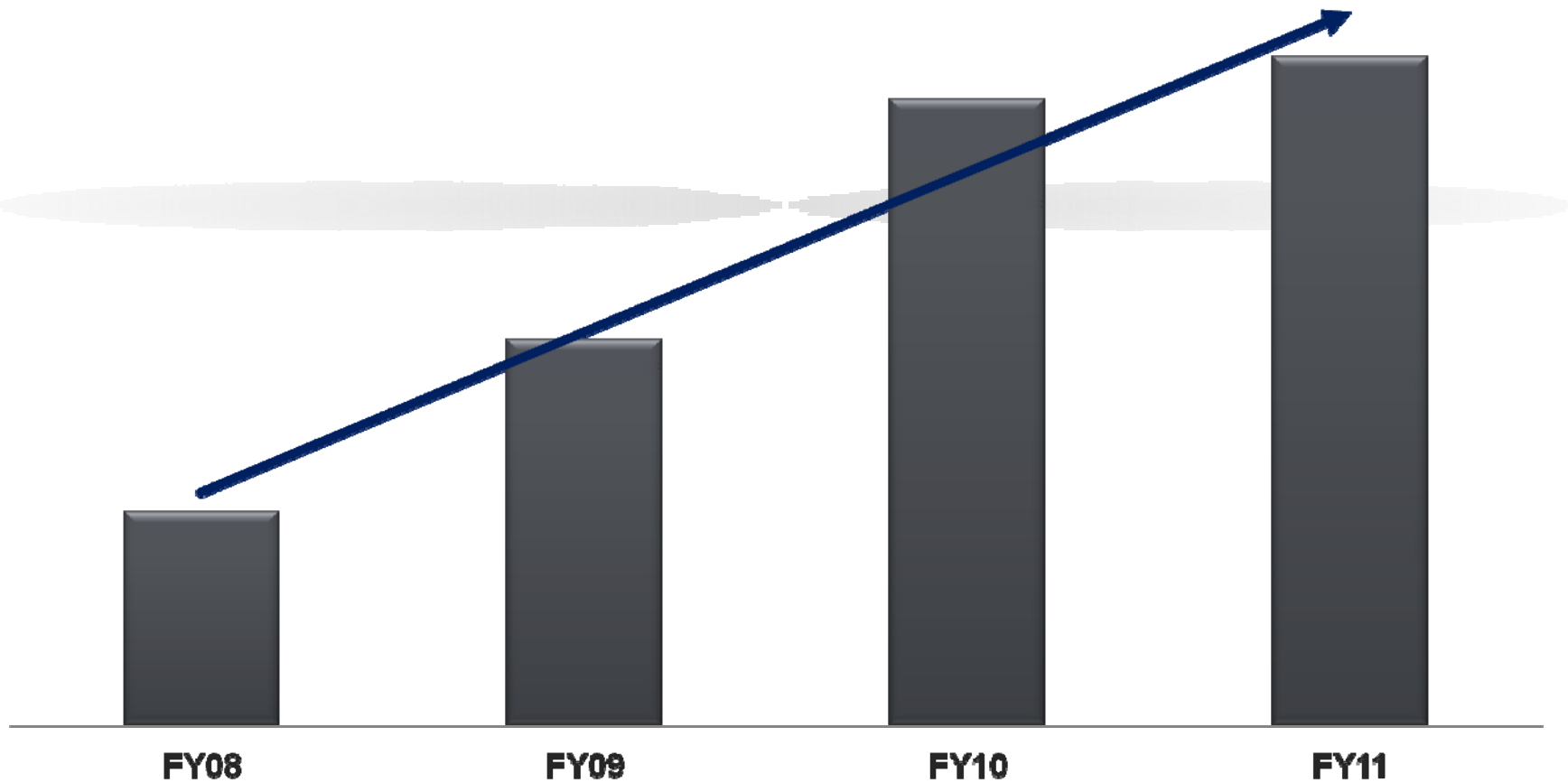
**\$1.7**  
Trillion

# Regulatory Burdens Are Increasing



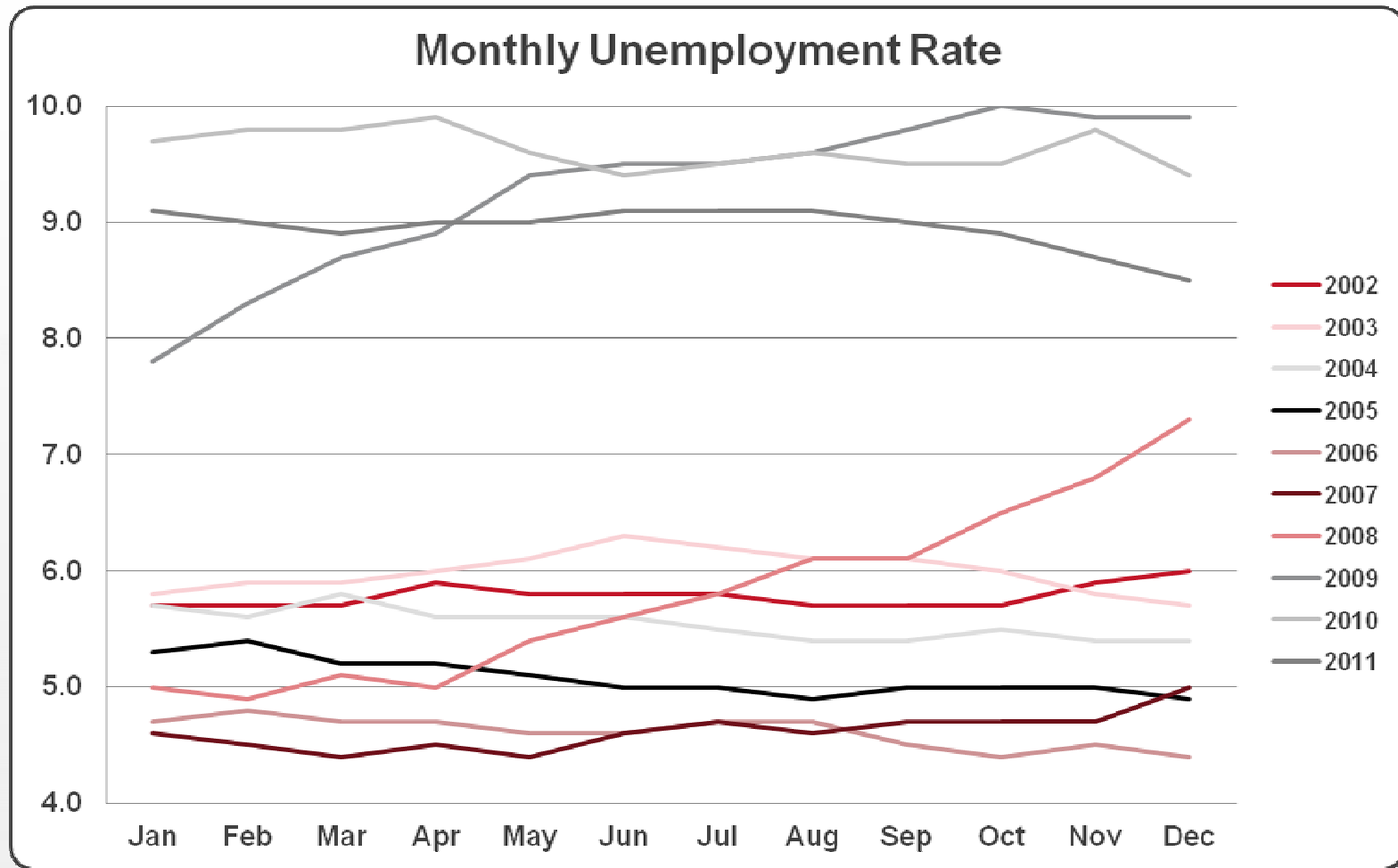
# Employers Doing More With Less, Faster

## IT Costs for Legal/Compliance Projects



Source: ADP

## Unemployment Better, But Still Not Good

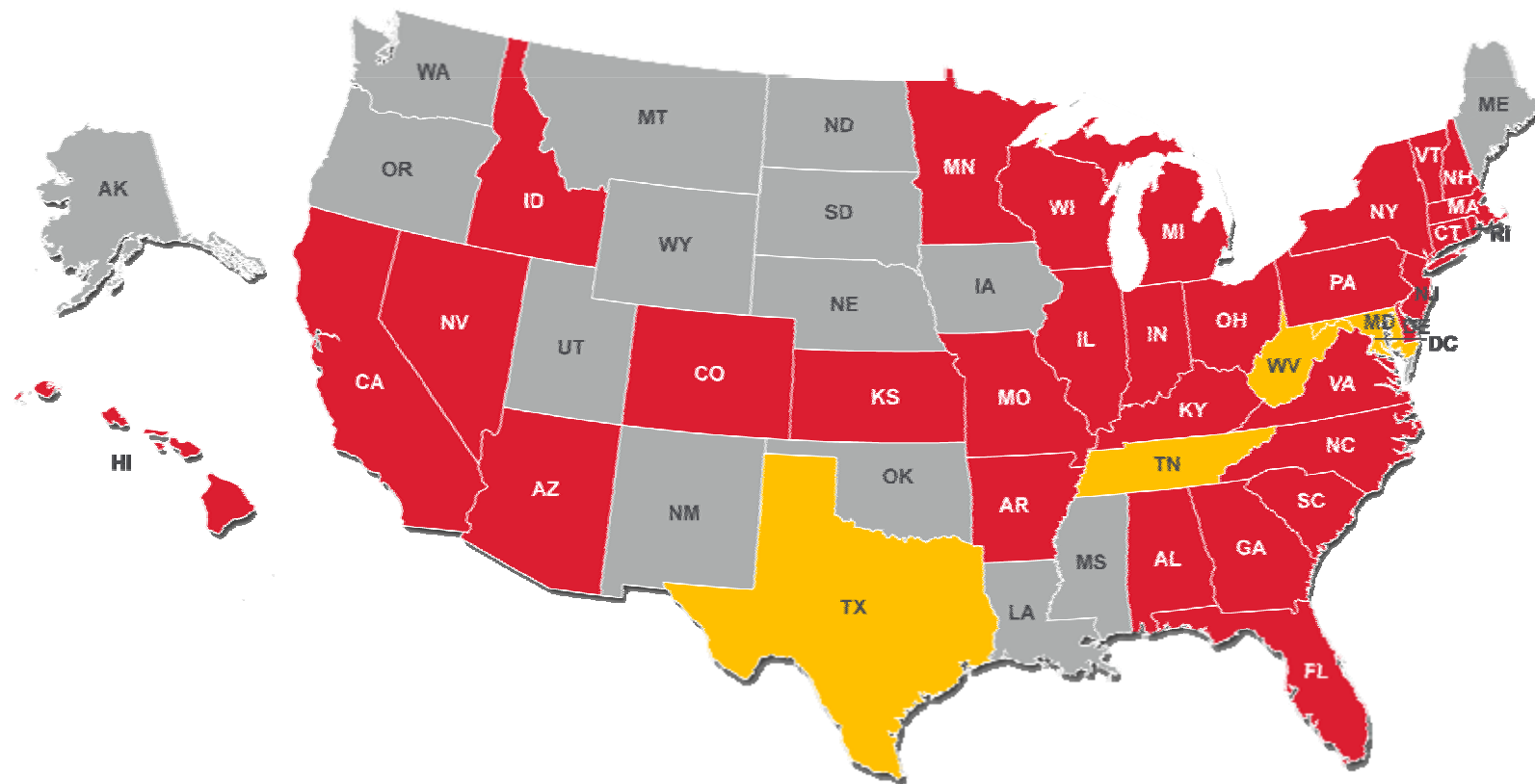


Bureau of Labor Statistics Labor Force Statistics from the Current Population Survey

Data extracted on: February 7, 2012

# State of the States

## Unemployment Trust Fund Solvency



States borrowing as of the end of April 2011 (including the Virgin Islands)

States with positive balances of less than six months of benefits in the state trust fund

States with more than six months of benefits in the state trust fund (including Puerto Rico)

# Keeping an Eye on Washington

**FUTA**

**Payroll Tax Cuts**

**Federal WOTC Tax Credits**

**Accelerated federal wage reporting**



**FUTA**

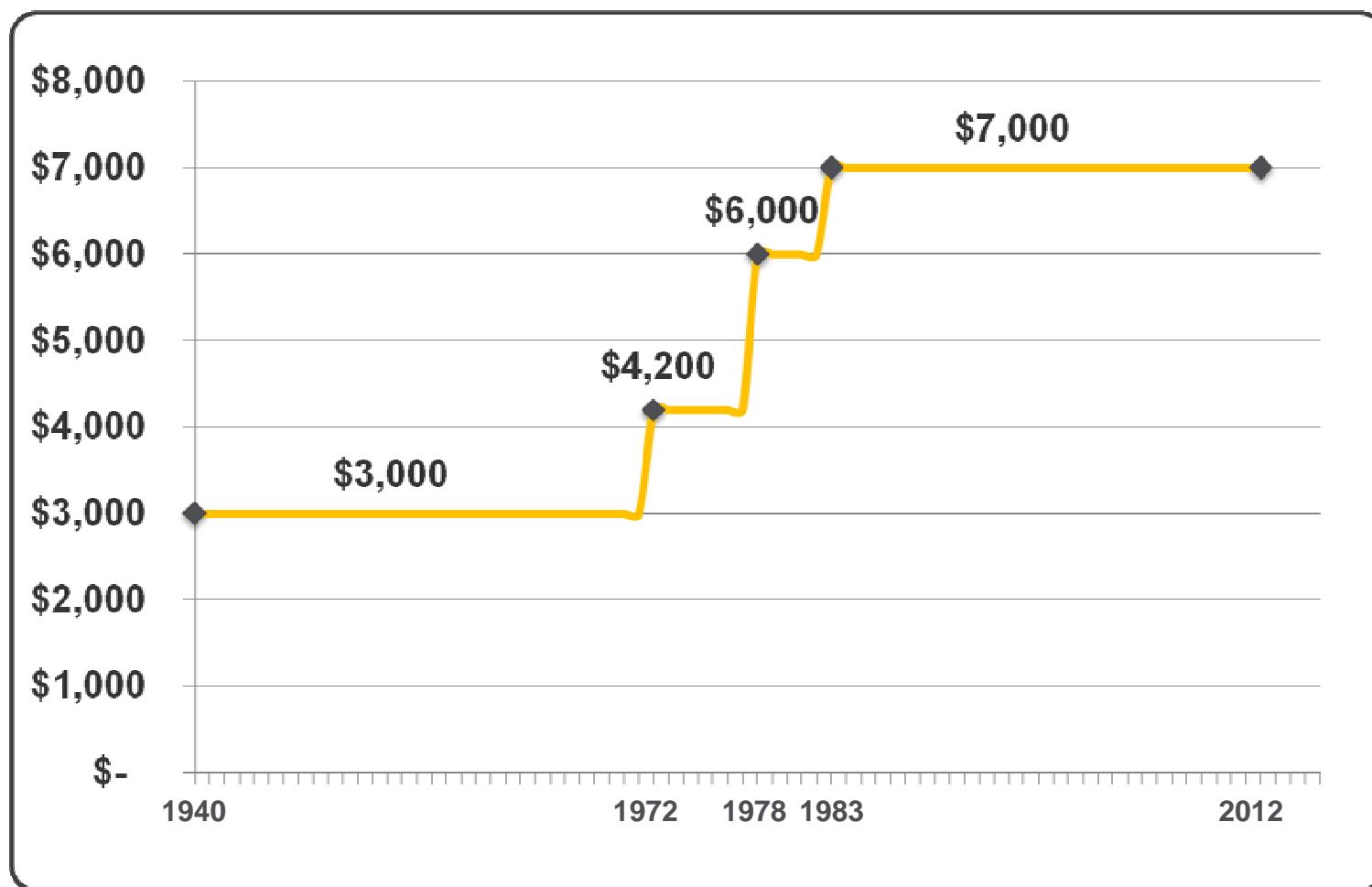
**It's going,**

**Going,**

**GONE!**

**FUTA surtax expired June 30, 2011**

## FUTA Base Unchanged Since 1983...



Source: ADP

## **...and FUTA Increase is in Sight**

- **Proposal to increase the FUTA taxable wage base to \$15,000 by 2015**
- **Restore the FUTA surtax**
- **States may be required to raise their taxable wage bases to at least \$15,000 by 2015**
- **32 states (plus DC and Puerto Rico) have a taxable wage base under \$15,000**

# Keeping Up With The Social Security Tax Rate

6.2%

4.2%



# The Final Rates/Caps

## FICA Tax Rates

Year	Taxable Wage Limit	SS Tax Rate	Tax Cap
2010	\$106,800	6.2%	\$6,621.60
2011	\$106,800	4.2%	\$4,485.60
2012	\$110,100	4.2%	\$4,624.20

Year	Taxable Wage Limit	Medi Tax Rate
2012	Unlimited	1.45%
2013	Wages <\$200K or \$250K	1.45%
2013	Wages >\$200K or \$250K	2.35%

# Federal Tax Credits

- **Work Opportunity Tax Credits (WOTC)**
  - Extended for hiring veterans
  - NOT extended for other targeted groups, such as disadvantaged youth, qualified food stamp recipients, temporary recipients of TANF
  - Introduced for non-profits hiring veterans
  - Provides for a credit of up to \$5600 per veteran after certification or \$9600 for veterans wounded in service



# Federal Tax Credits

- **WOTC (continued)**
  - New electronic signature component on Form 8850
  - For-profit take the WOTC on the annual tax return (forms 1120, 1065, etc.) or the new 5884-C
  - Non-profits to use new form 5884-C



# Accelerated Federal Wage Reporting

- **The “Real Time Tax System” (RTTS)**

- To “relieve taxpayer burden”
- Increased discussions on fraud reduction

- **Possible Scenarios:**

- Reduce the threshold for electronic filing (currently 250)
- Accelerated due date (currently 2/28 or 3/31 for electronic filers)
- Quarterly W-2 reporting (already happens in CA and NY)
- Access to employer copy of W2 information during tax season

- **May or may not impact April 15 individual filing date**

# Reducing Taxpayer Burden...and Fraud

## ■ Considerations

- An accelerated W-2 due date could mean an increase in amendments/reduced accuracy (currently estimated by the IRS to be 1%)
- Quarterly reporting – how would non-cash components (third party sick pay, stock options, etc.) be handled?
- Could multiple files instead be sent (to SSA and IRS simultaneously) to avoid processing delays?

# States Follow Federal Lead

## ■ W-2 Reporting

- >50% of states already allow February 28th date or later
- Would most likely follow any acceleration the IRS imposes

## ■ UI Reporting

- Agencies have already been discussing earlier due dates
  - Alternative base periods (ABPs) allow states to compute unemployment insurance benefits faster (42 states)
  - Due dates as early as 15th

## Polling Question #3

**What percentage of states have a W-2 due date AFTER January 31?**

- A. 25%**
- B. 50%**
- C. 75%**
- D. 100%**
- E. Don't Know / Not Applicable**

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# Pennsylvania Act 32

- **Passed in 2008**
- **Consolidates 560 tax collection districts into 69 counties with 21 collectors**
- **The employer is required to withhold at the highest rate between worksite & resident rates**
- **Eliminates voluntary withholding**
- **Reports new six-position, standardized Political Subdivision (PSD) Codes for worksite and residence**
- **Allows collectors to enact e-payments & filings**

# **“Burden Reduction” in Pennsylvania**

## **The before...**

**560 collectors collecting a mish-mash of EIT, SD, and LST**

**Rate based on worked-in location rate**

**No PSD (location) codes required**

**Employer only responsible for employees who live where they work**

**Multiple forms and formats**



## **The after...**

**21 collectors hired and collecting all taxes within a county**

**Rate is highest of worked-in or lived-in**

**PSD codes required for employer and employee**

**Employers must withhold for all employees**

**Standardization for filings & payments coming**



# Act 32 – Employer's Frequently Asked Questions

- **Questions about Act 32 Legislation**

- Is there an impact to Local Service Tax (LST) codes?
  - None, other than collector changes
  - Amount and requirements did not change
- What are the registration requirements?
  - Employer must register with the primary business office location
  - Local Earned Income Tax Residency Certification Form
    - Must be completed by the employee and submitted to the employer
    - The employer should maintain a copy on file; only Lancaster collector requires submission of a copy



# Employer's Frequently Asked Questions

## What address requirements have changed?

### ■ Employee

- PA law / standardized DCED Residency Certificate requires employers to obtain a street address from an employee
- If unavailable, employee is to call the collector
- If only a PO Box is provided, the collector may have more tolerance if there is a correct (not default) PSD code

### ■ Employer

- The employer registration / filing forms require a physical location address (not a PO Box)
- Lancaster County has published requirements, others are issuing guidance

# Employer's Frequently Asked Questions

- **What about employees that live in multiple locations?**
  - Reporting is based on primary work location and the employee still pays the higher rate between their lived in and worked in location
  - Worked in location may have multiple rates – resident and non-resident – so consider if the employee lives there or only works there
- **Where do I pay taxes for work-at-home employees?**
  - DCED has provided guidance that the employee's residence is their work location

# Employer's Frequently Asked Questions

- **Do I withhold for out-of-state employees?**

- Withholding is only required for employees who work in PA
- If the employee lives in PA but works in another state, the employer withholding requirement is optional

- **What is the consolidated filing requirement (“Wal-Mart” exception)?**

- Act 32 allows employers with multiple locations within PA to consolidate their filings to one collector
- Must submit a “Notice of Intent” to the payroll operation’s collector is located
- Upon approval the employer must notify the other collectors
- Once approved all wage reporting and payments must be submitted monthly to the consolidated collector AND must be electronically paid and filed

# Employer's Frequently Asked Questions

- **What is a Political Subdivision (PSD) code?**

- Unique six-position indicator that identifies the county/ school district/municipality where an employee lives or works
- Code breakdown:
  - Positions 1 & 2 = County
  - Positions 3 & 4 = School District
  - Positions 5 & 6 = Municipality
  - Example:
    - East Berlin's PSD = 010101
    - Adams County = 01
    - Bermudian SD = 01
    - East Berlin Boro = 01

- **What if I don't report a PSD code?**

- Keystone has indicated they will have a no-tolerance policy
- Other collectors seem more flexible...so far

**There May Be Some Leniency...at First**

# An Act 32 Checklist

## Employer

- ✓ Register with your Tax Collection District (TCD)
- ✓ Inform your employees of the changes they may see to their paycheck
- ✓ Complete your portion of the Residency Certification Form
- ✓ Provide the Residency Certification Form to your employee
- ✓ Make sure you have PSD codes for your worksite locations and employee residence addresses (no PO boxes)
- ✓ Maintain a copy of the Residency Certification Form

## Employee

- ✓ Complete the appropriate section of the Residency Certification Form
- ✓ Return the Form to their employer
- ✓ Complete a new Residency Certification Form for changes of address

## **Polling Question #4**

**PSDs, or political subdivision codes, are six-position codes required to:**

- A. Help the collector know where to pay the tax**
- B. Help the collector know where the employee lives**
- C. Help the collector know where the employee works**
- D. All of the above**
- E. Don't Know / Not Applicable**

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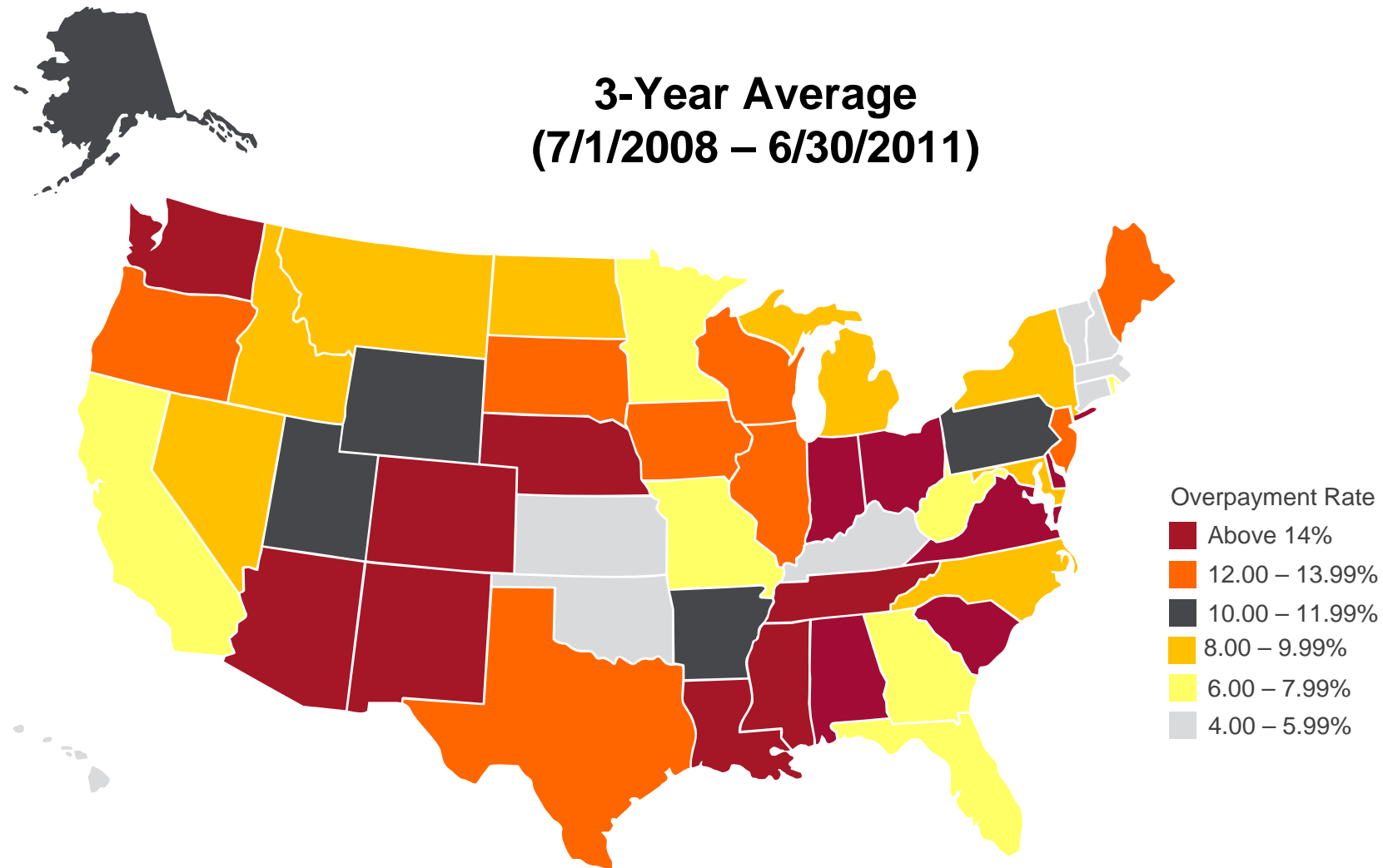




# State Legislative Trends



# Why States are Struggling



Source: U.S. Department of Labor

## Why States are Struggling

- **The Trade Adjustment Assistance Extension Act of 2011 passed in October with Section 252 pertaining to employer charging:**

“...an employer’s account shall not be relieved of charges relating to a payment from the State unemployment fund if the State agency determines that the payment was made because the employer, or an agent of the employer, was at fault for failing to respond timely or adequately to the request of the agency for information relating to the claim for compensation **AND** the employer or agent has established a pattern of failing to respond timely or adequately to such requests”

- **State law must be in compliance with HR 2832 no later than October 21, 2013; states may impose stricter standards than what is outlined above**
- **As UI trust funds continue to deplete, some states may pass legislation as soon as the next legislative session – which began in January 2012**

# Crackdown: Misclassification of Workers

- **Over 10 years, estimated loss of revenue of \$7B**
- **20+ states have increased penalties**
- **Asking public to provide tips**
- **UI agencies receive an extract file from IRS of 1099-MISC reporting to discover unreported wages**
- **New Voluntary Classification Settlement Program with IRS**

## Polling Question #5

**How much have states been missing because of UI overpayments and worker misclassification?**

- A. \$1.5M in UI benefits and \$700K in misclassification**
- B. \$3.5M in UI benefits and \$3.8M in misclassification**
- C. \$4.7M in UI benefits and \$5.0M in misclassification**
- D. \$5.5M in UI benefits and \$7M in misclassification**
- E. \$6.6B in UI benefits and \$7B in misclassification**
- F. Don't Know / Not Applicable**

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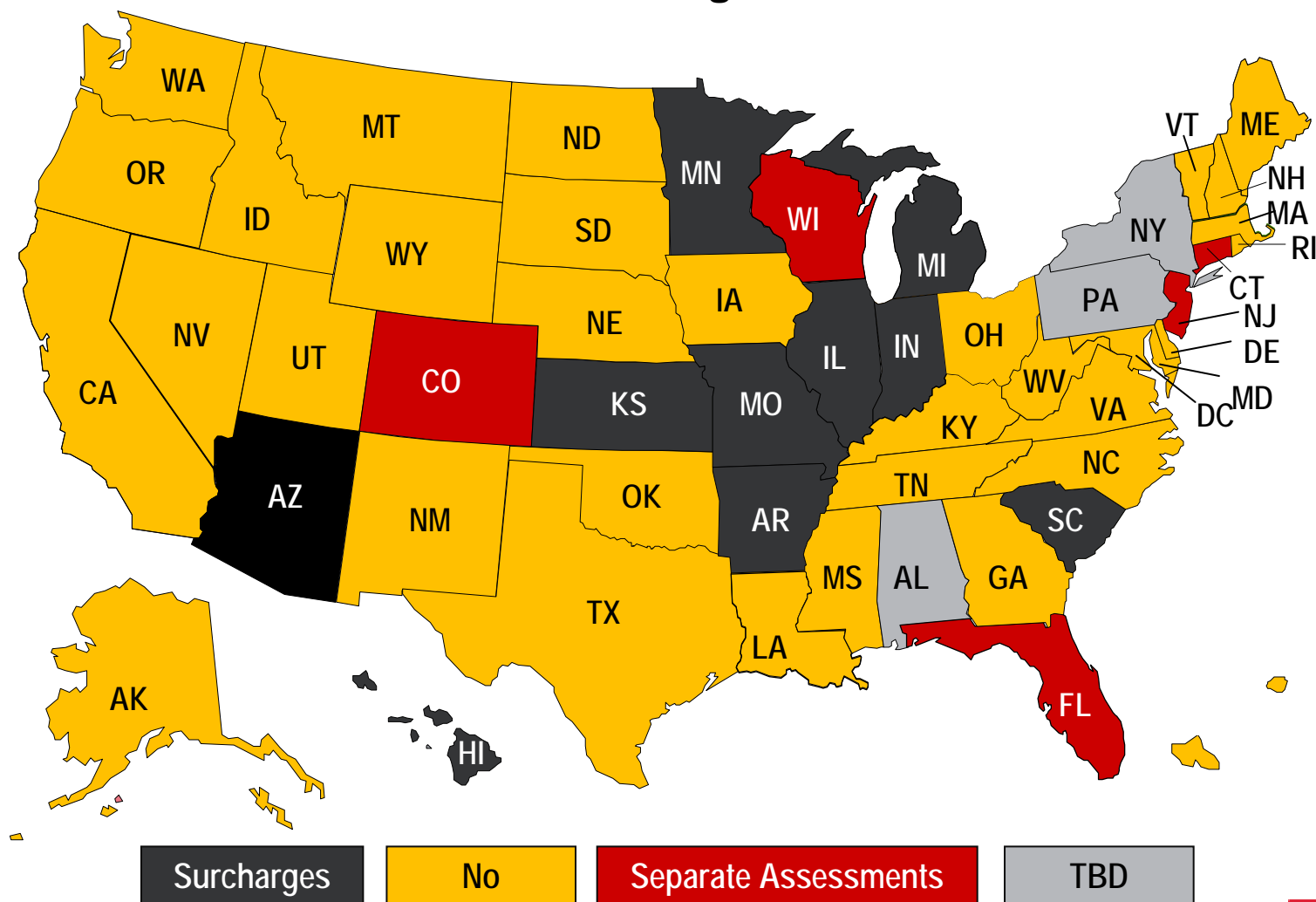
# Another Attempt at Financial Recovery

- **Out of state wages**

- Identify suspected underreporting of UI tax payments
- Only affects one out of every 200 workers
- States respond differently:
  - States recently requesting “out of state wage” reporting: Alaska; Ohio (2011); Washington (2012)
  - Some states threaten to disallow credit – Arkansas, Massachusetts
  - Must apply for credit of out of state wages in Massachusetts and New Mexico
- Suggestion: Provide out of state wage info when requested to avoid notices

# States are Working Toward Recovery...

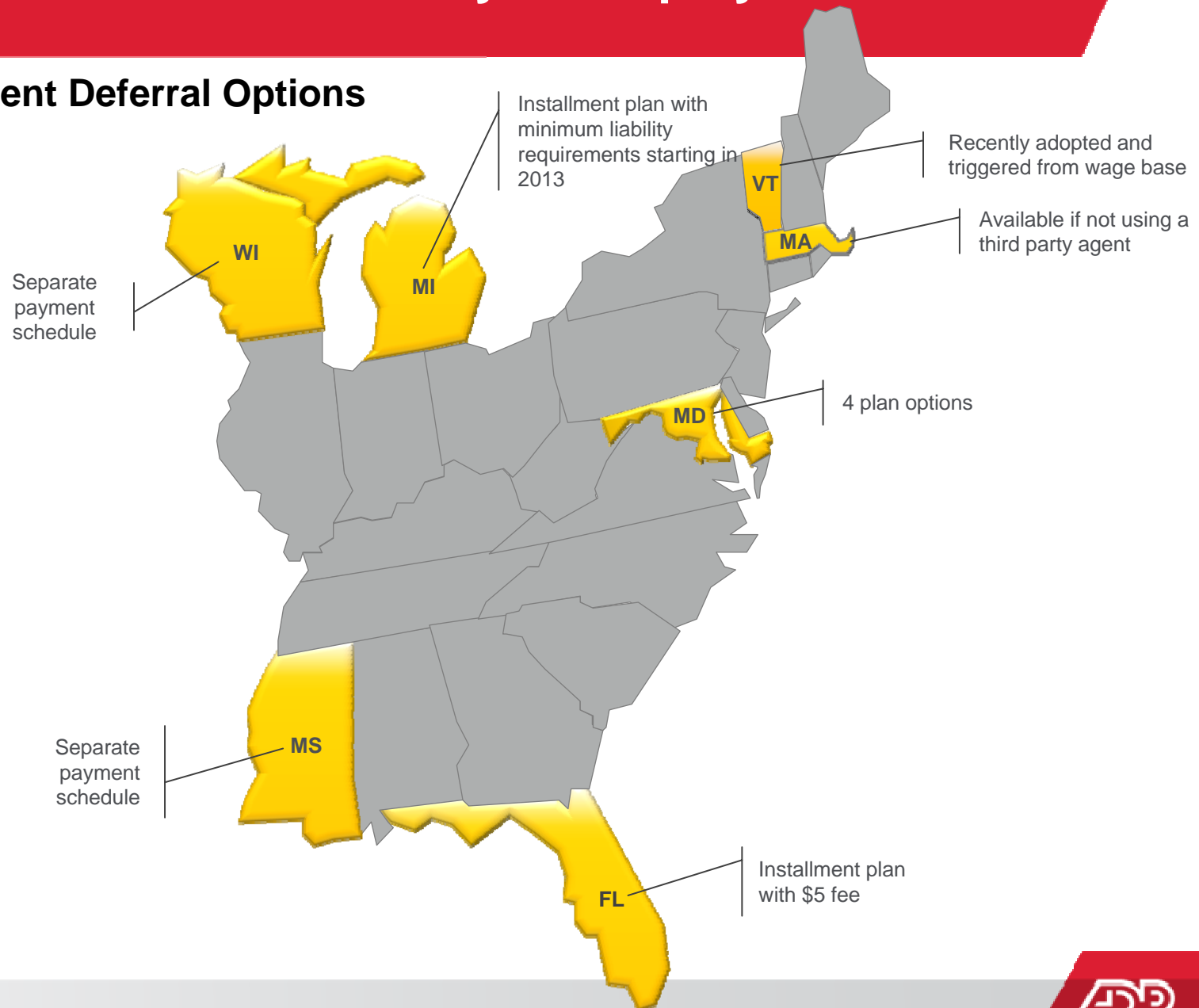
## 2012 Additional Surcharges & UI Assessments





## ...Balanced with Sensitivity to Employers

### UI Payment Deferral Options



## **In Summary...The Economy Remains in Recovery Mode**

- **Federal and state actions will continue creating fast-paced legislation, last-minute changes and late-breaking communication**
- **The federal government continues looking for ways to stimulate the economy through tax breaks and credits**
- **States will continue to be challenged financially; looking for ways to save money, increase revenues, and keep fraud in check**
- **Collection of local taxes will continue to morph**
  - Pennsylvania collectors will strictly analyze the accuracy of the reporting they get
  - Increased adoption of electronic filing and payments once the dust settles
  - Ohio is having similar discussions on standardization and combined collectors. No legislation just yet.

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