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# **Tax Insights: A closer look at the payroll tax legislative landscape**

**An ADP Webcast  
August 10, 2011  
1:00pm Eastern**

**HR. Payroll. Benefits.**



# Housekeeping

- This is one of a number of complimentary webinars that ADP offers to Finance and HR professionals each year.
- Today's webinar will last for 60 minutes, ending at 2pm Eastern.
- The last 10 minutes of today's program have been reserved for Q&A.
- A .pdf copy of today's slides is available right now for download.
- CPE certificates will be emailed to those who qualify within 30 days of today's broadcast.
- Please participate in our brief survey at the conclusion of today's webinar.



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Over 570,000 clients  
worldwide

Pays 1 out of 6 in the U.S.  
33M worldwide



Founded in 1949  
Went public in 1961

45,000 Associates  
In 60+ Countries

- Revenues of approximately \$10 Billion
- Market capitalization of >\$23 Billion

Electronically 'moving'  
\$1 Trillion annually

1 of 4 AAA Rated U.S. Industrial Companies  
(by Standard & Poor's & Moody's)

**One of the world's leading providers of  
technology-based SaaS solutions to employers**



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- C. Both CPE & RCH credits**
- D. NO**
- E. Not Applicable**

**NASBA**  
(National Association of  
State Boards of Accountancy) and  
**APA**  
(American Payroll Association)

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- Log in from same e-mail address that you used to register
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- Answer all polling questions
- **Complete the survey at the conclusion of today's webinar**



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## **YOUR SUBJECT MATTER EXPERT:**



**Wendy Seyfert**  
Vice President,  
Agency Relations

**HR. Payroll. Benefits.**



# **Tax Insights:**

**A closer look at the payroll tax legislative landscape**

- **Economic Impact to Payroll Taxes**
- **2011 Reporting Obligations**
- **Authorization and Validation Issues**
- **e-Commerce Trends**

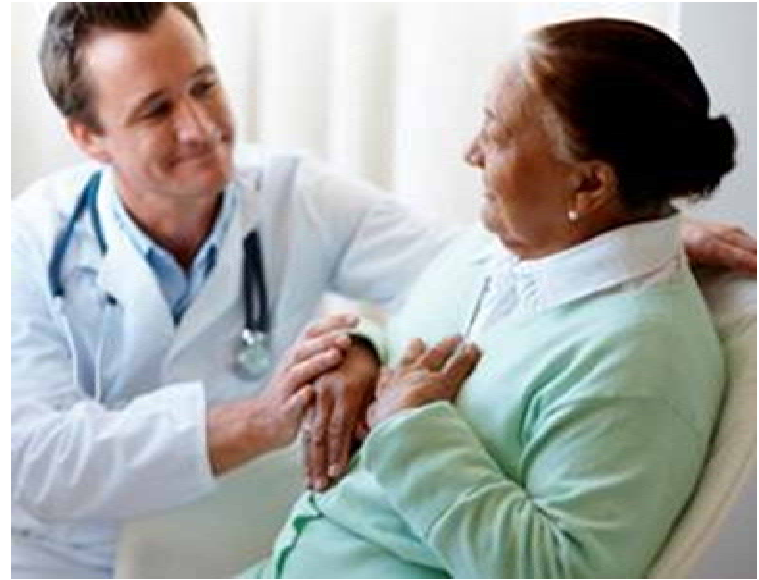
# ECONOMIC IMPACT TO PAYROLL TAXES

- **Federal Insurance Contributions Act (FICA)**
- **Unemployment Taxes**



# Impacts to FICA Payroll Taxes

- **Social Security employee rate reduction**
  - **Implemented successfully: effective 1/1/2011**
  - **From 6.2% to 4.2%**
  - **Wage base and employer rate remain unchanged**
  - **Maximum withholding: \$4,485.60 (from \$6,621.60)**
- **Possible Medicare increase for high-income individuals (2013)**



# Impacts to Unemployment Taxes

- **FUTA surcharge expired on June 30, 2011**  
(from 0.8% to 0.6%)
- **Nearly half of the states have outstanding federal loans**
  - **FUTA credit reductions will not be finalized until November 2011**
  - **Increases FUTA tax liability by 37% for impacted states (\$21 - \$77 / worker)**
- **State unemployment agencies must repay federal loans, pay interest, and restore fund balances**
  - **New interest assessments**
  - **Increased unemployment insurance rates and taxable wage limits**

## ADP Key Communications Initiatives

- **Eye on Washington (ADP.com)**
- **Direct mailings**
- **Recommendations to legislators and sub-committees**



## Compliance: What You Should Expect

- Federal rate changes
- Higher FUTA taxes for in delinquent states
- Notifications and billings from states regarding new interest assessments
- New surcharges prompting annual tax-rate notice modifications

## **Polling Question #1**

- **From which source did you learn about the employee social security rate reduction (January 1, 2011)?**
  - A. ADP**
  - B. Another industry source**
  - C. From the “news”**
  - D. I’m learning about this reduction for the first time**

# 2011 REPORTING OBLIGATIONS

- **W-2 reporting changes**
- **Pennsylvania Act 32 requirements**
- **Social Security randomization/edits**
- **Applied-for ID rejections**
- **Out-of-state wage changes**
- **Multi-unit reporting**



# W-2 Reporting Changes

- **Cost of health care**
  - **Cost of coverage under employer-sponsored group health plan**
  - **Optional in 2011 (informational only)**
    - Amounts not taxable
    - Greater visibility to employees into overall health care costs
- **W-3 “kind of employer” box**
  - **Government, tax-exempt**
  - **2011 reporting**

## **Pennsylvania Act 32 Requirements**

- **Consolidates 560 jurisdictions to 69 counties**
- **Withholds at higher rate between worksite and resident rates**
- **Reports six-digit Political Subdivision Code (PSD) for worksite and residence**
- **Eliminates voluntary withholding**
- **Allows collectors to enact electronic payments, filings**

# Pennsylvania Counties Adopting Act 32: 2011

- Lancaster – transition mandate
- Wyoming – transition mandate
- Lebanon – enforcing mandate
- Chester – enforcing mandate



# Social Security Number (SSN) Randomization

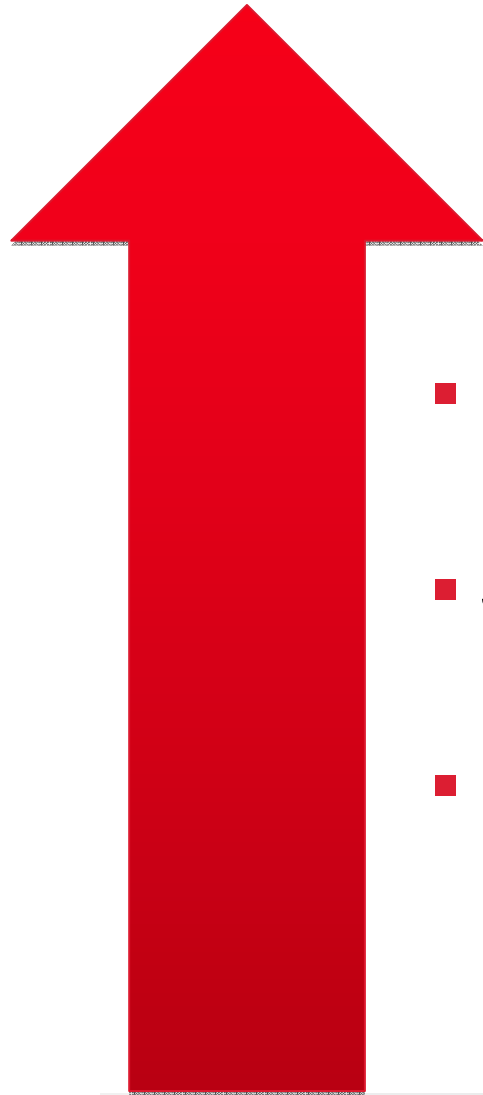
- **Effective June 25, 2011**
- **Extends the use of 9-digit SSN**
- **Eliminates geographical significance**
  - first three digits
  - high group number
- **Issues new numbers starting in 000, 666 and 900-999**



## Continued Pressure to Reduce Applied-for IDs

- **Florida:** instituting new penalty structure (includes service provider penalties)
- **Hawaii:** agency threatening to reject applied-for IDs
- **Michigan:** agency threatening to reject applied-for IDs
- **Nebraska:** rejecting unregistered EFT payments
- **Washington:** assessing steeper penalties
- **Wisconsin:** rejecting unregistered EFT payments

## Out-of-State Wage Reporting Changes Increasing



- **Reporting of out-of-state wages**
- **Scrutiny of reported taxable wages**
- **Elimination of reciprocal agreements**

# Multi-unit Reporting

- **Requires employers to provide wage and employee total information per location**
- **Requires more communication with the state to maintain accurate list of unit numbers / locations**
- **Provides greater opportunity for reporting errors, rejects and penalties**



# Reporting: What You Should Expect

- **If leveraging ADP, guidance regarding reporting of:**
  - Healthcare costs/kind of employer
  - Unit reporting
  - Applied-for IDs
- **Agency notices regarding:**
  - Additional tax due resulting from out-of-state wage credits
  - Pennsylvania counties requesting early compliance with Act 32
- **SSNs from employees in new ranges**

## Polling Question #2

- **True or False – Pennsylvania Act 32 requires withholding at the higher rate between worksite and resident rates.**

**A. TRUE**

**B. FALSE**

# AUTHORIZATION AND VALIDATION ISSUES

- **What is a data exchange?**
- **Trends impacting validation**
- **Impact of missing authorization**





***What is a data exchange?***

## Trends Impacting Validation

- **Mandating use of state-specific, custom Powers of Attorney (POAs)**
- **Restricting access to data**
- **Eliminating paper authorization forms (electronic authorizations)**
- **Scrutinizing dates and signatures on forms**

## Missing Authorizations Prohibit. . .

- **Discussing notices, refunds and penalty cases with agencies**
- **Receiving IRS notices timely and directly**
- **Validating:**
  - **Experience rates**
  - **Frequencies**
  - **Account numbers**
  - **Disbursement methods**
  - **Interest assessments**
  - **Credits**

## **ADP Key Validation Initiatives**

- **Propose Memorandum of Understanding (MOU)**
- **Push acceptance of Federal Reporting Agent Authorization (RAA)**
- **Address unnecessary power of attorney (POA) edits**
- **Negotiate to lessen unnecessary POA rejects**
- **Create authorized caller lists**



## Validation: What You Should Expect

- New electronic state authorizations
- If leveraging ADP, letters regarding:
  - Missing or rejected Reporting Agent Authorization (RAA) forms
  - Missing or rejected custom state POA forms
- Penalties from agencies for rate or frequency errors (if ADP is unable to validate)

## Polling Question #3

- **Not having proper authorization on file with a jurisdiction can :**
  - A. Prohibit discussions about notices**
  - B. Delay receipt of IRS notices**
  - C. Postpone validation of rates or frequencies**
  - D. All of the above**

# E-COMMERCE TRENDS



## e-Commerce Trends

- **Continuing transition to electronic filing**
- **e-Filing system re-writes**
- **Decreasing thresholds**
  - **Historically, 250 or more employees had to be filed on tape**
  - **Currently, several states are 100% e-filing and many require employers with < 10 employees to be electronic**
- **Local agencies are transitioning to e-filing**

## e-Commerce Trends (cont.)

- **New e-file reject criteria:**
  - **Federal Employee Identification Number (FEIN) / state ID discrepancies**
  - **Incorrect deposit schedule results in a filing reject**
- **Decreased tolerance for delays in resubmitting rejected filings**
- **Payroll tax filing, new hire reporting, garnishment notifications and unemployment claims are converting to electronic formats**

# ADP Key e-Commerce Initiatives

- **More frequent on-site agency visits**
- **Influence new agency system designs / redesigns**
- **Promote industry-best practices**
- **Educate agencies about impact of unreasonable edits / rejects**
- **Propose voluntary participation in ADP-endorsed e-file program**
- **e-File bulletins and websites**



## **e-Commerce: What You Should Expect**

- **Notification from states encouraging employers to participate in e-file programs**
- **If leveraging ADP, communication regarding:**
  - **New edits and / or reject criteria for new e-file programs**
  - **Data corrections and resubmitting rejected e-filings**

## Polling Question #4

- How painful has the trend toward electronic filing requirements been to you?
  - A. Not painful at all
  - B. Moderately painful
  - C. Very painful
  - D. What is e-filing?

# Q&A



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