

New Issues and Opportunities in the Payroll Industry



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Agenda

- NPRC electronic filing recommendations
- Your role in protecting against refund fraud
- Payroll withholding and reporting overview
 - System strengths and weaknesses
- Obama Administration proposals
 - Quarterly W-2 reporting
 - SSN masking on W-2s/1099s

National Payroll Reporting Consortium (NPRC)

- A non-profit trade association whose members provide payroll/tax reporting and payment services to over 1.4 million employers nationwide - - *more than one-third of the private sector workforce.*
 - NPRC actively supports appropriate electronic filing and tax payment programs.

Sweeping Changes in Electronic Filing

- State Revenue Authorities too often struggle independently with issues common to all:
 - Edit standards for payroll reporting
 - Authorizations/enrollments
 - Pre-filing programs to improve data quality
- NPRC members are happy to work with states that are planning new e-file systems

Authorizations in *e-file* Systems

- Q: Is it necessary to track relationships between a high volume filer and its taxpayer clients?
- Must enrollments precede e-filed returns?
 - Tough: Tens of thousands of clients & 5% turnover
 - E.g., SSA does not track payroll services and their client employers in advance of filing
 - Rely on a memorandum of understanding and electronic submissions of client information
 - See other e-file recommendations for high-volume filers at www.nprc-inc.org

Your Role In Protecting Against Refund Fraud

- Fraudulent tax returns with false W-2s are costing states millions annually
- States can theoretically validate W-2 claims to employer W-2s submissions
 - But reporting and processing technology has been slow to evolve
 - Deadlines are mid-tax season and many are in paper form

Payroll Withholding, Reporting Should Help

- Employer withholding is remarkably simple and efficient; Self-enforcing
 - Daily: Withholding from each paycheck is carefully audited (by taxpayers)
 - Assigned Schedule (weekly, monthly...): Employers remit lump sums withheld
 - Quarterly (some states): Reconciliation return of withholding liability and deposits

Payroll Withholding, Reporting Should Help

- Withholding on each W-2 is carefully audited (by taxpayers)
- Annual Filing of W-2s
 - Reconcile W-2 totals to employer withholding liability and deposits
- Match W-2s to personal income tax returns

Current System Weaknesses

- W-2 Deadline vs. Tax Season
 - Employers report W-2s (Jan. 31 – March 15th)
- 1960's-era Process
 - Many are in paper form
 - Data Capture; edit; process; make available
- Effectively not available until after tax season
 - *What are states' options?*

Many States are Lowering e-file Thresholds

- W-2s

State	Mandate Threshold (employees)	State	Quarterly Wage Reports Mandate Threshold (employees)
PR	15	MN	1
CT	25	NJ	1
RI	25	FL	10
ID	50	KY	10
IL	50	ND	24
- At least 63% of states with income taxes require electronic filing of W-2s
- At least 81% of states require electronic filing of quarterly wage reports

Obama Administration Proposals: Quarterly Reporting

- Obama Administration Budget Overview May 2009
- Restructure the Federal Wage Reporting Process
- *“... increase the frequency with which wages are reported to SSA”*
- *Currently, wages are reported to the Federal Government once a year.*
- *Increasing the timeliness of wage reporting would enhance tax administration, improve program integrity for a range of programs...*
- *The Administration will work with the States so that the overall reporting burden ... is not increased.*

Impact to States?

- Some states already collect taxpayer earnings and withholding on a quarterly basis (e.g., CA, ME (MA - 2010))
 - Are these states better prepared to detect false W-2s?
 - All State Workforce agencies receive quarterly reports of wages paid to each worker
 - Employers could add income tax wages and withholding to existing or similar reports
- Assuming final quarterly reports are due by January 31, when would edited data be available?
- Would having earnings and withholding through the third quarter help?

A 90% Solution

- May still need to contact employers
 - Some workers will have W-2s that are different than the W-2s filed by the employer
 - Develop tolerances?
 - Matching criteria will be important
 - Match by SSN alone or SSN/name?
 - Roughly 10% of W-2s have a name/SSN mismatch according to the SSA
 - SSA corrects about half (transpositions or name corrections)
 - Impact on amended returns?

Key Consideration: *This Quarter or This Year?*

- Should quarterly reports include amounts earned and withheld this quarter, or this year to date?
 - If the amounts are quarterly, the revenue agency would need to build a record for each taxpayer of total earnings and withholding for the year.
 - Problems: missing SSNs, SSN changes, amendments
 - May drive a huge volume of withholding amendments that are not necessary today

Key Consideration: *This Quarter or This Year?*

- Year-to-date reporting may solve those problems (and create others?)
 - Would be in essence a “W-2-to-date”
 - Closest to the current system
 - Tax Authority would merely replace prior records for the same SSN
 - Once an employee is reported during a year, the employer would need to continue to report them for the balance of the year

A Federal-State System?

- *The Administration will work with the States so that the overall reporting burden on employers is not increased.*
- Could the federal government distribute quarterly employee withholding reports to states?
- STAWRS project – (1990s – 2003)
- Intuitively makes sense, but many complexities in the details
 - Funding
 - Speed
 - Accuracy – control of edits
 - Major change to reporting systems
 - Multiple records for earnings by jurisdiction
 - IRS/SSA unable to edit against state entity files

IRS Proposal: Mask TINs on W-2s and 1099s XXX-XX-9999

- The IRS could permit masking on 1099s this year
- May erode accuracy, increase exception processing and tax administration costs
- ~ 60 million new hires annually
 - 60 million opportunities for errors in conveying and transcribing SSNs
 - Processing SSNs from Forms W-4 is error-prone
- Employees may receive no statement with their SSN other than the W-2
 - No opportunity to correct errors
 - Incorrect SSNs could remain undetected for years

IRS Proposal: Mask TINs on W-2s and 1099s XXX-XX-9999

- Legislation needed to mask SSNs on Forms W-2
 - May preempt state requirements to display the full SSN
- Effect on Municipalities?
- Optional or Mandatory?
 - Possible confusion and controversy
 - Employee relations problems due to divergent opinions
 - New recordkeeping to track preferences

Issues/Opportunities in the Payroll Industry

- NPRC electronic filing recommendations
- Protecting Against Tax Refund Fraud
- Payroll Withholding and Reporting Overview
 - System Strengths and Weaknesses
- Obama Administration Proposals
 - Quarterly W-2 Reporting
 - SSN Masking on W-2s/1099s

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