



NPRC

National Payroll Reporting Consortium

Recommendations for e-file Systems for Payroll Tax Reporting

Who we are.....

- NPRC is 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.
 - Our goals for electronic filing:
 - On-time, accurate, e-filed tax returns and payments
 - Error-free processing
 - Assist states in developing improved electronic filing systems
 - Thereby increasing electronic filing and payments

Our goals are common to all...

- Improve data quality
- Leverage the best in new technologies
- Increase administrative efficiencies
- Reduce the burden to employers; and
- Improve employer customer satisfaction.

E-file Systems are Evolving Rapidly



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- Revenue Agencies too often struggle independently with issues common to all:
 - Enrollments & managing authorizations
 - Data quality issues
 - Edit standards
 - Pre-filing verification of taxpayer information
 - ACH Alternatives needed
 - Planning for what's on the horizon

Transition and the lessons learned...

- Forecasting the potential for upcoming enhancements/redesign to stakeholders early
- Provide ample lead time for implementation : 6 – 9 months

Enrollment Requirements & Managing Authorizations



- Valid and properly formatted electronically filed returns should be accepted.
 - E.g., SSA makes no effort to track associations between payroll service providers and their client employers in advance of filing.
 - The IRS does, but electronically filed returns are not rejected if an authorization is not on file.

Enrollment Requirements & Managing Authorizations



- Case in Point: MA DUA
 - Planned to sunset direct enrollment
 - One member had to persuade clients to perform the role assignment on a state website
 - Over six months:
 - Hired people to call all affected clients
 - Several rounds of correspondence
 - Authorization failure rate between 40% - 50%
 - Compared to a failure rate <1% under the direct enrollment system

How to Manage Authorizations



- Authorizations are generally necessary to release tax information to a third party service provider
 - Paper world: Copies of signed authorization forms are sent to states for slow, costly, painstaking recording and file maintenance
 - Instead, rely on a 'memorandum of understanding' and electronic submissions of client information
 - MOU certifies that the agent has authorizations on file and invites random requests
 - The same XML schema or flat file can be used to report client authorization information
 - Effective dates, scope of authorization etc.

Edit Standards for Payroll Reporting



- Finding the right balance: New e-file systems are obviously a change opportunity, but
 - New or strengthened edits often make it harder to file electronically than on paper
 - Most errors in wage and employment tax reporting are common to all states
 - Yet there is great diversity in edits

Edit Standards for Payroll Reporting: *Diverse Edits - Names*



- Name formatting
 - 'Missing' first/last (what is sufficient?)
 - 'U Ng'
 - Punctuation and special characters
 - *John Smith Jr., John O'Malley,*
 - *Jones, John; Jill Ortiz-Diego*
 - *St. Regis; N. Hollywood*

Edit Standards for Payroll Reporting:

Diverse Edits - Addresses



- Addresses
 - Missing fields (street, city, ST...)
 - Some are missing: Not a requirement to get a job
 - Foreign country addresses
 - Will employers look up country codes/names?
 - Few states require/edit - - no consensus

Edit Standards for Payroll Reporting: Diverse Edits – Social Security Numbers



- **Treatment of missing SSNs**
 - Format for missing SSNs (zeros, nines, “I”, etc.)
 - They do occur: Employers are only required to solicit SSNs
 - Some workers can not get a SSN in time for reporting
 - Diverse severity/response (rejections)

- **Range edits**
 - SSA ‘High Group numbers’ – newest SSN ranges issued
 - SSA will randomize SSN assignments soon
 - ITINs

Edit Standards for Payroll Reporting: What Edits are Appropriate for Payroll?



- Consider consistency with SSA, IRS, other agencies, other states, and prior practice
- NPRC members have also compiled a listing of all known error conditions from IRS and state e-file programs.
 - A comprehensive list to be utilized as a point of reference since there is no one common standard.

See <http://www.nprc-inc.org/govcst.html>

Pre-filing Verification of Taxpayer Information



- Electronic filing should not just eliminate costly agency processing of paper returns.
 - *It should dramatically improve the quality of incoming data.*
- A pre-filing exchange using existing e-file protocols provides an opportunity to identify and correct any problems, before returns are due.
 - States have been conducting these exchanges via electronic media for years.

What Data Elements are Critical?



- State and Federal Employer Identification Numbers
- Legal and business name
- Assigned deposit schedule and EFT mandate
- Assigned UI tax rates
- Account Status (active, inactive)
- Account Credit or Debit Amount outstanding

ACH Alternatives Needed

- Offer ACH Debit and ACH Credit for Electronic Tax Payments

What on the Horizon: SSA Redesign Elements



- Submission of W-2 information to SSA is in the process of being redesigned.
 - Should SSA accept wage data in different formats than it currently does?
 - First level acknowledgements confirming receipt of file planned but is there a need for second – level confirmations?

On the Horizon: Exempt W-4 Reporting?



- **Military Spouses Residency Relief Act**
 - The IRS and most states dropped “Questionable W-4” reporting in 2005
 - But states may need to know who claims exemption under the MSRRA for compliance purposes
 - And what residence state they claimed
 - States may share data to ensure that at least one state receives a return

On the Horizon: Health Care Reform Implications



- W-2 reporting requirement effective 1/1/2011.
 - Aggregate cost of health care coverage reported on employee W-2.
 - Rules for determining premiums to report will be similar to those used for COBRA continuation coverage. Awaiting guidance.
 - Some former employees may need a W-2 only for the HC item (i.e., no wages, but health coverage is through a former employer; e.g., COBRA retirees)

On the Horizon : Health Care Reform Implications



- Expanded 1099 reporting
 - Currently required to report payment information for non-corporate service providers when payments exceed \$600.00.
 - Effective tax year 2012 expands information reporting to suppliers of goods and corporate service providers.
 - IRS plans to exempt purchases with credit or debit card since this reporting would be duplicative.
 - Implemented to help address tax gap – creating further compliance
 - Several calls from business community for repeal of this provision.

On the Horizon: Health Care Reform Implications



- State Health Benefit Exchanges may involve State Revenue Agencies
 - Possible tax, penalty and fee collection elements associated with purchase of insurance on an exchange.
 - Federal govt. will establish exchange if state fails to do so.
 - Will be available to individuals and small employers on a voluntary basis.
 - Effective date of exchange implementation – 2014.
 - Awaiting additional guidance.

To Learn More ...

- NPRC Recommendations and Considerations for Designing Electronic Filing Systems
- New Implementation Guide for Taxpayer Information Verification Programs
 - File formats can be used to populate enrollment databases and verify critical entity information
 - www.nprc-inc.org/govcst.html
- The TIGERS State Schema Development site: www.statemef.com

Contacts for Additional Information



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Emerging *e-file* Systems for Payroll Tax Reporting



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