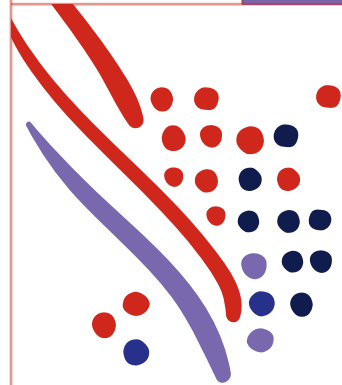


UI Tax Filing and Payments - How to Use Payroll Service Providers to Improve State Efficiency

June 28, 2024 | Spokane, Washington



Size and Scope

- Payroll Service Providers (PSPs)
 - PSPs typically file and pay more than 50% of a state's workforce
 - PSPs strive to be compliant – filing / payment errors create work for:
 - Employer / client
 - State agency
- Efficiency – Everyone looking to do more with less
- Scale of improvement significant
- Conversely, scale of degraded service also significant

Trusted Partner

- PSPs should be considered a trusted partner
- PSPs are required to log-in to state systems to transmit or receive info
- PSPs consolidate reporting – Consider all ADP’s clients file separately
 - In FL there would be an additional 167,691 returns and payments
 - If there were 5% that needed to contact the agency – an additional 8,384 calls / emails

Processing Evolution

1977

Maryland Unemployment Insurance (Tom Crowley was there)

- Computers? Internet? All paper forms and checks
- All hands on deck to run deposits and deposit checks
- Months before data available for claims processing
- Accept what we received – including taxable wage calculation
- Paper everywhere – building engineer said the 4th floor in danger of collapse due to excessive paper in heavy fire-proof cabinets

2024

Typical State UI Tax agency

- Most require electronic filing and electronic payment
- UI Tax employer portal on Internet
 - Generally created for single employer
 - Great improvement over paper
- Not conducive for bulk processing
- Data can be available immediately
- Edits can be enforced before data gets to agency

PSP Challenges – Client Behavior



- Clients pay PSPs to perform tax filing and payment functions
- Client's primary responsibility? **Run their businesses**
- Works well for PSP, agency and employer when everything in place
 - Authorizations, account numbers, agency-specific requirements
- Fails when key requirements missing
- Some critical elements change periodically, e.g. tax rates
- After initial onboarding, getting clients to provide information is a challenge
 - Agency employer; PSP client; PSP agency; employer agency
- It has proven necessary to verify key tax filing elements periodically (state EIN, name (or any identification/posting element, tax rates) to ensure data quality

PSP Challenges - Authorizations



PSPs have:

- Valid contracts with clients
- Reporting Agent Authorization (RAA) to transact with IRS
 - RAA may also be used to authorize state or local returns
- POA / MOU / TPA / RAA to file state and / or local taxes

Consequences for missing authorization

- Failure to obtain tax rate information
- Unable to contact agency to resolve client issues
- Some states threatening to reject filings and payments
- Increased delinquencies, notices, and work for all

Form 8655 (Rev. January 2024) Department of the Treasury Internal Revenue Service		Reporting Agent Authorization		OMB No. 1545-1058
Go to www.irs.gov/Form8655 for instructions and the latest information.				
Taxpayer				
1a Name of taxpayer (as distinguished from trade name)				2 Employer identification number (EIN)
1b Trade name, if any				4 If you are a seasonal employer, check here <input type="checkbox"/>
3 Address (number, street, and room or suite no.)				5 Other identification number (optional)
City or town, state, and ZIP code				
6 Contact person	7 Daytime telephone number			8 Fax number
Reporting Agent				
9 Name (either company name or name of business)				10 Employer identification number (EIN)
11 Address (number, street, and room or suite no.)				
City or town, state, and ZIP code				
12 Contact person	13 Daytime telephone number			14 Fax number
Authorization of Reporting Agent To Sign and File Returns (Caution: See Authorization Agreement.)				
15 Indicate the tax return(s) to be signed and filed. For quarterly returns, use "YYYYMM" format. "MM" is the last month of the quarter for which the authorization begins (for example, "2024/09" for third quarter of 2024). For annual returns, use "YYYY" format to indicate the year for which the authorization begins.				
940 _____	941 _____	943 _____	944 _____	
945 _____	1042 _____	CT-1 _____		
Authorization of Reporting Agent To Make Deposits and Payments (Caution: See Authorization Agreement.)				
16 Indicate the tax return(s) for which the reporting agent is authorized to make deposits or payments. Use the "YYYYMM" format to enter the month in which the authorization begins (for example, "2024/09" for August 2024).				
720 _____	940 _____	941 _____	943 _____	944 _____
990-PF _____	990-T _____	1041 _____	1042 _____	1120 _____
CT-1 _____				
Duplicate Notices to Reporting Agents				
17 Check here to request the IRS to issue to the reporting agent duplicate copies of notices and correspondence regarding returns filed and deposits or payments made by the reporting agent <input type="checkbox"/>				
Disclosure Authorization for Forms Series W-2, 1099, and/or 3921/3922				
18a The reporting agent is authorized to receive otherwise confidential taxpayer information from the IRS to assist in responding to certain IRS notices relating to the Form W-2 series information returns. This authority is effective for calendar year forms beginning _____				
b The reporting agent is authorized to receive otherwise confidential taxpayer information from the IRS to assist in responding to certain IRS notices relating to the Form 1099 series information returns. This authority is effective for calendar year forms beginning _____				
c The reporting agent is authorized to receive otherwise confidential taxpayer information from the IRS to assist in responding to certain IRS notices relating to the Forms 3921 and 3922. This authority is effective for calendar year forms beginning _____				
State or Local Authorization (Caution: See Authorization Agreement.)				
19 Check here to authorize the reporting agent to sign and file state or local returns related to the authorization granted on line 15 and/or line 16 <input type="checkbox"/>				
Authorization Agreement				
I understand that this agreement does not relieve me, as the taxpayer, of the responsibility to ensure that all tax returns are filed and that all deposits and payments are made and that I may enroll in the Electronic Federal Tax Payment System (EFTPS) to view deposits and payments made on my behalf. If line 15 is completed, the reporting agent named above is authorized to sign and file the return indicated, beginning with the quarter or year indicated. If any starting dates on line 16 are completed, the reporting agent named above is authorized to make deposits and payments beginning with the period indicated. Any authorization granted remains in effect until it is terminated or revoked by the taxpayer or reporting agent. I am authorizing the IRS to disclose otherwise confidential tax information to the reporting agent relating to the authority granted on line 15 and/or line 16 and/or line 19, including but not limited to the information required to process Form 8655. Disclosure authority is effective upon signature of taxpayer and IRS receipt of Form 8655. The authority granted on Form 8655 will not revoke any Power of Attorney (Form 2848) or Tax Information Authorization (Form 8821) in effect.				
I certify I have the authority to execute this form and authorize disclosure of otherwise confidential information on behalf of the taxpayer.				
Sign Here				
	Signature of taxpayer	Title	Date	
For Privacy Act and Paperwork Reduction Act Notice, see instructions.				
			Cat. No. 10241T	Form 8655 (Rev. 1-2024)

Memorandum of Understanding (MOU)



Agent MOUs

- South Carolina
 - South Carolina worked with the National Payroll Reporting Consortium (NPRC)
 - Developed Process to establish MOU
 - MOU acts as a contract with the state
 - Avoids need to manage paper evidence of POAs (PSPs retain on file and provide on request)
- Idaho
 - In process

Memorandum of Understanding (MOU) Guide for Agents

I

- Purpose: The purpose of the Memorandum of Understanding (MOU) is to stand as an agreement between SCDEW and the requesting agent. The requesting agent certifies that they have a signed authorization on file for each client/employer for which access is being obtained through the SUITS' agent portal. Furthermore, under the MOU the Agent agrees to:
 - Provide DEW with relevant information regarding their clients, to include their business address.
 - Provide DEW, upon written request, a copy of the written authorization form signed by their client, authorizing the Agent to receive and/or provide client information from and to DEW.
 - Notify DEW within (7) seven calendar days if they are no longer representing a client.
- DEW agrees to provide the Agent with access to each of their client's UI tax and/or benefit account that the Agent maintains a signed written authorization.

CAPTCHA

- CAPTCHA was implemented by many state UI agencies to reduce UI fraud
- It requires the user of the state web page to acknowledge he/she is not a bot
- For large tax filers this is a significant impediment to electronic filing
- More importantly, CAPTCHA has been found to be less effective today as readily available work-arounds are available
- A far more secure and mutually efficient process can be achieved by filing via secure FTP

PSP Challenges - CAPTCHA



Preferred Solutions:

- 1 - SFTP – highly preferred
- 2 - Secure REST API
- 3 - IP Whitelisting bypassing CAPTCHA

SFTP:

In today's data-driven world, the accuracy, integrity, speed, confidentiality, and availability of data matters a lot to businesses. That's why it's imperative for file transfer systems to be capable of meeting the highest standards in regard to those qualities.

SFTP can:

a) Boost speed and efficiency of business processes

SFTP servers can easily support large file transfers as well as bulk file transfers, i.e., transferring multiple files in one go.

PSP Challenges – CAPTCHA cont ...



b) Reduce risks during data exchanges

SFTP already comes with several security mechanisms like:

- Encryption - for preventing unauthorized disclosures during transmission. Encryption scrambles the content of your files while in transit, making them indecipherable to anyone who might intercept them.
- Public key authentication - for making sure the person logging into your server is not an impostor. This can be used in tandem with the usual username/password combination to provide what is known as 2-factor authentication, a very strong method of authenticating users.
- Data integrity and authenticity checks - for verifying whether the contents of the transmitted file was changed (whether intentionally or accidentally) and whether it came from the legit source.
- Host authentication - for enabling clients to verify whether the server is actually the server they wanted to connect to.

PSP Challenges – CAPTCHA cont ...

c) Assist Compliance

Federal legislation, including SOX and HIPAA, and other federal regulations, like [FIPS 140-2](#), set standards for security of confidential (e.g., financial, medical, government) data in transit. Although these guidelines may not specify that Internet-facilitated file transfers be conducted only via SFTP, SFTP is a preferred protocol that can meet the standards that are explicitly outlined.

PSP Challenges – Front-End Edits

- **Yesterday** – Paper forms or magnetic media
 - Not processed real-time and editing occurred post receipt
 - Agency massaged data and tried to correct errors
- **Today** – Newer UI tax systems require data to be filed through web portals or SFTP
 - Real-time or near-time processing
 - Fatal errors result in agency rejecting file
 - PSP / employer responsible for correcting errors
- **Examples** - fatal errors that result in rejects
 - Missing / invalid account numbers

PSP Challenges – Out-of-State Wage Reporting



Most states permit credit for wages paid in another state to same employee for the same employer in a calendar year

- Exceptions – LA, MN, MT

Some states developing diverse new rules for OOS wages

- Must be limited to a single previous state (DC)
- Must report in the 1st quarter of transfer and only once in a 2-year period (SC)
 - SC rejects wage reports for failing this test

Enhanced Data

- New initiatives to collect more employee demographic data
 - Such as job titles, SOC codes, worksite locations, etc.
- Driving well-intentioned efforts to dedicate resources to training and education for emerging and in-demand jobs
- High demand from educational and employer sectors
- Question – how demanding should states be to require and enforce enhanced data collections?
- Fines and penalties?
- Reject wage reports that have missing or invalid data?

Emerging Technologies

- Electronic Employer Delinquency or Balance Notices
 - IRS has been delivering e-notices to PSPs for many years
 - E-notices ensure PSPs receive all notices
 - E-notices usually increase accuracy and reduce PSP response time
 - PSPs no longer depend on employers to notify PSPs
- New XML standard approved by FTA e-standards
 - Enables state Revenue and UI tax agencies to send copies of notices to PSPs
 - In implementation in Wisconsin revenue agency
- Advantages
 - Ensures all notices are delivered to PSP
 - Promotes timely resolution of delinquencies, reducing calls and additional notices

Emerging Technologies cont ...

What else can be engineered better?

- New employer registrations
- PSP / TPA assignments – adds / deletes
- Periodic data exchanges
 - Tax rates
 - Adds / deletes

When possible, make the exchanges on-demand through a secure agency portal

- Agencies not required to be involved

Contact and Reference Information

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