

Brought to you by the publishers of **COMPLIANCE WEEK**



INSIDE THIS PUBLICATION:

Building Teams & Oversight for Tax Compliance

Tax Credits Coming and Going in 2015

Managing the Tech End of Tax Compliance

From ADP: The Compliance Continuum

HCM Compliance Update **2015**

A special supplement sponsored by



COMPLIANCE WEEK

Compliance Week, published by Wilmington Group plc, is an information service on corporate governance, risk, and compliance that features a weekly electronic newsletter, a monthly print magazine, proprietary databases, industry-leading events, and a variety of interactive features and forums.

Founded in 2002, Compliance Week has become the go-to resources for public company risk, compliance, and audit executives; Compliance Week now reaches more than 60,000 financial, legal, audit, risk, and compliance executives.



With more than \$12 billion in revenues and 65 years of experience, ADP® (Nasdaq: ADP) serves approximately 637,000 clients in more than 125 countries. As one of the world's largest providers of business outsourcing and Human Capital Management solutions, ADP offers a wide range of human resource, payroll, talent management, tax and benefits administration solutions from a single source, and helps clients comply with regulatory and legislative changes, such as the Affordable Care Act (ACA). ADP's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world. For more information about ADP, visit the company's Web site at www.ADP.com.

Inside this e-Book:

Company Descriptions	2
Building Teams & Oversight for Tax Compliance	4
Tax Credits Coming and Going in 2015	6
Managing the Tech End of Tax Compliance	8
From ADP: The Compliance Continuum	10

Building Teams & Oversight for Tax Compliance

By Alix Stuart

HR and benefits departments try hard; they really do. But managing tax compliance and withholding issues is just a bit out of their depth.

“The HR side of the house just doesn’t ask the tax questions,” says Kevin Shimkus, a director with Deloitte who specializes in employment tax consulting.

That can lead to missed opportunities—half of all available work tax credits go unclaimed, according to ADP—and potentially outsized tax bills. One simple example, Shimkus says, are wellness benefits.

“Everyone wants to offer wellness benefits but in many cases, what they’re giving employees, like gift cards or iPads, is taxable,” Shimkus says. And the corporation is usually the one that ends up paying those taxes.

Payroll managers choosing to pay taxes on equity awards late, instead of running an extra payroll, is another problem area; it can create millions of dollars in unexpected penalties. “It’s often decisions made by someone who didn’t realize how big the penalties could be that get the company in the most trouble,” Shimkus says.

The advent of the Affordable Care Act does not help matters. On the contrary, it means a disconnect between HR and tax compliance is going to become even more expensive.

While healthcare reform focuses on benefits to the public, the Internal Revenue Service will be the main point of contact with companies, and the ultimate arbiter of fines and fees. Under the ACA’s requirement that large companies provide affordable health insurance coverage to eligible employees—and report on that to both employees and the IRS—companies face a daunting data collection challenge, as well as steep per-employee fines for missing the mark.

How can executives get a better view of the tax issues that the tax compliance team doesn’t directly control? New technology is one answer. According to a recent survey by ADP, 71 percent of senior finance executives say they rely on multiple separate systems for compliance; nearly half say improving technology is a top strategy for improving compliance management over the next two years.

Ali Master, partner with EY, says many companies are buying or building new ERP modules to help aggregate all the data needed for compliance with healthcare reform and other employment-related laws.

Increasingly, however, best practice also means ap-

pointing cross-functional experts or teams to bridge the gap. Specifically for ACA, “the CFO should be the sponsor of a work team that has benefits, finance, and tax involved, since tax will be getting the notices from the IRS,” Master says. IT should also be part of the effort, so the information can be properly integrated and distributed.

In general, companies that have a tax professional who is dedicated to HR issues seem to stay on top of tax compliance, Shimkus says; those that don’t “are the ones who call when an auditor is at their door.”

“It’s often decisions made by someone who didn’t realize how big the penalties could be that get the company in the most trouble.”

Kevin Shimkus, director, Deloitte

These ACA steering committees generally help foster an understanding of compliance that is radically different from the way benefits directors view the issue on their own. Many benefits directors believe their companies are ACA-compliant if they offer affordable coverage to every eligible employee, Master says. But “that’s an insufficient response, because they’re not looking at all the downstream implications, such as financial statement effects.”

Avoiding the Pain

To avoid booking a tax liability for potential ACA penalties, firms have to prove (generally through a memo) that they have adequate controls in place to ensure time-keeping systems are accurate, contingent worker hours and leaves of absence are tracked properly, and temp agencies will assume insurance liability when appropriate, among other controls. Another downstream implication: The ACA requires that companies report in month-by-month detail to each employee and the IRS on benefits offered, via Form 1095-C, beginning this year.

While the first filing deadline is February 2016, there are significant penalties: up to \$1.5 million per employer entity, and up to \$100 per person for every employee with a late or inaccurate filing, Master says. “We really need to think beyond the coverage itself.”

In parallel, some companies are beginning to take a cross-functional approach to employment-related tax incentives such as Work Opportunity Tax Credits, as well.

ADP counts some 3,000 federal and state credits for training and hiring certain types of workers, such as veterans and people living in distressed communities, but many companies fail to gather the necessary information to receive them.

“Often someone in HR will be aware of the credit, but doesn’t share it with the various parties that need to file the returns or other documents,” Shimkus says.

About 13 percent of respondents to a recent EY survey said they now have one or more full-time employees to coordinate credits and incentives. That trend has been boosted by increasingly automated hiring processes that allow companies to capture more easily the demographic information required to qualify for the credits. “With so many online applications, it’s becoming much easier to embed information as you go,” Master says.

As the concept of HR and tax teaming up becomes more prevalent, one area that may be ripe for the approach is payroll tax. In ADP’s recent survey, 81 percent of senior execs say monitoring employment-related tax and payments has become more time-consuming in recent years. That’s due in part to the ever-changing nature of the laws: some 17,000 changes in 2012 alone, according to ADP.

It’s also a factor of the increasing complexity that comes with a mobile workforce. “Do you know where you’re liable for payroll tax? It’s a basic compliance question, but it is an essential one as more people work outside the office,” Shimkus says. For example, a New York-based company that allows an employee to relocate to, say, Ohio, and to continue working for the firm remotely, could incur payroll, unemployment, and potentially even corporate taxes in Ohio.

Alongside these larger organizational changes, some small every day steps can also help a company avoid trouble with the IRS and take a stronger approach to employment tax compliance. Among the tips on ADP’s top 10 list:

- » Review the figures within your return, looking for errors such as taxes that are more than wages;
- » Help employees understand their forms with a brief narrative, particularly when you’ve issued a correction or an amendment;
- » Check Social Security Numbers using the Social Security Administration’s verification system for every new hire; inaccurate ones are the most common cause of rejects and errors. ■

RELATED CONTENT

Federal Contractors Face Human Trafficking Compliance

If you are among the estimated 300,000 companies that conduct business with the government prepare for yet another supply chain compliance concern. A final rule released late last week by the Defense Department, General Services Administration, and National Aeronautics and Space Administration amends the Federal Acquisition Regulation to strengthen prohibitions on human trafficking.

The new FAR rule, which imposes new reporting requirements on companies with federal contracts, expands upon existing laws and makes good on objectives detailed in a 2012 Executive Order by President Barack Obama. It prohibits federal contractors and subcontractors from charging employees recruitment fees or using misleading or fraudulent recruitment practices. Those performing work over \$500,000 outside the United States must develop and maintain a trafficking compliance plan and certify that, to the best of their knowledge, neither they nor any of their subcontractors has engaged in trafficking-related activities.

Human trafficking is defined in the rule as: “the recruitment, harboring, transportation, provision, or obtaining of a person for labor or services, through the use of force, fraud, or coercion.” Forced labor is described as “knowingly providing or obtaining the labor or services of a person by threats of serious harm to, or physical restraint against, that person or another person.” The rule, as detailed in the Federal Register, cites recent studies and Congressional testimony as identifying “a need for additional steps to prohibit trafficking in Government contracting.”

Contractors and subcontractors are prohibited from denying access by an employee to identity or immigration documents; using misleading or fraudulent recruitment practices, charging recruitment fees, and providing sub-standard housing in the host country housing and safety standards.

On an annual basis, companies that are required to prepare a compliance plan must detail efforts to prevent, detect, and respond to potential and existing human trafficking and forced labor violations. The plans must cover both the company itself and its network of suppliers and sub-suppliers. Contractors are also expected to cooperate with any government inquiry and must self-report any credible information that an employee or subcontractor has violated the FAR requirements and prohibitions. Compliance plan requirements do not apply to companies providing commercially available off-the-shelf supplies.

Penalties for non-compliance can include: termination of the government contract; debarment; a prison term of up to five years’ imprisonment and a \$250,000 fine; and enforcement of the False Claims Act.

—Joe Mont

Tax Credits Coming and Going in 2015

By Karen Kroll

Each year, more than half the approximately 3,000 federal and state tax credits available go unused, according to research from ADP. In part, that's probably due to the work involved in identifying which ones apply at a specific organization.

"It can have a bit of a chilling effect," says Paul Vanhuysen, director of tax with ADP Tax Credit Services. For instance, finding the proper tax credits may require bringing together different departments to assess which investments might qualify, and then completing sometimes lengthy applications. Not every company has the discipline to do that.

Congress' habit of waiting until the last minute to extend many tax provisions compounds the difficulty. In 2014, for instance, "extenders" legislation for tax credits was not passed until Dec. 19—for tax credits apply to the calendar year that was about to end.

"We get to the end of the congressional session, and they throw up their hands and extend everything," says Mel Schwarz, a partner in Grant Thornton's national tax office. Schwarz adds that while a few provisions were dropped in the legislation—officially, H.R. 5771, or the Tax Increase Prevention Act of 2014—none had widespread application.

The last-minute reprieve means extra work both for taxpayers, many of whom must file amended returns to take advantage of the extended credits; and the IRS, which must process the additional returns. "It drives up everyone's costs," says Chris Hesse, principal with Clifton Larson Allen.

Among the extended provisions that could affect many businesses' 2014 returns are these:

Research tax credit. As they have in years past, business taxpayers can take a credit of 20 percent of qualified research expenses (14 percent if they use the alternative simplified calculation, or ASC) on their 2014 returns.

"Congress keeps talking about making this permanent, but it's not even in effect for 2015," at this point, says Keith Mannor, tax partner with BDO. That creates hassles for companies that would like to apply it, as they can't until it's enacted.

In another shift, final regulations issued by the IRS in June 2014 allow companies to use the ASC for qualifying research expenses on amended, and not just original,

returns. The change applies to years ending on or after June 3, 2014.

The ability to use the ASC on amended returns is crucial; calculating the full credit often requires gathering information going back numerous years. Moreover, most companies had to prepare amended returns to take advantage of the credit, as it's often not enacted until after their filing deadlines.

Bonus depreciation. This provision allows companies to write off half the cost of qualifying new assets in the year in which they're placed in service. It has been extended, although just for 2014 for most assets. "It would be so much nicer if Congress would admit to itself that it does this [extension] every year and make it permanent," Hesse says.

Code 179 deduction. Section 179 of the Internal Revenue Code lets taxpayers immediately deduct, rather than depreciate, some assets, such as tangible property used in manufacturing or production. H.R. 5771 returned the expensing limit—that is, the amount that can be written off—to \$500,000, with an overall investment limit of \$2 million. Without the legislation, the expensing limit would have been \$25,000, with an overall investment limit of \$200,000.

Employment tax credits. Several credits come into play when organizations employ certain individuals. The Work Opportunity Tax Credit (WOTC), now extended through 2014, applies when employers hire qualified veterans and other members of targeted groups with barriers to employment. For veterans, the maximum credit typically ranges from 25 to 40 percent of the first \$6,000 in wages, although the wage limit can hit \$24,000 in certain cases. (The percentages are lower for tax-exempt organizations.)

Energy efficiency tax credits and deductions. The Energy Policy Act of 2005 provided taxpayers who own commercial properties, and install energy-efficient lighting, HVAC, or hot water systems, or an energy-efficient building envelope, with a deduction. It was extended through 2014, and it can hit \$1.80 per square foot for buildings that cut their energy and power costs to half that of an established standard. It also is available to some tenants who undertake construction.

A 500,000 square foot building could potentially qualify for a tax deduction of \$900,000. At a tax rate of 40 percent, that's worth \$360,000 in cash, notes Paul Naumoff, principal with EY.

In addition, the Renewable Energy Production Tax Credit, also extended through 2014, provides a per kilowatt-hour (kWh) tax credit, ranging from 1.1 to 2.3 cents per kWh, for electricity produced by some renewable energy sources, such as wind or biomass, Naumoff says.

One-Year Reprieve

Most of the extensions cover actions undertaken in 2014, which means continued uncertainty and probably another flurry of activity come December. Despite the hassles this creates, few tax experts expect much to change in the short term. "The idea of retroactive credits has become business as usual," Schwartz says. A case in point: The last time the R&D credit was extended on time was during the Bush administration—the first Bush Administration of 1989 to 1993, that is. ■

BY THE NUMBERS



65% of senior finance executives believe reducing the number of touch-points and handoffs in compliance processes could increase efficiency and productivity at their company



47% cite improving existing compliance technology and systems as a top strategy for improving compliance management in the next two years

There are more than 3,000 Federal and state tax credits available.

More than 50% go unclaimed.*

Competing Priorities vs Benefit Materiality
Issues

Internal Coordination

Unaware of Opportunities

Complex Capture Process
Administrative Burden

*Internal ADP data
© Copyright 2014 ADP, Inc. Proprietary Information

Did You Know?

25%
TAX RETURNS
FILED BY EMPLOYERS
RESULT IN
PENALTY



89% of senior finance executives rank compliance as a priority



43% agree their company would realize measurable benefits if it took a more proactive approach to compliance

SOURCE: ADP.

Managing the Tech End of Tax Compliance

Building systems to manage compliance workflow not as easy at it sounds

By Karen Kroll

Given ongoing changes in tax laws, both in the United States and around the globe, most organizations need solid processes and systems to ensure compliance. While top-notch employees are key of course, the pace of regulatory change has eclipsed the ability of groups of even talented individuals to manage it.

That means tax compliance professionals often must forge effective partnerships with their colleagues in the IT department. That's sometimes easier said than done. Often, compliance has struggled to get attention from overworked IT departments, as well as funding for investments in information systems and workflow processes.

In part that's due to the specialized nature of tax, says Michael Shehab, principal leading the tax reporting and strategy practice with PwC. "It's pretty easy to build a workflow to process invoices," he says. That's not the case when processing tax returns, which can vary from one country to another and must follow steps dictated by tax authorities.

Establishing tax compliance systems and processes also means bringing together tax, legal, IT, internal control, operations, and financial reporting, among other departments, says Kirt Seale, principal in the business advisory services practice with Grant Thornton. Assembling such a range of experts, let alone getting everyone to a consensus, is rarely easy.

The result? Many tax departments lag several years behind other areas of finance on IT investments, Shehab says. More than a few have made do with manual processes, using spreadsheets to monitor activities.

As tax grows in importance, however, it's attracting more attention from IT, as well as increased funding. Shehab estimates that 30 to 50 percent of tax compliance departments now either use professional workflow management tools or are investigating their use.

In fact, nearly two-thirds of senior executives said reducing the number of touch-points and handoffs in compliance could increase productivity and efficiency, according to research by ADP. In addition, 45 percent ranked improving existing compliance technology and

systems as a top strategy for boosting compliance management in the next two years.

"We've begun to see a seismic shift," Shehab says.

It's a necessary one. Solid workflows are essential early in the reporting process to ensure transactions are recorded correctly, says Carolyn Bailey, U.S. director of business tax compliance with EY. They're also needed to streamline the processing of the numerous tax reports many companies must file, often in countries around the globe.

Moreover, "most companies don't like to throw money at the cost of compliance," Bailey says. That means the processes in place must be both effective and efficient.

Implementing Tax Compliance

While the exact steps will vary from one organization to another, the following guidelines will apply to most:

1. Develop a roadmap. Many companies apply the concept of "one to many," Seale says. That is, they develop a common framework of compliance rules that maps to all the organization's business risks. This is key, given the cross-functional nature of many risks.
2. Leverage investments already made by other departments in workflow or document management systems, when possible, Shehab says. "Ask, 'Can we pivot this for tax?'" Not only can this save money, it can help bring departments across the organization onto the same systems.
3. Provide users of the system some idea of the desired end result. This can alleviate skepticism, Seale says. Users need to know how their efforts to submit files, for example, contribute to a greater whole. Without this knowledge, they can easily wonder whether their work will be wasted on a project that goes nowhere. "You have to give them the end state; say, 'Your information will go into the system here, be available here,'" he says.
4. Ensure compliance drives the project. "Sometimes, an IT project can take on a life of its own, without true business understanding or analysis," says Hus-sain Hasan, director in the risk advisory services team with McGladrey. That can lead to technology for the sake of technology, rather than systems that

enable the business function, he adds.

Even when organizations bring in outside consultants to work on the projects, internal compliance and other employees need to remain involved, says Heather Collins, director of the Washington national tax group with McGladrey. “They have to understand the software and workflow.” As she points out, the consultants eventually leave and employees will manage the systems.

“Sometimes, an IT project can take on a life of its own, without true business understanding or analysis.”

Hussan Hasan, Director, Risk Advisory Services, McGladrey

5. Assess the processes in place. Are any redundant? Are some inefficient? If so, it probably makes sense to change or eliminate them before building the workflow system.
6. Look for systems that meet 80 to 90 percent of your needs, Collins says. Document the requirements, and examine the software to make sure it fulfills most of them.

The applications should be robust enough to handle the range of tax compliance and reporting obligations, including local, national, and international, the organization must meet, Shehab says.

The workflow systems should automatically provide an update when a task is completed, Bailey says; expecting the individual actually doing the work to check a box when he or she finishes often backfires. “In the heat of battle, nobody goes back” to take that extra step, she adds.

7. Resist the temptation to over-customize. Doing so usually makes systems more difficult to maintain and upgrade, Hasan warns. Some requests for customization result from employees’ desire to main-

tain a process to which they’re accustomed—and not because the process is so efficient it shouldn’t be changed.

8. Similarly, avoid over-engineering the workflow. Highly complex ones are less likely to work, Bailey says. Most tax and compliance professionals are pretty bright. They don’t need a workflow to educate them, but to help manage the process and identify key milestones, she adds. So if it’s necessary to gather data from 50 units around the globe, the system should help in monitoring this function and identifying the degree of completion. “You want to see at a glance where you are.”

“Focus on the material calculations that really impact tax calculations,” Collins adds.

9. Link the workflow system to the other technologies you’re using. “A workflow sitting by itself doesn’t do any good. You want it to help execute what you’re trying to do,” Bailey says. Once integrated, the various technologies should appear as one system to users, she adds.
10. Proceed in stages. Automating an entire tax function can lead to a project that’s too large to manage well. “Don’t bite off more than 30 to 40 percent of your overall tax function in the first year,” Shehab advises.
11. Test and train. Testing needs to occur at both the system and user levels, Hasan says. The first is to assess such attributes as the integrity of the links and security. The second is to evaluate the system’s ease of use and functionality.

Training is key both to boost user acceptance and ensure they understand the system’s capabilities and are adept at using them. As Collins points out, even when organizations use systems to track compliance with tax regulations, they’re still obligated to ensure they’re compliance.

The move to automate tax compliance processes and workflows is likely to continue, Shehab says. “Over the next three to five years, we expect the vast majority of tax departments to be on some automated workflow and document management systems.” ■

The Compliance Continuum

Optimize Employee Credits, Cost, and Capital

By Lisa Robbins, Chief Financial Officer at ADP Added Value Services

From payroll and taxes to healthcare and benefits, the impact of compliance on businesses is enterprise-wide. Not surprisingly, many companies shy away from compliance management because they feel it can be too complex and too costly and ultimately drains valuable resources. In fact, compliance can be a complicated undertaking for any business, with many laws and regulations to follow. But it turns out that a strong compliance program may help provide businesses with a wide range of unexpected benefits.

In October 2013, ADP and CFO Research asked 152 senior finance and HR executives about how their companies handle employment-related tax and payment compliance, the challenges they face and the benefits of implementing a strong compliance program within their organizations.

According to the study, companies typically fall into one of three categories when it comes to their approach to employment-related tax and payment:

- » **Paralyzed** – Some business are paralyzed and choose to avoid thinking about compliance altogether. More than one-third of respondents said employment-related tax and payment compliance is either a low priority or not one at all.
- » **Organized** – Others approach employment-related tax and payment compliance with the singular goal of avoiding penalties and fees. Many finance executives say the avoidance of penalties or fines is one of the top four potential benefits of improving compliance management.
- » **Optimized** – Companies that decide to invest in a strong employment-related tax and payment compliance program may be surprised at the benefits it can help bring to their organizations.

ADP continues to collaborate with CFO Research to keep a pulse on the HCM-related compliance issues that employers are facing today.

Why Compliance Is a Worthy Pursuit

A comprehensive, integrated approach to compliance is lacking for many companies and can lead to a compliance gap between people, processes, and technology. A strong compliance program can help improve employee productivity, engage the workforce and build company culture. A robust compliance program can help give companies a competitive edge, and it can help build corporate brand and reputation, operational efficiency and overall profitability.

Tax Credits Compliance

There are more than 3,000 Federal and state tax credits available to employers. There are many tax credits that often go unclaimed, likely because companies may be unaware of tax credit opportunities for which they are eligible, feel the credit capture process is too complex, have internal coordination issues, or believe the process is an administrative burden. Although managing a tax credit program can be complex due to multiple steps and the involvement of departments from across the company, it can yield huge benefits if optimized.

Typical Employment-Based Tax Credit Process

Employment-based credit screening often involves multiple departments including payroll, legal, human resources, accounting, finance, and IT. The steps involved in the process include:

1. **Legislation** – Identify and understand federal tax credit opportunities and applicable state programs, and update the company's compliance process when laws change.
2. **Applicant screening** – Determine screening approach and method, insert screening into repeatable new hire process, potentially integrate ATS, capture applicant data, populate required forms, and prepare compliance forms for submission.
3. **Applicant filing** – Identify state filing regulations and preferences, submit applicable paperwork within all federal and state filing guidelines, follow up with state to verify receipt and acceptance, and respond to any additional inquiries from state agency.
4. **Certification** – Track certification progress in each state, assist state in processing records, receive certifications, and notify finance of certification.
5. **Credit application** – Review certifications for applicable start dates, review payroll records to determine wages and hours, calculate credit value, determine applicable tax year to apply credit, and restate prior year taxes if necessary.
6. **Audit and reporting** – Employers themselves should manage all original new hire and certification paperwork, track applicable hours worked and payroll data, and manage corporate income tax forms including modifications and restatements.

5 Types of Business Tax Credits to Consider in 2015

It's not uncommon for businesses to miss out on tax credits for which they are eligible. Sometimes, they may not have the in-



house expertise to identify incentives, or they may lack the technology to track them. So, how can your business resolve to take advantage of tax credits in 2015? As a first step, you can work with a tax credit professional to help identify opportunities in the hiring and employment, training, and investment categories. You also may find opportunities in the transferable and negotiated/discretionary categories. Below are tax credit categories to consider for your business:

1. **Hiring and employment** – Incentives are available for retaining employees and creating new jobs, increasing employment in certain geographic zones and hiring from certain demographic groups. *Example programs: Work Opportunity Tax Credit, Federal Employment Zone Tax Credit, GA Jobs/Quality Jobs Tax Credit, Various State Veteran Hiring Program.*
2. **Training** – Tax credits can be earned for implementing new technologies or processes with qualified training, expenditures associated with training activities, and training for incumbent or new employees. *Example programs: CA Employment Training Panel, GA Retraining Tax Credit, AZ Jobs Training Grant.*
3. **Negotiated/discretionary** – Incentives are offered for federal, state, or local government pre-certification, job retention and growth and expansion, relocation, or consolidation. *Example programs: NC Job Development Investment Grant, IN Economic Development for a Growing Economy.*
4. **Transferrable** – Some states allow employers to buy and sell certain tax credits and net operating losses. *Example programs: State Film Production Credits, GROW NJ Assistance Tax Credit, MA Low Income Housing Tax Credit, MA Brownfield Tax Credit.*
5. **Investment** – Tax credits are available for belonging to a targeted industry, expenditures on equipment or property,

and making investments in designated geographies. *Example programs: CO enterprise Zone Tax Credit, Investment Tax Credit for Equipment, Commercial Vehicle Investment Credit, CT Fixed Capital Investment Tax Credit, GA Investment Credit.*

Affordable Care Act (ACA) Compliance

Employers who are considered applicable large employers under the ACA must comply with the ACA's employer shared responsibility requirements. An applicable large employer is an employer who has 50 or more full-time employees and full-time equivalent employees (100 or more in 2015 only).

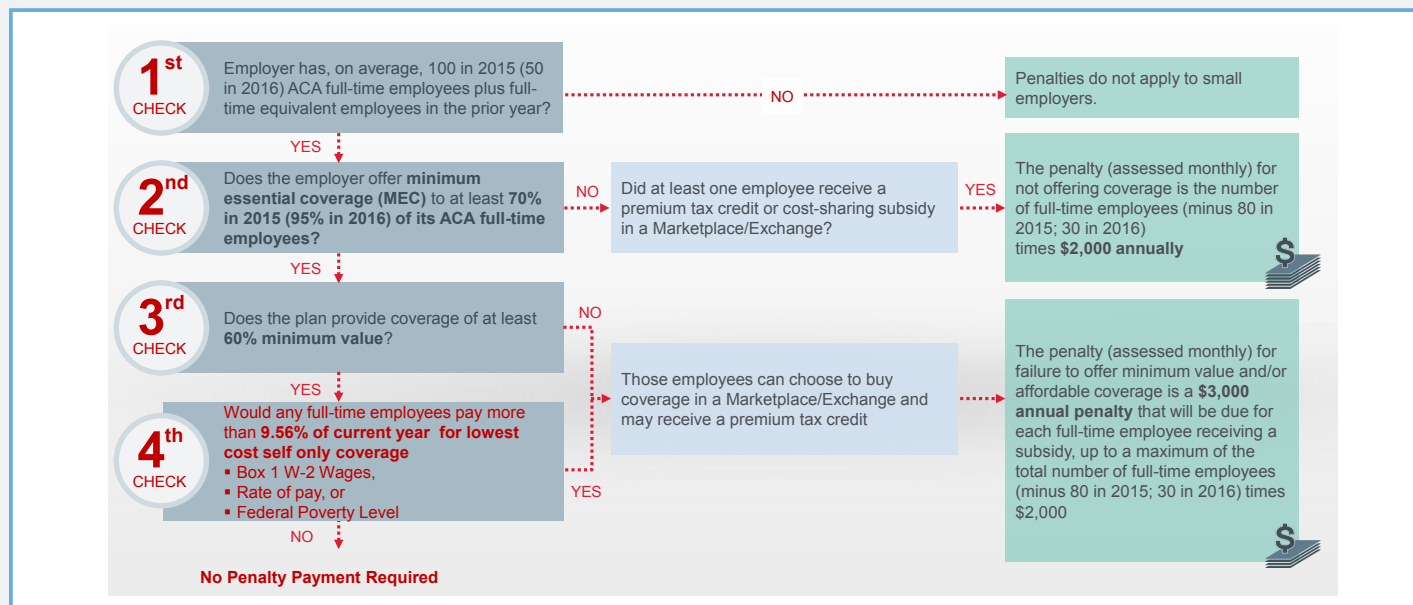
Starting in 2015, all applicable large employers are required to offer their ACA full-time employees health coverage that provides the minimum value and is affordable to the employee under ACA standards. Employers are required to maintain a high degree of accuracy when it comes to tracking the offer of coverage to full-time employees. If not managed properly, the employer could be subject to significant penalties. The ACA poses many challenges. To help combat those challenges, employers must know which employees are considered full-time under the ACA (generally employees who average 30 hours of service per week or 130 hours of service per month), offer coverage to those considered full-time, and maintain accurate records for audit purposes and to be prepared for IRS information reporting.

Employers need to track, monitor, and adjust hours, ultimately allowing companies to align their workforce management decisions with the company's strategy. Employers can do this by constantly monitoring employees' hours of service and by balancing the mix of full-time and part-time labor.

Unlike payroll or corporate tax management, the employer's ability to maintain ACA compliance and avoid penalties depends on the alignment of information, processes, and strategies across a company's organization.

The graphic below outlines employer-shared responsibility decisions and potential penalties:

Shared Responsibility Decisions/Potential Penalties



Employment Tax Compliance

There are thousands of agency tax types in the United States. Each one of those tax types requires you to have expertise in distinct rules, regulations, and forms. Out of those 10,000 tax types, there were over 17,000 payroll tax rule changes in 2013 alone. With all these variables and moving targets, it's no surprise that 25 percent of tax returns filed by employers result in a penalty.

Typical In-House Employment Tax Process

There are more than 10,000 agency tax types in the United States. Each one of those tax types requires you to have expertise in distinct rules, regulations, and forms. Below is a standard process to help ensure all steps are addressed:

1. **Research** – Research jurisdiction tax liability, confirm report totals match previously reported system report, apply for new EINs, EFT debit, and credit, and e-file registration.
2. **Tax deposits** – Update EFT setup for any Federal or state guideline changes, manage frequency threshold for each agency and zero deposit coupon rule, set up EFT payment with the bank, create EFT payment transmission as required for Federal and state deposits, create NACHA- formatted EFT credit file, initiate EFT payments, log on to agency website for debit payments, print and mail check and coupons, call agencies for questions and lastly, and track the frequency and compliance changes.
3. **Reconciliation** – Confirm liabilities match previously reported system report, review and balance variances, post GL tax ledger accounts, relieve GL tax ledger accounts, and research SUI rates.
4. **Tax filing** – File Form 941 (Federal Income Tax, Social Security, and Medicare), file Form 940 (FUTA), file SIT & SUI taxes, file local taxes including OPT, EMST, and LST, file multiple worksite reporting, initiate e-file tax filings, print and mail hardcopy tax filings, create and mail magnetic media filings, and lastly, track tax type, number of notices, and year or quarter amount.
5. **Year-end** – Review and balance year-to-date variances, create and submit electronic state and local W2s, initiate e-file annual tax filings, print and mail hardcopy tax filings, create and mail magnetic media filings, print and mail EE W2s, post W2s online, and lastly, confirm employee W2 options.
6. **Agency notice** – Open, sort, and prioritize the mail, store copies of all documents, research year and quarter amount

and out-of-balance transactions, decide to either correct or pay penalty, prepare letter and respond to agency with the correction or penalty payment and lastly, disburse payment by check or EFT.

7. **Amendment filing** – Update and prepare corrections, file Form 941C (Federal Income Tax, Social Security, and Medicare), file amended FUTA Form 940, file amended SIT and SUI forms, file amended local forms, disburse payment by check or EFT, store copies of all documents, issue W2C for employer copy and lastly, confirm and approve the amendment.

10 Tips for a Successful Year-End

While many finance executives just completed their 2014 year-end, it's never too early to reflect on what went well and start thinking about 2015 tax filing processes. Below are 10 tips to help with employment tax compliance:

1. **Check Social Security Number accuracy** – All employees must have a valid Social Security Number (SSN) and name format when employers file tax forms. Invalid information may result in rejected filings and the possibility of associated penalties. One way to avoid this problem is to use the Social Security Administration's (SSA) [Social Security Number Verification System](#) with every new hire to ensure the SSN matches the name of each employee.
2. **Compare unemployment insurance wages to Federal Unemployment Tax Act (FUTA) wages** – With all the moving parts in FUTA, it's even more important to ensure employers don't lose any tentative credit because of taxable wage problems between unemployment insurance and FUTA wages.
3. **Double-check key filing criteria** – It is imperative that an employer's basic profile information is correct regarding state and local identification numbers and the Federal Identification Number (FEIN). Don't forget to use the right experience rate and pay at the correct payment frequency and with the right disbursement type. For e-filing, any inaccuracies could mean an automatic notice or penalty status.
4. **Keep notices from escalating** – Even the most diligent employers can receive agency notices. Employers must always request a hold on the account if a notice is received. Don't wait for the issue to escalate to a collection, lien, or levy situation. For agency notices from the SSA, check with [Business Services Online](#) to get a glimpse of what might be



wrong and request an Employer Report Query (ERQY) to help identify the issue. For Form 941 notices, self-identify issues through the Payer/Agent list, submit requested information on company letterhead, and fax it to 877-477-0572. The Internal Revenue Service (IRS) will be in contact if further information is needed.

5. **Help employees with their notices** – Provide all copies of corrected Forms W-2 or 1099 to your employees with a detailed statement of what corrective actions were taken and when. In addition, advise employees to have a hold placed on their account while they determine the cause of discrepancies.
6. **Review the figures within returns** – Watch for negatives in data fields that shouldn't have them and make sure tax fields are not higher than wages. Common causes for discrepancies within Form 941 include negative figures for Federal Income Tax (FIT), Federal Insurance Contributions Act Tax (FICA) or 3rd Party Sick Pay (3PSP), positive Earned Income Credit (EIC), or if Medicare wages are less than Social Security wages.
7. **Balance quarterly to annual figures** – Whether it's Form 941 and Form W-2, or any other quarter and annual return, ensure that totals for the year add up to what was reported each quarter.
8. **Use valid account numbers** – Agencies don't have as much tolerance for "applied for" compared to previous years due to more efficient automated systems. A valid identification number on filings aids agencies with posting and helps eliminate rejects, notices, and penalties.
9. **File amendments immediately** – Amendments for prior-quarter periods of the filing year should be completed, before reconciling the annual payroll tax year, to ensure the annual return is in balance and to help prevent the possibility of discrepancy notices and penalties.
10. **Resolve discrepancy or billing notices immediately** – Timely resolution of agency notices for prior periods within the payroll tax year may help prevent discrepancies with the annual tax.

HCM-Related Compliance Best Practices

Take a proactive approach to help your company stay ahead of new and pending rule changes. This should help increase the efficiency of day-to-day compliance management and helps avoid non-compliance penalties and fees.

Next, align internal systems and existing technology more ef-

ficiently. Systems that work with existing ERP, human resources, or financial systems of record are essential and help to maximize efficiency and ROI with minimum investment.

Finally, leverage outside tools and expertise. Find a third-party provider, like ADP, with the right level of employment-related tax and payment compliance experience and expertise, as well as tools that put actionable data in the hands of business leaders to help them make confident employment-related tax and payment compliance decisions.

For more information visit www.adpcomplianceinsights.com.

About ADP

Employers around the world rely on ADP® (NASDAQ: ADP) for cloud-based solutions and services to help manage their most important asset - their people. From human resources and payroll to talent management to benefits administration, ADP brings unmatched depth and expertise in helping clients build a better workforce. A pioneer in Human Capital Management (HCM) and business process outsourcing, ADP serves more than 610,000 clients in 100 countries. ADP.com.

ADP and the ADP logo are registered trademarks of ADP, LLC. Copyright © 2015, ADP, LLC.

About Lisa Robbins

Lisa Robbins is the chief financial officer for ADP's high-growth Added Value Services business. In addition, she is currently the CFO for the Global Product & Technology organization and finance executive to the chief strategy officer. Robbins has significant experience in business strategy, mergers and acquisitions, business development and human capital management leadership to this position thanks to a 31-year tenure at ADP. Prior to her current role, Robbins held numerous finance roles, including multiple business-unit controllerships, vice president of finance for strategy and business development, and chief financial officer in the \$2 billion Major Accounts division. Her leadership at ADP has been marked by numerous positive transformations benefiting the business, underscored by her skillful formation of strong teams focused on driving growth for the company.

Contact

Rick Weber, ADP
(909) 592-6559
Rick.weber@adp.com

ADP Public Relations
(973) 974-7612
public_relations@adp.com



HOW WILL YOU CLOSE YOUR **COMPLIANCE GAP?**

Actionable Insights!

The ADP SmartCompliance® platform adds a layer of services and best-practice processes to your current HCM solution to help you close the gap between core HCM technology and the myriad of HCM-related compliance pressures you may face.

For an assessment of
your Compliance Gap:

855-237-4236

www.adp.com/smartcompliance

ADP SmartCompliance®

The ADP logo, ADP and ADP SmartCompliance are registered trademarks of ADP, LLC. Copyright © 2014 ADP, LLC