

## Simplifying Payroll Tax Compliance Responsibilities to Optimize Internal Efficiency

### Using Automated Solutions to Streamline Your In-house Payroll Tax Compliance Process

#### Introduction

Anyone who has ever shouldered the responsibility of payroll tax compliance administration understands the complexities and possible consequences that can result from constantly changing Federal, State and local authority regulations. No matter how many rule changes there are, your business has to comply. While this may be a relatively easy task for businesses that only have to comply with one or two taxing authorities, it can be considerably more difficult if you are required to comply with multiple taxing authorities. There are thousands of taxing authorities that can change rules with little notice or lead-time, and with the IRS now imposing stringent penalties, organizations with payroll tax liabilities in multiple jurisdictions are subject to the highest risk and face the possibility of being fined or penalized for non-compliance.

Beyond this, there are other, equally serious offenses, whereby certain individuals may be subject to the Trust Fund Recovery Penalty. When income, Social Security and Medicare taxes are not withheld or deposited according to the U.S. Treasury, the Trust Fund Recovery Penalty is 100% of the unpaid trust fund tax. (Source: IRS Publication 15, Employer's Tax Guide 2014)

Payroll tax compliance requires substantial time and resource commitments. For these reasons, a number of organizations have chosen to outsource their payroll tax compliance processes. The decision to outsource processes or keep them in-house is often determined by factors such as cost constraints, customization requirements and the company's own organizational structure. For companies that have chosen to maintain an existing in-house payroll system, implementing procedures to mitigate risk and ensure efficiency is of paramount importance.

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How a company can simplify its internal payroll tax compliance administration and improve operational efficiency is an important consideration. Often, the answer is to source and implement economical, automated solutions.

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### The Payroll Department's Compliance Challenge

While managing payroll coverage is a fairly standard routine for most companies, the management of the corresponding tax liabilities creates an added layer of complexity. To avoid incurring harsh penalties, the regulations and legislative information for each authority must be maintained and applied expeditiously. To facilitate this, it is helpful to have filing and payment procedures that are streamlined and designed to minimize manual intervention. However, varying payroll frequencies can complicate these responsibilities and the resulting penalties can be significant, particularly for those employers who have to make large payments with multiple FEINs. This is shown in the following table.

#### 2014 Penalty Rates:

- **2%** - Deposits made 1-5 days late
- **5%** - Deposits made 6-15 days late
- **10%** - Deposits made 16+ days late

### What Can Employers Do to Streamline This Critical Process?

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There are a number of steps that employers can consider taking in their efforts to streamline processes and increase efficiencies.

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*To Be Sure.*

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### Structure an Efficient Department

Payroll departments are often responsible for a number of important tasks in addition to paying employees. These tasks can broadly be broken down into "Payroll Tax Administration Tasks" (which include the calculation and depositing of taxes and the production and filing of quarterly and year-end reports) and "Administrative Tasks" (which include the collection and processing of time records, the management of garnishments, new hire intake and internal reporting). The responsibilities associated with Payroll Tax Administration typically require payroll department personnel to carry out the following steps:

- **Step 1** - Determine the employees that are taxable
- **Step 2** - Determine what compensation is taxable
- **Step 3** - Determine which taxes are applicable
- **Step 4** - Determine amounts to be paid
- **Step 5** - Process required reports and payments, including:
  - Federal/State tax filings/payments
  - Employee Reporting: W-2s/1099s
  - Record keeping requirements

Payroll departments that are on top of these matters and stay compliant throughout the year can generally expect to have a relatively smooth year-end. However, given the complexity of all these processes, it is easy to make simple mistakes along the way and unknowingly neglect payroll tax obligations. When this occurs, steep penalties can be assessed that take a toll on even the most efficiently run payroll departments. Naturally, payroll and other departments are more likely to operate efficiently if procedures are established, documented and enforced for each function.

You may find it helpful to use the experience and education of your staff to develop best practices related to each function. Additionally, you should consider the resources that are available within the department as the technology and tools accessible to a payroll department can largely determine how efficiently they can complete their routine tasks. Automated processes tend to be more efficient, while manual processes tend to be more time-consuming and therefore require more resources to ensure their efficiency.

### Identify Possible Areas of Inefficiency

Within each department there may be areas where processes can be streamlined to improve efficiency. In payroll departments, tedious manual processes can create enormous administrative burdens that sometimes put a strain on morale. To help improve internal efficiency, start by examining the end-to-end payroll process for each pay period to determine if there are any repetitious or unnecessary procedures that could be eliminated. Similarly, conduct an evaluation of the close-out process for each quarter and year-end and seek to eliminate un-needed processes or procedures.

### Stay Current on Payroll Tax Regulations

A concerted effort must be made to stay abreast of payroll tax regulations and legislation. This is a critical consideration and is one area where an organization cannot afford to be inattentive. Staying current minimizes the risk of penalty and helps to avoid last minute reactions to unforeseen changes. Be sure to observe how regulatory information is researched and implemented then make an assessment as to whether any requirements were missed or misunderstood.

### Outsourcing Tax Payment Processes

Cash flow management as it relates to payroll tax payments is another area where inefficiencies can take their toll. Many large organizations choose not to outsource the process of making withholding payments so as not to forego float revenue. Analyze the return on the float. It's possible that cost savings brought about by outsourcing the payment processes may offset the return on the float.

### Use Calendar-Based Solutions

To better forecast upcoming tax responsibilities, it helps to have a calendar-based view of what must be accomplished. Seeing a snapshot of relevant filing and payment due dates makes it much easier to assess workloads, resource needs and funding requirements. Also, calendar-based solutions that include automated identifiers or alerts that denote the Federal 100K rule and overdue filings/payments and adjustments will also help ensure more timely responses.

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### Evaluate Third-Party Compliance Solutions

Payroll tax compliance responsibilities for many employers will always be burdensome. However, there are tools available today that actually simplify payroll tax compliance management processes. To improve internal efficiencies, consider implementing a third-party payroll tax compliance solution. When looking at solutions, be sure to focus on ones that offer the following features:

- Full integration with payroll and back office systems
- Pre-populated tax forms and on-demand amendment processing
- Ability to approve and send payment transactions with a simple click
- Trouble-free maintenance of regulatory rules, requirements and forms

Adopting a solution that integrates with your existing payroll system is essential as having to migrate and manipulate data can make an already cumbersome process even more cumbersome, and also increases the likelihood for errors. Additionally, look to solutions that integrate with other internal systems such as general ledger and accounts payable. If your data can be automatically fed into these systems, you can avoid delays associated with manual intervention, and simplify the balancing process.

### Automated Payment Approval and Sending

Approving and sending payments, while taking into consideration funding requirements and float revenue potential, is a key responsibility that businesses need to perform in a timely manner. Using an automated solution that generates payments in the appropriate format (ACH, EFTPS), payments can be initiated immediately, which allows you to manage payments down to the minute to maximize float revenue gains.

### Continuously Track Payroll Regulations

Tracking payroll regulations can be difficult if it is not your organization's core competency. Resources must be allocated to research these rules and apply them where applicable. The best solution to complement your internal payroll system is one that offers comprehensive coverage of all Federal, State and local tax authorities and tax types. When looking at different solutions, limit your evaluation to ones developed by companies that specialize in payroll tax compliance and be sure to choose one that can accomplish all of the required tasks in the least amount of steps, with the least amount of manual intervention in

the least amount of time. Limiting your evaluation to companies specializing in payroll tax compliance will typically ensure that you receive better customer service and prompt notification of regulatory updates.

### Summary

Taking the proper measures to examine unproductive areas within your payroll tax processes can generate substantial gains. You may find that when you employ the proper tools, resources can be reallocated to more strategic functions and error-prone processes can be eliminated. By integrating an automated payroll tax compliance management solution, you can better maximize the value of your investment through the simplification of internal procedures, the full utilization of internal resources, improved cash flow management and an enhancement of your company's overall efficiency.

### About BSI

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