

# Increase the Accuracy of Payroll Tax Compliance by Utilizing a Cloud-Based Solution

## Introduction

There are numerous claims of increased productivity and lower expenses related to software hosted in the cloud or cloud-based HR/Payroll solutions, especially in the areas of Talent Management and Employee Self-Service. Improving efficiency of these and other back-office operations is always critical, so it behooves any organization to consider the advantages of web-hosted applications. For organizations with an ERP or in-house payroll system, there are significant benefits from utilizing a cloud-based solution to manage one of the most complex back-office functions: Payroll Withholding Taxes.

## Payroll Withholding Tax Complexity

Maintaining payroll withholding tax compliance is one of the most challenging responsibilities for payroll professionals. Tracking regulatory changes is continuous, and there is varying complexity related to research, tax law interpretation and implementation. Organizations in a single authority may have an easier task; however, those with a disparate workforce are faced with larger burdens.

## Variable State Taxes

There are numerous state taxes and a great deal of dissimilarity related to formulas and requirements. For instance, some state withholding formulas include granular wage bracket tables. These tables must be referenced to determine the correct exemption and deduction amounts available, based on the employee's projected annual wages and filing status. Referencing the incorrect amount from these tables results in incorrect exemption allowance and deduction amounts. These errors potentially cause over- or under-withholding, which can lead to penalties on the employer for inaccurate withholding.

## Multiple Local Taxes

As if state tax complexity isn't enough, local taxes are also intricate and involve school districts, mass transits, nexus, city services and more. Many local taxing authorities in Ohio mandate income tax withholdings on employee payrolls, but the income basis for these withholdings vary across localities. Employers need to be aware of the income basis that is used by the local authorities in which their employees work. Some local taxing authorities provide credits for their residents that are liable for income tax on wages earned in other local authorities. These credits can involve difficult calculations of resident and non-resident tax rates, as well as percentages of income earned in non-resident authorities.

---

**Tracking regulatory changes is continuous, and there is varying complexity related to research, tax law interpretation and implementation.**

---

## Steep Penalties

Errors in payroll tax calculations cause under- or over-withholding of taxes. These miscalculations require adjustments to be made during year-end reconciliation and may lead to penalties and interest levied by the authority. Penalties in tax withholding and reporting can be significant. According to the Internal Revenue Service Data Book 2013, for fiscal year 2013, over 8.4 million civil penalties were assessed for Employment Taxes, resulting in penalties of more than \$8 billion. In 2012, those penalties amounted to \$7 billion. These penalties resulted from various causes including negligence, substantial understatement of income tax, delinquency and failure to pay estimated tax.

## Regulatory Compliance Maintenance

Maintaining payroll withholding tax compliance calls for substantial time and resources. Solid relations with taxing agencies are crucial and internal IT resources must be nimble enough to program last minute changes. An alternative to homegrown solutions is software from a vendor that specializes in payroll tax calculations. Vendor solutions that are integrated with your payroll system enable you to compute gross-to-net pay seamlessly and require minimal IT resources. While maintaining vendor software requires fewer resources than homegrown applications, the nature of payroll tax compliance often dictates frequent updates and application upgrades to support regulatory changes.

*To Be Sure.*

## Increase the Accuracy of Payroll Tax Compliance by Utilizing a Cloud-Based Solution

The utilization of a cloud-based solution to increase the accuracy of payroll tax regulatory compliance is a widely accepted approach.

### Payroll Tax Solutions in the Cloud

A fraction of the time and resources required to maintain on-premises software is needed for maintaining cloud-based solutions. The vendor is responsible for managing the environment, patches, updates, application upgrades and availability. With a minimal investment, your software typically runs reliably and performs at the same level as on-premises applications.

### Immediate Access to Regulatory Updates

Payroll taxes are never constant and regulatory changes often lead to software updates. A reputable payroll tax software provider tracks regulatory rules meticulously and applies regulatory updates on a timely basis. The time to research, analyze and implement changes is much faster for providers that have payroll tax expertise. As a result, the most current tax calculation methods and formulas are typically available in a much shorter timeframe than if you were implementing these changes yourself.

Some delays and downtime may also be experienced by those who use in-house software due to the process of downloading frequent regulatory updates. A hosted environment provides the most immediate access to current regulatory data. Time and resources are not tied up downloading updates and end-user productivity is not interrupted. Whenever you access web-hosted tax software the most current formula in effect is applied.

### Automatic Solution Upgrades

Gaining access to the latest version or release will no longer be delayed or involve IT resources. In a hosted environment, solution upgrades occur automatically so you can promptly take advantage of new features and enhancements. This is particularly important when an application change is necessary to support a regulatory requirement. There are some concerns related to hosted solutions. A typical concern is upgrade timing and loss of control. Being that the vendor manages the upgrade process, your internal procedures must comply with the service provider's schedule. This requires you to remain mindful of your vendor's notices and upcoming changes that impact your operations.

According to the Internal Revenue Service Data Book 2013, for fiscal year 2013, over 8.4 million civil penalties were assessed for Employment Taxes, resulting in penalties of more than \$8 billion.

### U.S. Payroll Tax Coverage

<b>Withholding Taxes</b> <ul style="list-style-type: none"> <li>• Required marital statuses</li> <li>• Preferred &amp; alternate calculation methods</li> <li>• Supplemental and cumulative methods</li> <li>• Standard allowances, deductions and exemption amounts</li> </ul>	Employee & employer unemployment taxes (FUTA & SUI)
Employee & employer social security	Employee & employer workers comp taxes
Employee & employer Medicare	Employee & employer disability (SDI), healthcare, & workforce development taxes
Advanced earned income credit (AEIC)	Wage garnishments
Certification reports	County, city, borough, township, village, school district & municipal taxes, including occupation, EMST & transportation district taxes
Production	

## Increase the Accuracy of Payroll Tax Compliance by Utilizing a Cloud-Based Solution

In a hosted environment, solution upgrades occur automatically, so you can promptly take advantage of new features and enhancements.

### Advantages

A proper customer project team is critical to the success of any implementation. Typical customer responsibilities are described below.

### Reciprocal Coverage

Various types of reciprocal rules can be applied for any combinations of states, territories and localities. Formal and informal reciprocal agreements that exist for taxing authorities, including those between multiple states, are recognized and taxes are calculated in accordance with these agreements.

### Customizations

Custom tax and override capabilities allow you to handle unique taxing needs. You have the flexibility to use the standard BSI formulas or your own override formulas for an individual, group or all employees.

### Multiple Environments

You are not at the mercy of a stringent vendor deployment schedule when utilizing BSI TaxFactory SaaS. While the most current version of the software will always be available, you will also have access to the previous. Essentially, you gain the benefits of both worlds – immediate access to the most current version and the opportunity to use it in production when it is convenient for you.

### Dedicated Expertise

In 1979, BSI established a clear position of leadership in the payroll tax compliance industry with the introduction of BSI-TAX™, now renamed BSI TaxFactory™. This application pioneered the modern tax system and currently over 15 million employees are processed through BSI's solutions. Since our founding, we have been full-time payroll tax specialists, devoted exclusively to payroll tax and compliance management software. Our solid knowledgebase and utilization of the latest technology have allowed us to migrate our products to a hosted environment and stay at the forefront of the payroll tax industry.

SaaS solutions provide immediate access to up-to-date software; therefore, downtime related to maintenance that requires IT resources is eliminated.

### Summary

For organizations that have invested in an ERP or in-house payroll system, integrating specialized payroll tax software offers many benefits. Payroll tax calculations are inherently complicated and without the proper competency and attention there is greater risk of non-compliance. Technology continues to impact HR/Payroll functions and web-hosted delivery models offer many advantages. SaaS solutions provide immediate access to up-to-date software; therefore, downtime related to maintenance that requires IT resources is eliminated.

In the ever-changing compliance-driven arena of payroll taxes, the advantages of web-hosted solutions are even more essential. When integrating a SaaS payroll tax calculation solution with an ERP or in-house payroll system, users benefit from more efficient processes. BSI TaxFactory SaaS is a comprehensive web-hosted application managed by a company dedicated to payroll tax compliance. Combining this expertise with technology enables BSI to create one of the most effective regulatory compliance solutions available.

### About BSI

Business Software, Inc. (BSI) is a leading provider of North American tax filling, tax calculation, compliance onboarding and supporting solutions in the cloud. Leveraging 35 years of experience, BSI offers the largest array of solutions in the industry that are used by clients to process more than a half billion transactions annually. Thousands of organizations – including many of the world's best-known companies – use BSI to minimize their compliance risks, reduce labor costs, maintain regulatory compliance, improve workforce productivity and increase employee satisfaction. For more information, please visit [www.bsi.com](http://www.bsi.com).

*Reference: All Aboard: Effective Onboarding Techniques and Strategies, Aberdeen Group, Jan. 2008*

*Internal Revenue Service 2013 Tax Statistics*