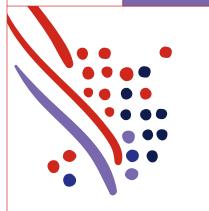
UI Tax Filing and Payments -How to Use Payroll Service Providers to Improve State Efficiency

June 28, 2024 | Spokane, Washington





Size and Scope



- Payroll Service Providers (PSPs)
 - o PSPs typically file and pay more than 50% of a state's workforce
 - o 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

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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
 - o 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

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PSP Challenges – Client Behavior



- Clients pay PSPs to perform tax filling 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
 - \circ Agency \square employer; PSP \square client; PSP \square agency; employer \square 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

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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

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- <u>Purpose</u>: 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

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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
 - o Real-time or near-time processing
 - o Fatal errors result in agency rejecting file
 - o 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)
 - o 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?

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Emerging Technologies



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