



Ensuring Payroll Tax Compliance

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Successful companies look for payroll and payroll tax processing solutions that are fast, accurate, versatile, reliable and easy to use. For companies with multi-state, multi-regional or multi-national operations, solutions must also be able to deliver functionality across geographic jurisdictions.

All businesses with employees have responsibilities relating to payroll taxes. Payroll taxes are statutory deductions, meaning that the law requires that they be withheld from employees' paychecks and remitted to various taxing agencies. Payroll tax deductions include the following:

- Federal, state and local income taxes are based on employees' IRS W-4 form designations and state equivalents.
- FICA taxes, or employees' portion of Social Security and Medicare taxes, are deducted as a percentage of gross pay.
- Various local tax withholdings can include city/county/school district taxes and state disability insurance. In addition, a few cities and counties also have an income tax. New York City is an example.

Employers may also have to deduct other mandatory wage attachments from employees' paychecks. These can include payments for child support, tax levies, student loans, bankruptcy and administrative wage garnishments.

In addition, employees may designate voluntary payroll deductions for health plan premiums, charitable contributions, life insurance premiums, and contributions to qualified retirement plans such as a 401(k). Employee stock purchase plans (ESOPs and ESPPs) and other job-related expenses such as uniforms and union dues are other voluntary deductions.

After payday, the employer's responsibility for payroll taxes continues. The company must pay its share of payroll taxes, deposit the tax dollars withheld from employees wages, prepare financial reconciliation reports, account for payroll tax expenses on its books, and file payroll tax returns.

High-level challenges

There are over 10,000 taxing jurisdictions in the U.S. alone, each with its own rules, schedules and compliance requirements. As organizations navigate constantly changing human resource management (HRM) requirements and deal with increasingly diverse and dispersed workforces, the stakes for providing accurate, reliable payroll and payroll tax information are high. Following are just a few of the complexities that payroll managers and administrators face.

Constant change in governance and compliance laws

From tax rates and formulas to forms and regulation changes at local, state and federal levels, it can be difficult for tax departments to be up to date, compliant and accurate. Non-compliance exposes companies to serious legal ramifications, including hefty fines and penalties.

Data maintenance

When payroll tax variables change unexpectedly or in mid-pay cycle, tax departments must rely on manual processes to track payroll tax information. With thousands of payroll tax rules, processes and sources to keep track of, these manual tracking processes often lead to errors.

Resource pressures

The time required for a tax department to stay up to date and compliant with rules and regulations, as well as manual processing of data, drains resources that could be allocated to higher-value work.

Legacy systems and processes

Many organizations are burdened with collections of disparate and redundant HRM systems. This lack of standardization and streamlining prevents them from functioning efficiently.

The right processing solution

The ability to calculate and schedule taxes with very little human involvement or manipulation of core data greatly reduces the incidence of human error that is largely responsible for late filings, incomplete filings, oversights, miscalculations and other mistakes. Eliminating the hassle and expense of IRS fines, penalties and interest assessments associated with these problems can result in significant cost savings for a firm.

Processing payroll and paying payroll taxes are fundamental financial management tasks. Fortunately there are many payroll tax solutions available to companies today, including do-it-yourself software programs, cloud solutions, and professional payroll service bureaus (i.e., ADP and Paychex). Having the right payroll and payroll tax processing systems in place enables firms to manage their workforces optimally; grow and diversify; maintain compliance and confidentiality; and be responsive to the needs of their employees, customers and other stakeholders.

In summary, best-practice payroll tax processing and compliance are characterized by the following:

- In addition to deducting payroll taxes from employees paychecks, companies must also set aside funds to pay their own tax liabilities, deposit monies withheld from employees' paychecks, prepare and file tax reports to the appropriate taxing authorities, file payroll tax returns and administer mandated and voluntary employee payroll deductions.
- There are more than 10,000 tax jurisdictions in the U.S., including federal, state, county, district, and municipal taxing authorities. Companies with complex, geographically diverse operations must be compliant with the rules, schedules and compliance requirements of every jurisdiction in which they operate.
- Ensuring that payroll tax information is accurate and payroll tax filings and deposits are timely is a critical financial management function. Fines, penalties and interest payments due to errors, omissions, oversights, miscalculations, late filings and other mistakes can be material.

The complexities and responsibilities of timely and accurate payroll tax processing grow each year. For a company wanting to optimize internal payroll resources, processes and systems, it may be advantageous to contract with a provider of payroll tax and processing consulting services like an outsourced CFO services firm. An engagement of this nature identifies improvements that can increase efficiencies and deliver time, resource and cost savings.

About CFO Edge

CFO Edge is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.

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