Multi-jurisdiction Payroll Withholding: Leveraging Technology

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Travel creates compliance issues

CORPORATE TAX

- Nexus / Permanent establishment
- Corp. tax apportionment
- Sales tax collation
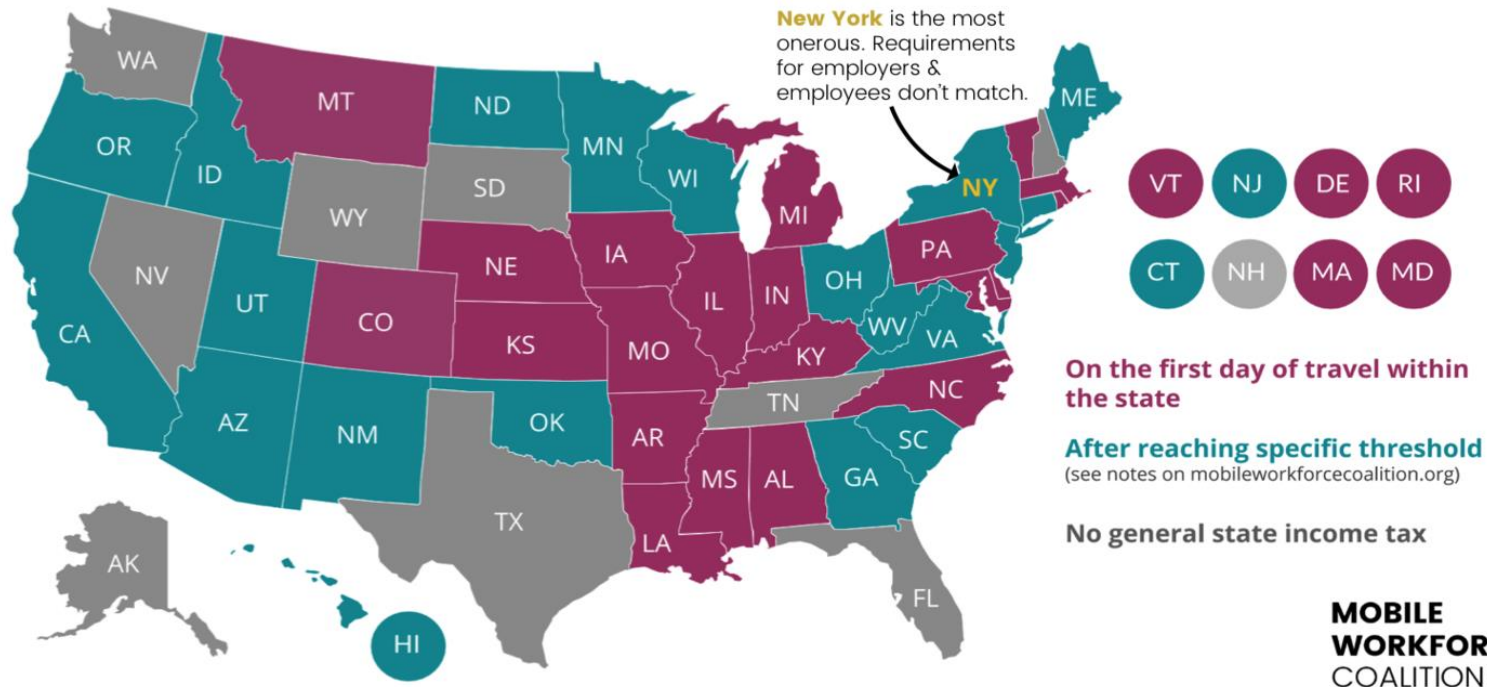- BEPS / Transfer pricing

CORPORATE PAYROLL

- Payroll withholding
- Deferred compensation
- Stock compensation

HR / MOBILITY

- Compensation + benefits
- Talent strategy
- Resource staffing + allocation

COMPLIANCE / RISK

- Compliance exposures
- Penalties and interest
- Reputational risk

On the first day of travel within the state

After reaching specific threshold
(see notes on mobileworkforcecoalition.org)

No general state income tax

New York is the most onerous. Requirements for employers & employees don't match.

More than half of the states that have a personal income tax require employers to withhold tax from a nonresident employee's wages beginning with the *first day* the nonresident employee travels to the state for business purposes (maroon states on the map above). Other personal income tax states provide for a threshold before requiring tax withholding for nonresident employees (teal states).

Please note that this map only covers *withholding*--many states have different (and usually lower) standards for imposing tax on nonresidents (that is, the employee may owe tax even where the employer is not required to withhold tax). Map also does not include reciprocal agreements.

NY withholding audit risk is growing.

395

NY payroll withholding audits in 2015

150%

Audit $ collected in 2015 vs. 2014

<30%

Companies effectively managing business travel risks

Source: NYS FOIL; EY+BBNA survey

NY Case Study

- NY-based company

- ~4000 employees nationwide

- NYS **audit** years 2010 to 2012; expands into 2014 and 2015 during audit

- Audit method: 2012 test year

- Total audit bill - $5,000,000!

NY AUDIT

NYS $5MM calculation

- Identify employees making more than $500K without NY withholding

- 95 total employees identified

- Requested all 2012 T&E data for 1 out of 5 of these employees

- Estimated $144K due for those 20 employees

- $1.9m in wages paid to these 20, creating a 0.00769 error rate

- $65m in wages paid to other 75 employees in the >$500K test

- $507K in tax due for test year 2012

- Error rate, extra 5x tax = $3.3m, plus penalty and interest!

- **Total bill: $5,000,000!!**

The Taxpayer Challenge

- Enter, Bob the Controller who is at the center of the company's audit effort
- Issues with the 20 employees
  - Day-by-day for each, non-work days, travel not count, etc.
  - 14 day exclusion?
  - Training days?
- Expanding the Test
  - Let's look at all 95
  - Hired 3 temps for several weeks to do 2012 "day counts" manually!
  - Calculated reduced error rate & total liability
  - Tons of effort, man hours, etc.

The Settlement

- Auditors threatened to do an audit of the 95 employees!

- Tax payer hired a prominent law firm that specializes in multi-state controversy cases

- Reached a negotiated resolution

- Policy, process and technology solution for ongoing compliance part of settlement

Technology unlocks power of data

Streamlines processes | Increased visibility | Proactive compliance | Peace of Mind

Travel Profile Get - Elements Returned

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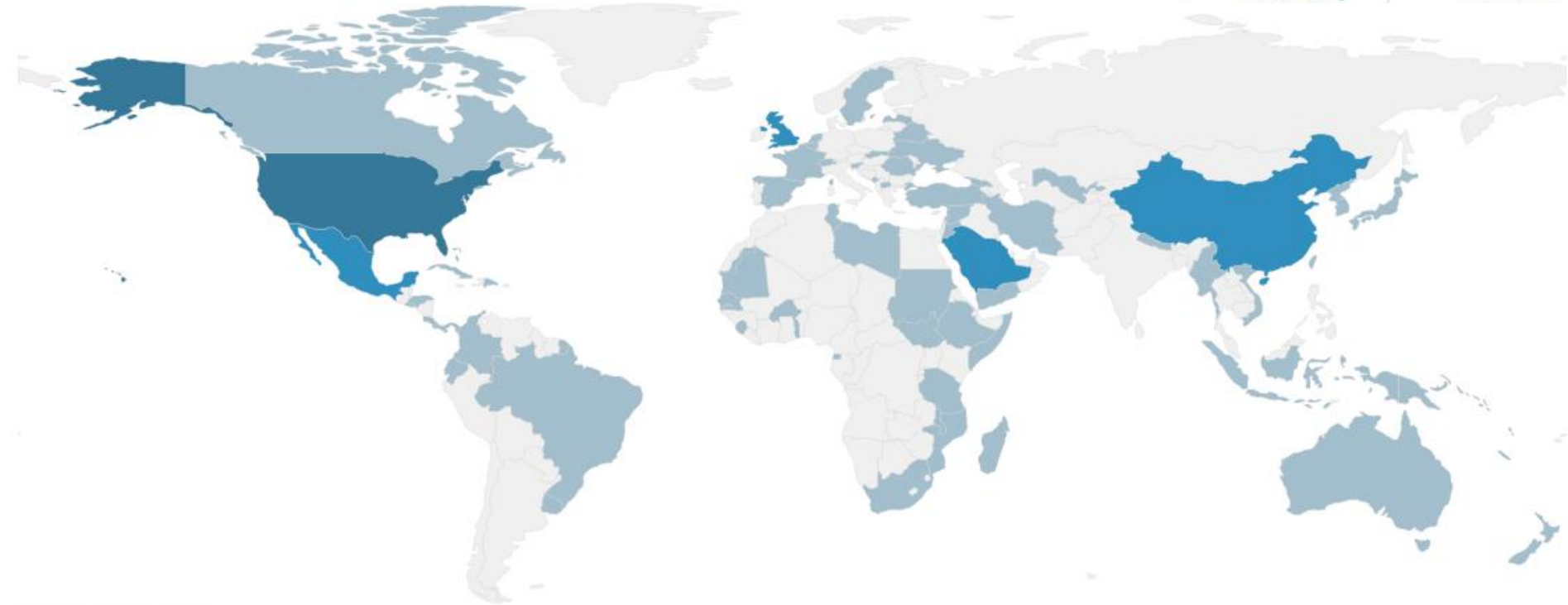
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16882	2/2/16	IL	IL	selected	expense	Expense in IL on 2016	US	5811136	16882			cabs to/from	Local Trans Metro North/Taxi/Tra
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Global

475
Employees
were traveling

99
Locations
were visited
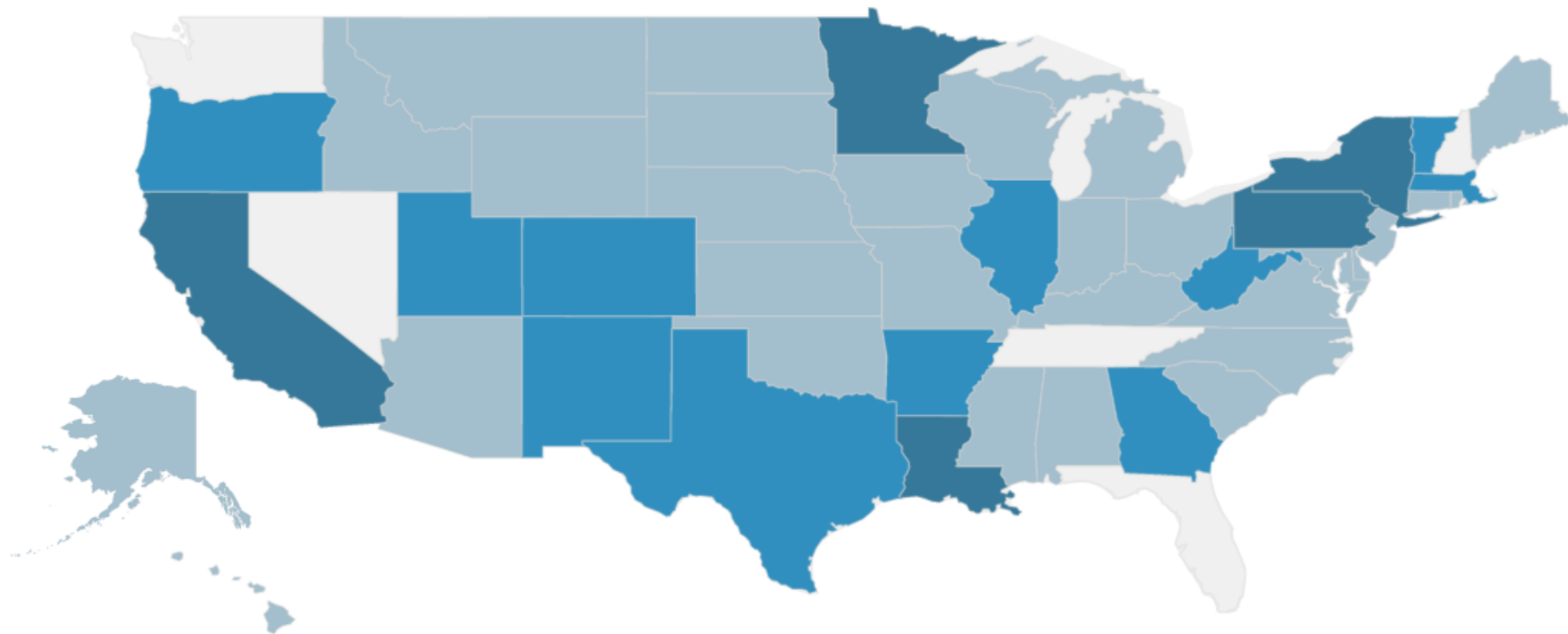
OVERALL VISIT FOOTPRINT

Global   United States

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United States

289 / 49

Employees were traveling / Locations were visited

OVERALL VISIT FOOTPRINT

Global **United States**

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‹ Employees

NY

116

Employees
with withholding

○ ...in **non-domicile** locations

○ ...in **domicile locations only**

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🔍 FIND EMPLOYEE

	ID	NAME	DOMICILE	TOTAL WORK DAYS	DAYS MISSED	WORK DAYS IN LOCATION	YTD DAYS SPENT
👤	11407779	Goyette, Taya	CA	261	7	90	90
👤	17939648	Wisozk, Aliza	CA	261	6	79	79
👤	16390772	Altenwerth, Rosanna	AR	261	3	77	77
👤	13643488	Conroy, Leone	CA	261	6	77	77
👤	15911589	Muller, Tyson	AR	261	7	76	76
👤	17112912	Halvorson, Braeden	CO	261	4	76	76
👤	10529023	Dickinson, Irwin	AL	261	4	75	75
👤	15660659	Hagenes, Yasmeen	CA	261	6	74	74
👤	15805484	Dickens, Nicholas	CA	261	10	73	73
👤	17337866	Schumm, Amie	AL	261	6	72	72
👤	14718983	Kreiger, Dasia	AR	261	7	72	72
👤	14035603	Koelpin, Blanca	CO	261	6	71	71
👤	11548313	Jenkins, Emil	DC	261	7	70	70

🔍 FIND EMPLOYEE

ID	NAME	
🧍 11407779	Goyette, Taya	
🧍 17939648	Wisozk, Aliza	
🧍 16390772	Altenwerth, Rosanna	
🧍 13643488	Conroy, Leone	
🧍 15911589	Muller, Tyson	
🧍 17112912	Halvorson, Braeden	
🧍 10529023	Dickinson, Irwin	
🧍 15660659	Hagenes, Yasmeen	
🧍 15805384	Dickens, Nicholas	
🧍 17337866	Schumm, Amie	
🧍 14718983	Kreiger, Dasia	
🧍 14035603	Koelpin, Blanca	
🧍 11548313	Jenkins, Emil	
🧍 19426204	Brekke, Chet	
🧍 14728619	Kuhn. Jaron	

Goyette, Taya

ID# 11407779 / Activated Aug 31, 2014   Email t.goyette3217@example.com / Mobile 15552653821

Data health **96%**   Location capture **Active**   Mode laptop   Domicile California, USA

⟨ **JAN 1 — DEC 31, 2015** ⟩

Withholding

CA 67.43%   California, USA

59 **Withholding days** in California, USA 🏠
        (your home/assigned location)

+ **9** **Exempt** days
        (regardless of location)

+ **7** Days with **unknown**
        locations

+ **101** Days in locations where **limits were not reached**

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176 Total days for CA ÷ **261** Days in this pay period

NY 27%   **70** withholding days

PA 6%   **15** withholding days

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Thank you

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