

# Payroll Perspectives

## Featured story

- Year-end essentials,  
including the 2015 payroll  
year-end checklist





## **2015 payroll checklist and other year-end essentials**

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**For our year-end essential publications, visit our website:**

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Employment-tax-year-end-planning-essentials---Year-end-checklist](http://www.ey.com/US/en/Services/Tax/State-and-Local-Tax/Employment-tax-year-end-planning-essentials---Year-end-checklist)**

**or use the search term "EY year-end checklist"**

# From the editor



**Debby Salam, CPP**  
Editor-in-chief  
*Payroll Perspectives from EY*

The leaves are changing color and cooler winds are blowing. For the world outside, these are signs of the approaching holiday season, but for payroll professionals, these are bells ringing in the start of year-end busy season.

The 2015 year-end promises to be one of the most challenging in decades thanks in no small part to the new Affordable Care Act information reporting requirements.

This is not to say that there aren't plenty of other challenges as well.

Additional events this year will also require special year-end attention, such as the change in the state taxation of same-gender spousal benefits following this year's U.S. Supreme Court ruling. As states begin to deal with the growing cost of tax refund fraud, there are a number of earlier due dates for Forms W-2 and related annual returns.

Adding to year-end stress is the likelihood of last-minute legislation as we approach the 2016 general election. Already we have heard presidential hopefuls escalate concerns about the national debt and Social Security solvency, raising the likelihood of rulemaking involving payroll taxes.

To help keep you on track for year-end, we offer here our annual payroll year-end checklist as well as other resources for managing the requirements and deadlines you will need to meet for tax year 2015.

We hope you find this issue of *Payroll Perspectives* helpful in meeting the challenging demands in the months ahead.

Warmly,

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or use the search term "EY payroll year-end checklist"

# Ernst & Young LLP's 2015 payroll year-end checklist



It is time to consider all the tasks necessary to successfully close 2015 and enter 2016.

Similar to last year, there are numerous changes to consider, including those pertaining to the taxation and reporting of fringe benefits and the requirements for filing state Forms W-2 and unemployment insurance returns electronically.

Ernst & Young LLP's payroll year-end checklist explores these matters and more while providing you with information resources to support you in your year-end planning and compliance activities.

## What's included

- ▶ [Ernst & Young LLP's sample 2015 payroll year-end checklist](#)
- ▶ [Table 1: 2016 federal holidays](#)
- ▶ [Filing electronically for 2015](#)
- ▶ [Table 2: Federal electronic filing due dates for 2015](#)
- ▶ [Table 3: Special wage payments from A to Z – sample list](#)
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- ▶ [Table 5: State unemployment insurance filing method requirements](#)
- ▶ [Year-end employment tax reporting compliance](#)

# Ernst & Young LLP's sample 2015 payroll year-end checklist

We have created a sample checklist of the top 30 payroll and employment tax activities for year-end 2015. Columns are included for inserting your own deadlines and the date you completed the tasks. Keep in mind that this is not a comprehensive list. Each business is unique in its payroll processes. Make a careful inventory of your own requirements and augment this checklist as necessary.

Top 30 payroll year-end tasks for 2015		Suggested deadline	Your deadline	Completed?
1	<b>Order Forms W-2 for 2015.</b> If purchasing Forms W-2 from a forms supplier, order and inspect the incoming stock. For software packages used in preparing Forms W-2, request the dated approval notice that the software provider obtained from the Social Security Administration (SSA).	December 15, 2015		
2	<b>Form W-4 verification.</b> Ask that employees review their name, address, Social Security Number and Form W-4 and confirm that their federal, state and local income tax withholding elections are correct for 2016.	December 1, 2015		
3	<b>2015 Forms W-4 claiming exemption.</b> Run a report of all employees claiming exemption from federal income tax withholding on Form W-4. If no 2016 Form W-4 is filed, withhold at single and zero exemptions beginning on February 17, 2016. (Many employers send notifications to employees when they are required to file a new Form W-4. Such notices should be sent to employees no later than February 1, 2016.)  Check state and local Form W-4 requirements, and repeat the same steps for state and local income taxing authorities where applicable.	February 1, 2016; February 16, 2016		
4	<b>Payroll system tax configuration review.</b> Verify taxability configuration tables for all jurisdictions for 2015 and 2016.  <ul style="list-style-type: none"> <li>► <b>Marriage equality.</b> One significant change affecting many employees, and that may be retroactive, is the state and local taxability of same-gender spousal benefits. In the second of two landmark decisions on same-gender marriage, the U.S. Supreme Court ruled on June 26, 2015, that the Fourteenth Amendment requires all states to license marriage between two people of the same gender and recognize same-gender marriages lawfully licensed and performed in another state. (<i>Obergefell v. US, No. 14-556, June 26, 2015.</i>)  Read about the impact on state and local taxability of same-gender spousal and partner benefits <a href="#">here</a>.</li> <li>► <b>Transit benefits.</b> Last year, Congress passed legislation that gives parity to the monthly tax-free limit for transit passes and parking. The provision expired after December 31, 2015, but could be retroactively reinstated.  Read more about this expiring provision and the implications of a retroactive reinstatement <a href="#">here</a>.</li> <li>► <b>Other fringe benefits.</b> Note that a few states are not "coupled" with the federal Internal Revenue Code for specific fringe benefits. For instance, a number of states do not mirror the IRS monthly tax-free limit for transit benefits of \$130 per month in 2014 and 2015.</li> </ul>	November 2015- January 2016		



# Ernst & Young LLP's sample 2015 payroll year-end checklist

*Continued*

Top 30 payroll year-end tasks for 2015		Suggested deadline	Your deadline	Completed?
5	<b>Accounts payable review.</b> Review accounts payable and general ledger records for unreported taxable items. See Table 3 for a sample list of compensatory items that might have been paid through accounts payable.	November–December 31, 2015		
6	<b>General ledger reconciliation and review.</b> Perform general ledger reconciliations before releasing 2015 annual information statements and returns. See Table 3 for a sample list of compensatory items that might be found in a general ledger review.	November–December 2015		
7	<b>Payroll bank reconciliation.</b> Perform payroll bank reconciliation through December 31, 2015, including identifying outstanding checks for 2015. Ask for an early cutoff statement if necessary.	November–December 2015		
8	<b>Gross-up and tax advances.</b> Perform all necessary gross-up calculations and impute all taxable amounts for 2015. Make tax advances when necessary (and when allowed by law) to remedy any withholding shortages resulting from imputed income. Remember that tax advances for 2015 must be repaid by employees no later than April 1, 2016.	December 31, 2015; April 1, 2016		
9	<b>Check your timing for posting taxable fringes to the payroll system.</b> To prevent late-deposit penalties and other adverse consequences, review the items on your year-end adjustment list to determine if they should have been posted to taxable wages on a periodic or other more frequent basis. Identify ways to mitigate exposures and adjust your procedures for the future accordingly.  Read more about it <a href="#">here</a> .	December 31, 2015		
10	<b>2015 Form W-2 distribution.</b> Determine what method will be used to distribute employee copies of the 2015 Forms W-2. If special mailing rates will be used, be certain to file all necessary documents with the U.S. Postal Service. (See T.D. 9114, 69 FR 7567, 2-18-00, for information on providing Forms W-2 to employees electronically.)	December 31, 2015		
11	<b>Incentive Stock Option (ISO) and Employee Stock Purchase Plan (ESPP) reporting.</b> The exercise of an ISO in 2015 is required to be reported on Form 3921 and the transfer of shares under an ESPP in 2015 on Form 3922. Both forms are furnished to the employee by February 1, 2016, and filed with the IRS by February 29, 2016 (March 31, 2016, if filed electronically).	February 1, 2016– March 31, 2016		
12	<b>Electronic filing requirements.</b> Check federal, state and local electronic tax filing requirements for 2015 and 2016. Register or make an application to remit taxes and returns electronically if the threshold for 2015 is met. (See Table 2 for the IRS application deadlines, if applicable.) Also, check federal, state and local electronic tax payment requirements for 2016 and file any required applications to meet electronic filing and payment requirements in 2016. See Table 4 and 5 for the current state electronic filing requirements for income and unemployment insurance tax.	November–December 2015		
13	<b>Third-party employment tax service provider verification.</b> Work with your third-party employment tax provider to make sure that returns and information statements will be filed for all applicable jurisdictions and that the third party has reporting agent approval when necessary to file on your behalf.	December 31, 2015		
14	<b>Form W-2, box 13 pension plan indicator.</b> Coordinate with your benefits administrator to determine when Form W-2, box 13, "Pension Plan," should be checked for each Form W-2 recipient. See page 28 of the <a href="#">2015 General Instructions for Form W-2 and W-3</a> .	January 15, 2016		

Top 30 payroll year-end tasks for 2015		Suggested deadline	Your deadline	Completed?
15	<b>Form W-2 reporting of employer-provided group health benefits.</b> Employers that filed 250 or more Forms W-2 in 2014 are required to report the aggregate cost of employer-provided group health benefits on the 2015 Form W-2, box 12, code DD. Verify that the necessary information for each employee is available for Form W-2 reporting purposes.  For further details, see the IRS website <a href="#">here</a> .	January 15, 2016		
16	<b>Check these new rules governing employer reimbursements for employee-purchased health insurance.</b> Under the Affordable Care Act and effective in 2014, employers are subject to substantial penalties if they reimburse employees under certain situations for their purchase of individual health insurance policies.  Read more about the new requirements <a href="#">here</a> .	December 2015		
17	<b>Review your independent contractors the same way a governmental auditor would.</b> States are increasingly focused on whether employers have properly classified their workers as independent contractors, frequently asserting that they should be treated as employees.  For more information about the standards that apply, read our special report <a href="#">here</a> .	December 31, 2015		
18	<b>Information reporting for US nonresident alien employees.</b> If you paid wages to US nonresident alien employees in 2015 and they claimed an exemption from federal income tax withholding under a treaty exemption, you will be required to comply with the Form 1042-S reporting requirements. Keep in mind that Form W-2 reporting may also be required for Social Security/Medicare earnings and any wages that fall outside of those exempt from federal income tax under the treaty.  Both the recipient and IRS copies of Form 1042 are due by March 15, 2016. For more information, see the IRS <a href="#">website</a> .	March 15, 2016		
19	<b>2015-16 employee notices.</b> Run the reports necessary to comply with all federal and state employee notification requirements and consider others that may be helpful.  <b>Mandatory</b> <ul style="list-style-type: none"> <li>▶ <i>The special accounting rule/no federal income tax withholding on personal-use auto</i> – Employee notices should be provided by February 1, 2016, if the special accounting rule was used in 2015 or if you will elect not to withhold federal income tax from the value of personal use of company cars in 2016. Read more about special timing rules <a href="#">here</a>.</li> <li>▶ <i>Charitable contributions</i> – You are required to provide employees with a report of the annual total of charitable contributions paid through payroll deduction. Consider using Form W-2, box 14, for this purpose.</li> <li>▶ <i>Earned Income Tax Credit (EITC)</i> – For federal purposes, Form W-2, Copy B includes the notice employers are required to provide employees concerning their eligibility for the Earned Income Tax Credit (EITC). Some states and localities require a separate notification (other than Form W-2, Copy B) and may also impose a different annual deadline for making it available to employees.   Watch for EITC Awareness Day on January 29, 2016. Read more <a href="#">here</a>.   Have questions about state EITC notice requirements? Send us your questions <a href="#">here</a>. </li> </ul>	February 1, 2016 (unless otherwise noted)		

# Ernst & Young LLP's sample 2015 payroll year-end checklist

Continued

Top 30 payroll year-end tasks for 2015		Suggested deadline	Your deadline	Completed?
	<b>Suggested</b> <ul style="list-style-type: none"> <li>▶ <i>Expiring Form W-4</i> – Notify employees who claimed exempt from federal income tax withholding in 2015 that they are required to furnish you with a 2016 Form W-4 by February 16, 2016. Verify state rules concerning withholding allowance certificates claiming exemption, and include state expiring information on the same employee notice.</li> <li>▶ <i>COBRA premium assistance</i> – Former employees who received COBRA premium assistance payments in 2015 are required to report this information on their federal personal income tax return (Form 1040). Therefore, although it is not a requirement, giving them an annual summary of their total COBRA liability, the amount they paid and the portion representing the subsidy (65% of the liability) will reduce the number of inquiries you are likely to receive from these individuals as they prepare their 2015 federal tax returns. Remember, you report COBRA premium assistance credits on Form 941-X, not Form 941.</li> <li>▶ <i>2016 withholding tax changes</i> – Notify employees of any change in the amount of tax they will pay in 2016 for Social Security, Medicare or federal, state and local income tax withholding.</li> <li>▶ <i>Additional Medicare tax reminder</i> – Employees with wages in excess of \$200,000 in 2015 should be reminded of their requirement to file with the IRS <a href="#">Form 8959, Additional Medicare Tax</a>.</li> <li>▶ <i>Multi-state employees</i> – For employees who worked in more than one state, you may want to consider providing a detail of the taxable wages that were paid within each work state. This is particularly relevant for New York employees because employers are required to report federal taxable wages (Form W-2, box 1) as state taxable wages (Form W-2, box 16).</li> </ul> <p>For more information on multi-state payroll tax compliance, check out our free resources at <a href="http://www.ey.com/US/getonboard">www.ey.com/US/getonboard</a>.</p>	February 1, 2016		
	<b>20 Federal unemployment insurance (FUTA) fourth-quarter deposit adjustment.</b> If you had employees working in any of the states or the Virgin Islands subject to the FUTA credit reduction in 2015, be certain to pay at the higher FUTA rates. The additional FUTA tax owed is computed using the 2015 Form 940, and the additional tax payment is due by February 1, 2016.	February 1, 2016		
	<b>21 2015 tax payment reconciliation.</b> Prepare all fourth-quarter tax reconciliation(s) prior to making the final tax payment(s) to jurisdictions for the quarter or year. (See page 19 for more information about year-end reconciliation procedures.)	Various		
	<b>22 Testing Form W-2 files before filing them.</b> Effective for tax year 2014, the Social Security Administration (SSA) will return Forms W-2 files containing certain errors. For this reason, it is important that employers use SSA's <a href="#">AccuWage</a> before filing their returns.	January 15, 2016		
	<p>Employers using a third-party provider to handle Form W-2 files should require that the third-party provider give them a copy of the <a href="#">AccuWage</a> acceptance report. Some states and localities require test files for first-time electronic filers. Be certain to comply with these requirements and consider submitting test files even if not required to do so.</p>			



Top 30 payroll year-end tasks for 2015		Suggested deadline	Your deadline	Completed?
23	<b>2016 payroll processing schedule.</b> Prepare the 2016 payroll processing and tax return filing schedule. For a list of federal holidays, see Table 1.	December 2015		
24	<p><b>Review 2016 employer withholding tax guides.</b> Review IRS Circular E, Publication 15, <i>Employer's Tax Guide</i>, for 2016 and any similar state and local employer tax guides and withholding tables to determine taxability and reporting changes for 2016.</p> <p>Make all taxability, reporting and withholding rate changes for 2016 (including the 2016 exemption amounts for IRS tax levies in <a href="#">Publication 1494</a>).</p> <p>Test before your first live payroll in 2016.</p>	December 15, 2015		
25	<p><b>2016 tax rate and wage base updates.</b> Input 2016 Social Security, state unemployment, state disability and other similar taxable wage base and tax rate information.</p> <p>If using a third-party provider, test the third party's system requirements before the first live payroll in 2016.</p> <p>State unemployment insurance (SUI) tax rates should be verified within the protest period. Since many states issue their 2016 rates in November and December, this is an important year-end item.</p> <p>Read more about the SUI rate review and protest process in our special report <a href="#">here</a>.</p> <p>It is also important to verify in March 2016 that the correct SUI rate and wage base are reflected on the first-quarter 2016 quarterly SUI returns (generally due by May 2, 2016).</p> <p>Don't forget that for 2015 and 2016, the amount of federal unemployment insurance (FUTA) you pay may be higher because the states where your employees work may not have repaid their federal unemployment insurance loan balances.</p> <p>For the 2015 employment tax rates and limits, see our annual report (to be updated in December) <a href="#">here</a>.</p> <p>For the final 2014 employment tax rates and limits, go <a href="#">here</a>.</p>	December 31, 2015; March 31, 2016		
26	<p><b>Additional payroll period in 2015 or 2016.</b> If you had an additional payroll period in 2014 or will have one in 2015 (i.e., 27 rather than 26, or 53 rather than 52), you may need to make adjustments to your federal, state and local income tax withholding calculations. You will also need to determine how employee payroll deductions might change for the additional payroll period.</p> <p>Read more about the additional payroll period <a href="#">here</a>.</p>	December 2015		
27	<p><b>2016 payroll deductions.</b> Input 2016 payroll deduction information pursuant to benefit open enrolment data or other deductions that are subject to annual revision.</p> <p>Stop all payroll deductions that were authorized only through 2015.</p> <p>Test to confirm that 2016 payroll deductions are accurately updated.</p>	Prior to first payroll run for 2016		
28	<b>Purge 2015 expired records.</b> Purge the active employee master file of all employees terminated in 2015.	December 31, 2015		

# Ernst & Young LLP's sample 2015 payroll year-end checklist

Continued

Top 30 payroll year-end tasks for 2015		Suggested deadline	Your deadline	Completed?
29	<b>Duplicate and returned Forms W-2.</b> Instruct the mailroom on where to send returned Forms W-2 for tax year 2015. Make sure that all employee requests for duplicate 2015 Forms W-2 are timely provided.	January 8, 2016; April 18, 2016 (federal due date for 2015 Forms 1040)		
30	<p><b>New this year! Affordable Care Act information reporting.</b> Mandatory effective for tax year 2015, applicable large employers (ALE) are required to file <a href="#">Form 1095-C</a> and transmittal <a href="#">Form 1094-C</a> with the IRS. If you have 250 or more information returns during the calendar year, you must file them electronically.</p> <p>An applicable ALE is also required to give each full-time employee a copy of the <a href="#">Form 1095-C</a> that is filed with the IRS. By February 1, 2015, statements must be furnished to employees on paper by mail or hand-delivered, unless the recipient affirmatively consents to receive the statement in an electronic format.</p> <p>Employers that are not ALEs but that sponsor self-insured group health plans must report information about employees (and their spouses and dependents) who enroll in the coverage even though they are not subject to the employer shared responsibility provisions of the ACA. Self-insured plan sponsors use <a href="#">Form 1095-B</a> and transmittal <a href="#">Form 1094-B</a> to meet these ACA information reporting requirements.</p> <p>ALE members that file 250 or more information returns must file them electronically through the <a href="#">ACA Information Returns (AIR) program</a>.</p> <p>The IRS offers guidance about these ACA reporting requirements <a href="#">here</a>.</p> <p>For guidelines on electronic filing of ACA returns, refer to <a href="#">Publication 5165, Guide for Electronically Filing Affordable Care Act (ACA) Information Returns</a>.</p>	February 1, 2016 (employee statements); February 29, 2016 (IRS paper returns) or March 31, 2016 (IRS electronic returns)		

# Table 1 – 2016 federal holidays observed

When planning your 2015 payroll processing and employment tax schedule, refer to the list of federal holidays below.

New Year's Day	Friday, January 1, 2016
Martin Luther King, Jr. Birthday	Monday, January 18, 2016
Presidents Day*	Monday, February 15, 2016
Emancipation Day**	Friday, April 15, 2016
Memorial Day	Monday, May 30, 2016
Independence Day	Monday, July 4, 2016
Labor Day	Monday, September 5, 2016
Columbus Day	Monday, October 10, 2016
Veterans Day	Friday, November 11, 2016
Thanksgiving Day	Thursday, November 24, 2016
Christmas Day	Monday, December 26, 2016

**Note:** Holidays that fall on Saturday are observed the previous Friday, and those that fall on Sunday are observed the following Monday. (See 5 U.S.C. 6103(b).)

\* Also known as Washington's Birthday.

\*\* See [TD 9507](#).



# Filing electronically for tax year 2015

For a schedule of key federal filing due dates for tax year 2015, see Table 2.

Businesses with 250 or more Forms W-2, W-2c, or IRS information returns or statements (e.g., Forms 1099, 1042-S, 8027), must file these forms electronically with the Social Security Administration (SSA) or IRS.

Remember that a penalty applies when a business files returns on paper that are required to be filed electronically.

Specifications for preparing Forms W-2 electronically for tax year 2015 are found in the SSA's Publication 42-007, *Specifications for Filing Forms W-2 Electronically (EFW2)*.

For returns or statements filed with the IRS, specifications for electronic filing are available in IRS Publication 1220, *Specifications for Filing Forms 1098, 1099, 3921, 3922, 5498, 8935 and W-2G, Electronically*.

Publication 42-007 (EFW2) is available for download [here](#).

Publication 1220 is available [here](#).

## First-time electronic filers with the SSA

Filing electronically with the SSA is easy. Applications are not required. Instead, users register with the SSA by following the instructions within the Business Services Online (BSO) section [here](#). Note that electronic Forms W-2 also may be verified using AccuWage before they are submitted.

AccuWage 2015 is available through the SSA's [website](#).

### SSA password maintenance

The SSA suggests that users avoid the year-end rush by checking their access and updating their passwords now in preparation for the 2015 Form W-2 filing season.

Information is available [here](#).

## First-time electronic filers with the IRS

- **IRS requires applications for first-time filers.** Unlike the SSA, the IRS Information Reporting Branch (IRB) requires that, if you are filing electronically for the first time, you first request authorization to file electronically by submitting Form 4419, *Application for Filing Information Returns Electronically (FIRE)*. (This requirement applies even if you have 250 or more returns and are required to file electronically.) You are not allowed to submit the first electronic file until the IRS has approved your application.

Be aware that one Form 4419 may be filed for approval to electronically file Forms 1098, 1099, 3921, 3922, 5498, 8935 and W-2G, but additional Forms 4419 must be filed for Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*; Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips*; and Form 8955-SSA, *Annual Registration Statement Identifying Separated Participants and Deferred Vested Benefits*. For example, if you are filing Forms 1099, 1042-S and 8027 for the first time this year, you will need to obtain authorization to file them electronically by submitting three Forms 4419 to the IRS, one for each category of information return.

Form 4419 may be submitted anytime during the year; however, it must be submitted to IRS/IRB at least 45 days before the due date of the return(s) for current-year processing. This allows IRS/IRB the time necessary to process and respond to applications.

Form 4419 may be faxed to IRS/IRB at +1 877 477 0572. In the event that computer equipment or software is not compatible with IRS/IRB, a waiver may be requested to file returns on paper. Form 4419 may be photocopied for submission to the IRS.

Form 4419 is available on the IRS website [here](#).

Form 4419 also may be filed online [here](#).

- **Sending test files to the IRS.** Filers are not required to submit a test file unless they wish to participate in the Combined Federal-State Filing program; however, the submission of a test file is encouraged for all new electronic filers to test hardware and software.

Test files for tax year 2015 should not be submitted to the IRS sooner than November 2, 2015, or later than February 19, 2016. Keep in mind when planning your year-end schedule that the IRS FIRE system will be down from 6 p.m. (Eastern) December 11, 2015, through January 3, 2016, for yearly updates.

## Getting extensions on the SSA and IRS filing deadline

If you will not be able to meet the filing deadline for sending your 2015 forms to the IRS or SSA (for example, you are having a computer or software issue), an automatic 30-day extension can be obtained by filing Form 8809, *Application for Extension of Time to File Information Returns*, with the IRS/IRB (and not with the SSA). You can obtain an automatic 30-day filing extension by filing Form 8809 with the IRS. For the extension request to be granted, it must be postmarked, transmitted or completed online by the due date of the return.

If you are requesting an extension to file several types of forms, you may use one Form 8809, but you must file it by the earliest form due date. For instance, if you are filing a Form 8809 for a return due on March 15 and for another return due on March 31, the Form 8809 is due on March 15.

Form 8809 is available on the IRS website [here](#).

Form 8809 may be used for the following forms, and can be filed electronically [here](#).

- |          |        |            |
|----------|--------|------------|
| ▸ W-2    | ▸ 1097 | ▸ 5498     |
| ▸ W-2G   | ▸ 1098 | ▸ 5498-ESA |
| ▸ 1042-S | ▸ 1099 | ▸ 5498-SA  |
| ▸ 1094   | ▸ 3921 | ▸ 8027     |
| ▸ 1095   | ▸ 3922 |            |

Note that Form 8809 cannot be used to request an extension on the time to give employees or payees copies of their information returns (e.g., Form W-2, Form 1099). Instead, a letter must be submitted to IRS/IRB. Extensions on the time to provide recipient copies are rare.

For more information, see [IRS Publication 1220](#).

## Obtaining a waiver from filing electronically with SSA or IRS

If, for any reason, you will not be able to submit your Forms W-2 to the SSA or information returns to the IRS electronically for tax year 2015 and you are required to do so, a one-year waiver may be granted for hardship cases.

A waiver cannot be requested for more than one year at a time.

A onetime waiver from the electronic filing requirement can be obtained by filing Form 8508 with the IRS.

By obtaining a waiver from the IRS, you will not be subject to penalties for failing to meet the electronic filing requirements. A request for waiver is made by filing Form 8508, *Request for Waiver from Filing Information Returns Electronically*, with the IRS (not the SSA).

The IRS encourages businesses to file Form 8508 at least 45 days before the due date of the electronic filing. The IRS does not process waiver requests until January 1 of the calendar year the returns are due.

All requests for a waiver should be sent to the following address:

Internal Revenue Service  
240 Murall Drive, Mail Stop 4360  
Kearneysville, WV 25430

**Note:** If you will not be filing electronically, the extended due date of March 31, 2016 (for calendar year 2015 returns) will not apply. Forms W-2 and 1099 filed on paper must be submitted by February 29, 2016.

Form 8508 is available on the IRS website [here](#).



## Filing electronically for tax year 2015

*Continued*

**Table 2 – federal electronic filing due dates for 2015**

Form	Electronic system used for reporting*	Electronic filing due date and deadline to request first 30-day automatic extension (Form 8508)*	Deadline to submit application to file electronically with IRS (Form 4419)	Deadline to submit request for waiver from filing electronically (Form 8508)**	Period for submitting test files
Form 1042-S	IRS FIRE	March 15, 2016	February 1, 2016	February 1, 2016	November 2, 2015, to February 19, 2016
Forms 1094, 1095, 1097, 1098, 1099, 3921, 3922 and W-2G	IRS FIRE	March 31, 2016	February 16, 2016	February 16, 2016	November 2, 2015, to February 19, 2016
Form 8027	IRS FIRE	March 31, 2016	February 16, 2016	February 16, 2016	November 2, 2015, to February 19, 2016
Forms 5498, 5498-SA and 5498-ESA	IRS FIRE	May 31, 2016	April 15, 2016	April 15, 2016	November 2, 2015, to February 19, 2016
Form W-2	SSA BSO	March 31, 2016	N/A	February 16, 2015	AccuWage 2015 is now available

\* The SSA will begin accepting 2015 electronic Form W-2 file uploads on December 7, 2015. The IRS FIRE system will be down for upgrading from 6:00 p.m. EST December 11, 2015, through January 3, 2016, and files cannot be submitted during these times.

\*\* The IRS does not want waiver requests for tax year 2015 before January 1, 2016.

States are making greater use of the internet and other electronic reporting options, with a significant number of them changing their Form W-2 and unemployment reporting requirements for 2014 and 2015. See the state surveys in Tables 4 and 5.



**Table 3 – special wage payments from A to Z – sample list**

The chart below is a sample list of reportable earnings that depend on data inputs outside of the payroll processing system. Creating a list of such special wage payments, including the persons or third parties responsible for providing the data, is an important element of the payroll year-end checklist. We have indicated in a column below where third parties are frequently relied on to provide information necessary to meet tax and reporting requirements.

W-2 reportable item	Employer	Third party	W-2 reportable item	Employer	Third party
401(k) – W-2 box 13 indicator		✓	Expatriate wage update	✓	✓
Adoption assistance	✓	✓	Gift cards	✓	✓
Athletic club memberships	✓	✓	Gifts – noncash	✓	
Award – length of service	✓	✓	Gross-up – federal tax	✓	✓
Award – recognition	✓	✓	Gross-up – local nonresident tax	✓	✓
Award – safety	✓	✓	Gross-up – state nonresident tax	✓	✓
Business expense – non-accountable	✓		Insurance – annuity		✓
Club memberships	✓		Jury duty – offset	✓	
Credit card – non-accountable		✓	Living expenses	✓	
Deferred comp. – distributions		✓	Loans – forgiven	✓	
Deferred comp. – earnings		✓	Loans – interest income	✓	✓
Dependent care facility		✓	Medical debit card		✓
Dependent care flexible spending	✓	✓	Noncash award		
Dining hall – executive	✓		Parking	✓	✓
Disability pay – CA		✓	Relocation – domestic	✓	✓
Disability pay – HI		✓	Relocation – foreign	✓	✓
Disability pay – NJ		✓	Scholarships	✓	✓
Disability pay – NY		✓	Settlement awards	✓	✓
Disability pay – private fund		✓	State disability offset	✓	✓
Disability pay – PR		✓	Stock – W-2 box 12 indicators		✓
Disability pay – state offset	✓	✓	Stock – ESPP		✓
Discounts – merchandise	✓		Stock – ISO		✓
Discounts – services	✓		Stock – nonqualified		✓
Educational assistance	✓	✓	Stock – restricted		✓
Expatriate totalization	✓	✓	Transit benefits	✓	✓
Expatriate taxes		✓			

# State electronic filing of Forms W-2 and unemployment insurance returns

The following charts reflect our state survey results as of November 2014.

**Note:** Much of this information was obtained by Ernst & Young LLP during the course of informal telephone, website or email surveys with state governmental agencies. Although surveys are useful in determining how government departments currently treat an issue, answers and positions derived from such surveys are not binding upon the state, cannot be cited as precedent and may change over time and hence cannot be relied upon. Note also that many of the applicable state taxing authorities had not issued their Form W-2 electronic/magnetic media specifications for calendar year 2014 at the time of this update.

**Table 4 – state Form W-2 filing method requirements\***

(Note that changes since November 2014 are highlighted in yellow)

State	Threshold for mandatory paperless Form W-2 filing (3)	Delivery method required for paperless filing **	Deadline when filing electronically
Alabama (AL)	25 or more	Electronic	1/31
Alaska (AK)	N/A	N/A	N/A
Arizona (AZ)	250 or more	Magnetic media	2/28
Arkansas (AR)	250 or more	Magnetic media/electronic	2/28
California (CA)	(1)	N/A	N/A
Colorado (CO)	If fed requires	Electronic	3/31
Connecticut (CT)	All employers	Electronic	3/31
Delaware (DE)	If fed requires	Electronic	3/31
District of Columbia (DC)	25 or more	Electronic	1/31
Florida (FL)	N/A	N/A	N/A
Georgia (GA)	250 or more	Electronic	3/31
Hawaii (HI)	Paper only (2)	N/A	2/28
Idaho (ID)	50 or more, or if fed requires	Electronic	2/28
Illinois (IL)	If fed requires	Electronic	2/15
Indiana (IN)	25 or more	Electronic	1/31
Iowa (IA)	(1)	N/A	N/A
Kansas (KS)	51 or more	Electronic	2/28
Kentucky (KY)	100 or more	Magnetic media/electronic	1/31
Louisiana (LA)	100 or more	Electronic	2/28
Maine (ME)	If fed requires	Electronic	3/31
Maryland (MD)	25 or more	Magnetic media/electronic	2/28
Massachusetts (MA)	50 or more	Electronic	3/31
Michigan (MI)	250 or more	Magnetic media	2/28
Minnesota (MN)	10 or more	Electronic	2/28
Mississippi (MS)	25 or more	Electronic	3/31

\* There is no state income tax in Alaska, Florida, Nevada, South Dakota, Texas, Washington or Wyoming. New Hampshire and Tennessee require income tax only from interest and dividends

\*\* Magnetic media refers to submission by diskette, tape cartridge, CD-ROM, DVD or flash drive. DD, DVID and flash drive are also known as optical media. Electronic filing refers to internet filing or electronic transmissions such as file transfer protocol (FTP) and file upload.

State	Threshold for mandatory paperless Form W-2 filing (3)	Delivery method required for paperless filing	Paperless filing due date
Missouri (MO)	250 or more	Magnetic media	2/28
Montana (MT)	Optional	Electronic	2/28
Nebraska (NE)	50 or more	Electronic	2/1
Nevada (NV)	N/A	N/A	N/A
New Hampshire (NH)	N/A	N/A	N/A
New Jersey (NJ)	Optional	Electronic	2/28
New Mexico (NM)	50 or more	Magnetic media	2/28
New York (NY)	(1)	N/A	N/A
North Carolina (NC)	250 or more	Magnetic media	1/31
North Dakota (ND)	250 or more	Magnetic media/electronic	3/31
Ohio (OH)	250 or more	Magnetic media	2/28 (4)
Oklahoma (OK)	(1)	N/A	N/A
Oregon (OR)	All employers	Electronic	3/31
Pennsylvania (PA)	250 or more	Magnetic media/electronic	1/31
Puerto Rico (PR)	All employers	Electronic	1/31
Rhode Island (RI)	25 or more, and if fed requires	Magnetic media	2/28
South Carolina (SC)	250 or more, and if fed requires	Magnetic media/electronic	2/28
South Dakota (SD)	N/A	N/A	N/A
Tennessee (TN)	N/A	N/A	N/A
Texas (TX)	N/A	N/A	N/A
Utah (UT)	All employers	Electronic	1/31
Vermont (VT)	25 or more	Electronic	2/28
Virginia (VA)	All employers	Electronic	1/31
Virgin Islands (VI)	100 or more	Magnetic media	4/1
Washington (WA)	N/A	N/A	N/A
West Virginia (WV)	50 or more	Magnetic media/electronic	2/28
Wisconsin (WI)	50 or more	Electronic	1/31
Wyoming (WY)	N/A	N/A	N/A

**Footnotes:**

(1) Forms W-2 are not filed with the state.

(2) Only paper filing is available.

(3) In some states, payroll service providers and other third parties filing Forms W-2 on behalf of client employers may be required to file magnetically or electronically, regardless of the number of employer clients or employees.

# State electronic filing of Forms W-2 and unemployment insurance returns

Continued

**Table 5 – state unemployment insurance filing method requirements\***

(Note that changes since November 2014 are highlighted in yellow)

State	Threshold for mandatory magnetic media/electronic reporting	Delivery method required for non-paper filers	Electronic reporting available	3.5" diskette accepted	CD-ROM accepted	Tape cartridge accepted
Alabama (AL) <sup>(18)</sup>	All employers <sup>(7)(19)*</sup>	Electronic	Yes	No	No	No
Alaska (AK) <sup>(18)</sup>	If 50 or more <sup>(19)*</sup>	Electronic	Yes	No	No	No
Arizona (AZ)	Optional <sup>(10)(19)</sup>	Magnetic media/electronic <sup>(3)</sup>	Yes	Yes (current filers only) <sup>(15)</sup>	Yes	No
Arkansas (AR) <sup>(18)</sup>	If 250 or more <sup>(9)(19)</sup>	Magnetic media/electronic	Yes	Yes <sup>(8)</sup>	Yes	No
California (CA) <sup>(12)</sup>	If 250 or more <sup>(2)(7)(10)(19)</sup>	Electronic	Yes	No	No	No
Colorado (CO)	Optional <sup>(3)(17)</sup>	Electronic	Yes	No	No	No
Connecticut (CT) <sup>(18)</sup>	All employers <sup>(2)(7)(12)(19)*</sup>	Electronic	Yes	No	No	No
Delaware (DE)	Optional <sup>(2)(9)(19)</sup>	Magnetic media/electronic	Yes	No	Yes	Yes (3490, 3490E)
District of Columbia (DC)	If 5 or more <sup>(2)*</sup>	Electronic	Yes	No	No	No
Florida (FL)	If 10 or more <sup>(7)(10)(16)</sup>	Electronic	Yes	No	No	No
Georgia (GA)	If 100 or more <sup>(2)(7)(9)(12)(18)</sup>	Magnetic media/electronic	Yes	No <sup>(8)</sup>	Yes <sup>(11)(14)</sup>	No
Hawaii (HI)	Optional <sup>(2)(3)(7)</sup>	Magnetic media/electronic	Yes	No	Yes <sup>(8)</sup>	No
Idaho (ID)	All employers <sup>(19)*</sup>	Electronic	Yes	No	No	No
Illinois (IL) <sup>(18)</sup>	If 25 or more <sup>(2)(7)(12)(19)*</sup>	Electronic	Yes	No	No	No
Indiana (IN)	Optional <sup>(2)(9)(12)(17)(19)</sup>	Magnetic media/electronic	Yes	Yes <sup>(11)(14)</sup>	Yes	No
Iowa (IA)	All employers <sup>(2)(19)</sup>	Electronic	Yes	No	No	No
Kansas (KS)	If 50 or more <sup>(7)</sup>	Electronic	Yes	No	No	No
Kentucky (KY)	If 10 or more <sup>(7)(12)</sup>	Electronic	Yes	No	No	No
Louisiana (LA)	All employers <sup>(2)(19)*</sup>	Electronic	Yes	No	No	No
Maine (ME)	All employers <sup>(12)(19)*</sup>	Electronic	Yes	No	No	No
Maryland (MD)	All employers <sup>(12)(19)*</sup>	Magnetic media/electronic	Yes	No <sup>(5)(15)</sup>	No <sup>(15)</sup>	No
Massachusetts (MA)	All employers <sup>(19)</sup>	Electronic	Yes	No	No	No
Michigan (MI) <sup>(13)(18)</sup>	All employers <sup>(19)*</sup>	Electronic	Yes	No	No	No
Minnesota (MN) <sup>(18)</sup>	All employers	Electronic	Yes	No	No	No
Mississippi (MS)	If 250 or more <sup>(19)</sup>	Magnetic media/electronic	Yes	Yes	Yes	No
Missouri (MO) <sup>(18)</sup>	If 250 or more <sup>(2)(9)(12)(19)</sup>	Magnetic media/electronic	Yes	No	Yes	No
Montana (MT) <sup>(18)</sup>	Optional <sup>(2)(7)(9)(10)(12)(17)(19)</sup>	Magnetic media/electronic	Yes <sup>(15)</sup>	No <sup>(15)</sup>	Yes	No
Nebraska (NE) <sup>(18)</sup>	If annual payroll exceeds \$100,000 in either of previous two years <sup>(2)(7)(19)</sup>	Electronic	Yes	No	No	No
Nevada (NV) <sup>(18)</sup>	Optional <sup>(3)(7)(12)(19)*</sup>	Electronic	Yes	No	No	No



State	Threshold for mandatory magnetic media/electronic reporting	Delivery method required for non-paper filers	Electronic reporting available	3.5" diskette accepted	CD-ROM accepted	Tape cartridge accepted
New Hampshire (NH) <sup>(18)</sup>	If 50 or more <sup>(2)(7)(19)</sup>	Magnetic media/electronic	Yes	Yes	Yes	No
New Jersey (NJ) <sup>(13)*</sup>	All employers <sup>(7)(19)*</sup>	Electronic	Yes	No	No	No
New Mexico (NM) <sup>(13)</sup>	All employers <sup>(7)(19)</sup>	Electronic	Yes	No	No	No
New York (NY) <sup>(18)(13)*</sup>	All employers <sup>(2)(7)(19)</sup>	Electronic	Yes	No	No	No
North Carolina (NC) <sup>(18)</sup>	If 25 or more <sup>(9)(12)(19)</sup>	Magnetic media/electronic	Yes	No <sup>(8)</sup>	Yes	No
North Dakota (ND)	If 25 or more <sup>(2)(7)(9)(12)(19)</sup>	Magnetic media/electronic	Yes	Yes <sup>(15)</sup>	Yes <sup>(15)</sup>	No
Ohio (OH) <sup>(18)</sup>	Optional <sup>(2)(7)(9)(17)(19)</sup>	Magnetic media/electronic	Yes	No	Yes <sup>(15)</sup>	No
Oklahoma (OK)	All employers <sup>(2)(19)</sup>	Electronic	Yes	No	No	No
Oregon (OR) <sup>(13)</sup>	Optional <sup>(2)(19)</sup>	Electronic	Yes	No	No	No
Pennsylvania (PA)	All employers <sup>(2)(7)(10)(19)*</sup>	Electronic	Yes	No	No	No
Rhode Island (RI)	If 25 or more <sup>(2)(7)(9)(10)*</sup>	Magnetic media/electronic	Yes	No	Yes	No
South Carolina (SC)	If 100 or more <sup>(2)(9)(16)(19)</sup>	Electronic <sup>(3)</sup>	Yes	No	No	No
South Dakota (SD)	Optional <sup>(2)(7)(9)(19)</sup>	Magnetic media/electronic	Yes	No	Yes <sup>(11)</sup>	No
Tennessee (TN)	If 10 or more <sup>(2)(4)(9)(19)*</sup>	Magnetic media/electronic <sup>(3)</sup>	Yes	Yes <sup>(15)</sup>	Yes <sup>(11)(15)</sup>	No
Texas (TX)	All employers <sup>(7)(9)(12)(19)*</sup>	Electronic	Yes	Yes	Yes	No
Utah (UT)	If 250 or more <sup>(4)(7)(9)(16)(19)</sup>	Magnetic media/electronic	Yes	No	Yes <sup>(14)</sup>	No
Vermont (VT)	All employers <sup>(7)(19)*</sup>	Electronic	Yes	No	No	No
Virginia (VA)	If 100 or more <sup>(19)</sup>	Electronic	Yes	No	No	No
Washington (WA) <sup>(18)</sup>	All employers <sup>(2)(19)*</sup>	Electronic	Yes	No	No	No
West Virginia (WV)	Optional <sup>(19)</sup>	Magnetic media/electronic	Yes	No	Yes	No
Wisconsin (WI)	If 25 or more <sup>(19)*</sup>	Electronic	Yes	No	No	No
Wyoming (WY) <sup>(13)</sup>	Optional <sup>(2)(19)</sup>	Magnetic media/electronic	Yes	No	Yes	No

### Reference chart

\* See state notes below.

<sup>(1)</sup> Some software vendors use unique state codes rather than the "FIPS 5-2" (e.g., Dun & Bradstreet (MSA)). Reference SSA Publication No. ICN (EFW2).

<sup>(2)</sup> A test file is required or strongly encouraged prior to the first actual filing.

<sup>(3)</sup> State plans to eliminate paper reporting altogether in the future.

<sup>(4)</sup> The threshold may be reduced in the future.

<sup>(5)</sup> Email submission allowed.

<sup>(6)</sup> The National Association of State Workforce Agencies (NASWA) (formerly the Interstate Conference of Employment Security Agencies (ICESA)) publishes a standard format based on the SSA format and intended to ease the reporting of employers in multiple states.

<sup>(7)</sup> An application or electronic registration to begin reporting magnetically/electronically is required prior to the first actual filing.

<sup>(8)</sup> State PC software is available.

<sup>(9)</sup> A transmittal must accompany the magnetic media.

<sup>(10)</sup> For payroll service companies and agents the application to begin reporting by magnetic media or electronically must include a list of client employers.

<sup>(11)</sup> DVD also allowed.

<sup>(12)</sup> Both the contribution and wage reports may or must be filed by magnetic media or electronically.

<sup>(13)</sup> Combined payroll tax form is used.

<sup>(14)</sup> USB flash drive also allowed.

<sup>(15)</sup> The state plans to phase this option out.

<sup>(16)</sup> Payroll service companies that file quarterly tax reports on behalf of 100 or more employers during any calendar quarter must file magnetically or electronically.

<sup>(17)</sup> The state plans to make magnetic media or electronic reporting mandatory in the future.

<sup>(18)</sup> Payroll services must submit a list of clients.

<sup>(19)</sup> Format specifications are available through the internet.

<sup>(20)</sup> Electronic and/or internet reporting may be allowed in the future.

# State electronic filing of Forms W-2 and unemployment insurance returns

*Continued*

## State notes

**Alabama.** Employers of less than five employees may file over the telephone.

**Alaska.** Effective third quarter 2014, employers of 50 or more employees must file electronically over the internet. Agents filing on behalf of employers must file electronically, regardless of the number of employees.

**California.** Effective January 1, 2017, California employers of 10 or more employees are required to submit quarterly payroll tax returns and pay the associated payroll taxes electronically over the California Employment Development Department website. The bill requires all employers to file and pay electronically effective January 1, 2018. Penalties will apply to employers with less than 250 employees that fail to file and pay electronically after January 1, 2019. Employers will be allowed to apply for a one-year hardship waiver from the requirement to file and pay electronically. (*A.B.1245, signed by the governor on August 17, 2015.*)

**Connecticut.** Effective first quarter 2014, all employers and reporting agents are required to file quarterly tax returns and pay the associated taxes electronically. This includes both contributory and reimbursing employers. (*H.B.6452, signed by the governor on June 21, 2013.*)

**District of Columbia.** Effective fourth quarter 2014, employers of five or more employees are administratively required to report electronically over the District's electronic reporting system. Effective first quarter 2015, employers must report the number of hours an employee worked as part of the quarterly wage report. According to a senior Department representative, until legislation is passed to update DC Code § 51-104(b) (2) to reduce the threshold from 250 or more employees to 5 or more employees, the District is unable to penalize employers of less than 250 employees for failure to report electronically or supply the number of hours.

**Idaho.** Effective third quarter 2014, all employers must file quarterly unemployment tax returns electronically. Magnetic media and paper reporting is eliminated.

**Illinois.** Effective July 1, 2014, employers with 25 or more employees are required to submit the employer wage report (Form UI-40) electronically on a monthly basis, at the end of the month following the reporting period, in addition to being required file the quarterly contribution and wage report electronically. (*PA 097-0689, Section 105.*) The threshold for mandatory electronic monthly reporting was reduced from 250 employees to 100 or more employees as of July 1, 2013, 50 or more employees effective January 1, 2014, and 25 or more employees effective July 1, 2014. Magnetic media reporting was eliminated. Rule changes allow the Department of Employment Security to remove penalties and interest employers incurred as a result of confusion over the electronic reporting requirement's implementation schedule and waive up to the first two quarters' worth of penalties, along with any related interest, for late monthly reports, as long as the employer timely submitted quarterly reports. Another rule change will apply the electronic/monthly reporting requirement on a state fiscal year basis rather than a calendar year basis (e.g., if an employer's 2014 headcount equals or exceeds 25, the employer will be required to report electronically/monthly for the period from July 1, 2015, through June 30, 2016).

**Louisiana.** Effective for returns filed after January 31, 2014, all employers are required to file their quarterly returns electronically. (*H.B.345, Act 89, signed by the governor on June 22, 2007.*) Effective January 1, 2016, employers are required to supply information on two additional data elements when electronically filing the quarterly unemployment wage report – the employee's hourly rate of pay and the employee's occupational code or job title, per recently updated specifications ([www.laworks.net/Downloads/UI/LAWATS.pdf](http://www.laworks.net/Downloads/UI/LAWATS.pdf)).

**Maine.** Beginning with tax periods on and after January 1, 2015, employers report UI wages and contributions separately on a new Form ME UC-1 and withholding tax on Form 941ME. The payment of each tax is submitted separately. Although the forms and instructions are separated beginning in 2015, Maine Revenue Services (MRS) continues to process both Form 941ME and new Form ME UC-1, and employers file both forms with MRS. (*Maine Tax Alert, April 2015; Letter, Maine Revenue Services, July 9, 2014.*)

**Maryland.** Effective first quarter 2016 (returns due April 30, 2016), all Maryland employers are required to file Form DLLR/DUI 15, *Unemployment Insurance Quarterly Contribution and Employment Report*, electronically. The Maryland Department of Labor, Licensing and Regulation will no longer mail paper returns to employers and magnetic media/email submission is no longer allowed. Previously, employers of 100 or more employees must file electronically or by magnetic media.

**Michigan.** Effective January 1, 2015, all employers are required to file the quarterly SUI reports by an electronic method approved by the state agency (down from a threshold of 25 or more employees effective January 1, 2013, and six or more employees effective January 1, 2014). An employer with five employees or less may request a waiver of the requirement by showing that the electronic filing requirement would create an economic hardship. (*S.B.806, signed by the governor on December 19, 2011.*)

**Nevada.** If the quarterly tax due is \$10,000 or more, the payment is required to be made electronically. This also applies to authorized agents and submitters who file for multiple employers. If the total aggregate amount of contributions is \$10,000 or more, Nevada law requires the payment to be made electronically by either ACH Credit or ACH Debit.

**New Jersey.** All New Jersey employers are required to file unemployment reports and pay unemployment taxes electronically with the Department of Treasury. Magnetic media reporting and paper checks are not allowed. Legislation was pending at the time of this update (A.3156) to require employers to file monthly UI wage reports (similar to the requirement for Illinois employers).

**New York.** Employers must report if dependent health benefits are available to employees. The reporting requirement applies only at the employer level and is not reported for each individual employee on the wage report. A check box is included on Form NYS-45 for this purpose. (*Assembly Bill No. A08952, Chapter 182 of the Laws of 2010.*) Effective first quarter 2015, all employers must file Form NYS-45, NYS-45-ATT and NYS-1 electronically over the New York Department of Taxation and Finance electronic reporting system. The associated taxes must also be paid electronically.

**Pennsylvania.** Effective first quarter 2014, all state unemployment tax and wage reports must be filed electronically. No paper or magnetic media is allowed.

**Rhode Island.** Payroll service providers that provide payroll services to 20 or more clients are required to file Quarterly Tax and Wage Reports (DET-TX-17) for their clients electronically.

**Tennessee.** Effective January 1, 2016, Tennessee employers with 10 or more employees must file their quarterly SUI contribution and wage report electronically, a decrease from the former threshold of 250. Effective July 1, 2016, employers of 10 to 249 employees that fail to comply with the electronic reporting requirement may be assessed a penalty of \$50 per month, up to a maximum of \$500 until they comply. According to a Department of Labor and Workforce Development representative, employers will also continue to have the option to report on CD, DVD or diskette. (*S.B.102, signed by the governor on April 10, 2015.*)

**Texas.** Effective first quarter 2014, all employers and reporting agents are required to file quarterly tax returns and pay the associated taxes electronically. Paper filing is not allowed.

**Vermont.** Effective third quarter 2014, all employers are required to file quarterly tax returns and pay the associated taxes electronically. Paper filing is not allowed.

**Washington.** All employers are required to file electronically. Paper or magnetic media filing is not allowed (\$25 penalty can be assessed). However, according to the UI agency's website and an email response to inquiry on September 28, 2015, the agency will administratively not penalize an employer for filing paper returns but will strongly urge the employer to convert to electronic reporting.

**Wisconsin.** Agents who prepare reports on behalf of employers must file their contribution and wage reports electronically.

# Year-end employment tax reporting compliance

Particularly for the multi-state employer, preparing for annual employment tax reporting is a multi-step process that includes these steps:

## 1. Create a list of jurisdictions requiring returns and information statements (e.g., Forms W-2, 1099, 1042-S)

Whether employment taxes are processed in-house or by a third-party provider, a list should be created of the jurisdictions and the returns and information statements that each requires. In our experience reviewing employment tax processes, neglecting to report to all jurisdictions (including those outside of the US, where applicable) is one of the most common errors that multi-jurisdictional employers make. To make sure that your list of taxing jurisdictions is as accurate and comprehensive as possible, a report from the employee master file should be created of both the work and resident states and localities that have been established for each employee. If work state and locality information is also carried in the timekeeping system (i.e., employees typically work in multiple jurisdictions within a single payroll period), a similar report should be run from this source. If you are uncertain of a jurisdiction's withholding, employment tax and reporting requirements, check with the state and local taxing authorities, your employer's accounting firm or other qualified employment tax consultant.

## 2. Verify the form and format of returns and information statements

Each jurisdiction imposes different reporting requirements. Some jurisdictions, for instance, require that Forms W-2, annual state income tax reconciliations or state unemployment insurance returns be filed magnetically or electronically if the employees or forms exceed a certain number. Under the federal requirements, for instance, Forms W-2 (Forms W-2c) in excess of 249 in the calendar year must be filed electronically. (State rules vary. See Tables 4 and 5 for our 2014 survey of state electronic Form W-2 and state unemployment insurance filing requirements.)

If the employer is relying on a third party to file its employment tax returns and information statements for the first time, care must be taken that all of the necessary steps have been completed to establish the third party as a reporting agent. For example, you and the third party must have obtained a User ID and PIN where required, as well as any other information necessary to meet the reporting requirements, and you must have confirmed that file submissions were posted accurately. (Note that employers using a third-party provider can obtain a User ID and PIN to verify Form W-2 transmissions through the SSA's BSO. Go [here](#) for more information.)

Filing format and record layout specifications may also change from year to year and should be reviewed carefully before processing year-end returns and information statements.

Reference these publications for tax year 2015:

- ▶ SSA Publication 42-007 (EFW2) [here](#)
- ▶ IRS Publication 1220, *Specifications for Filing Form 1097, 1098, 1099, 3921, 3922, 5498, 8935, and W2-G Electronically*, [here](#)
- ▶ IRS Publication 1187, *Specifications for Filing Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, Electronically*, [here](#)
- ▶ IRS Publication 1239, *Specifications for Filing Form 8027, Employers Annual Information Return of Tip Income and Allocated Tips, Electronically*, [here](#)
- ▶ For guidelines on electronic filing of Affordable Care Act information returns, refer to [Publication 5165, Guide for Electronically Filing Affordable Care Act \(ACA\) Information Returns](#)

## 3. Verify that all laser-printed forms were approved by the SSA

If you plan to use laser-printed Forms W-2/W-2c from a third-party source (e.g., software or service provider), ask the supplier for a copy of its dated approval notice from the SSA. For more information, see:

IRS Publication 1141, *General Rules and Specifications for Substitute Forms W-2 and W-3* (Rev. Proc. 2015-51), [here](#)

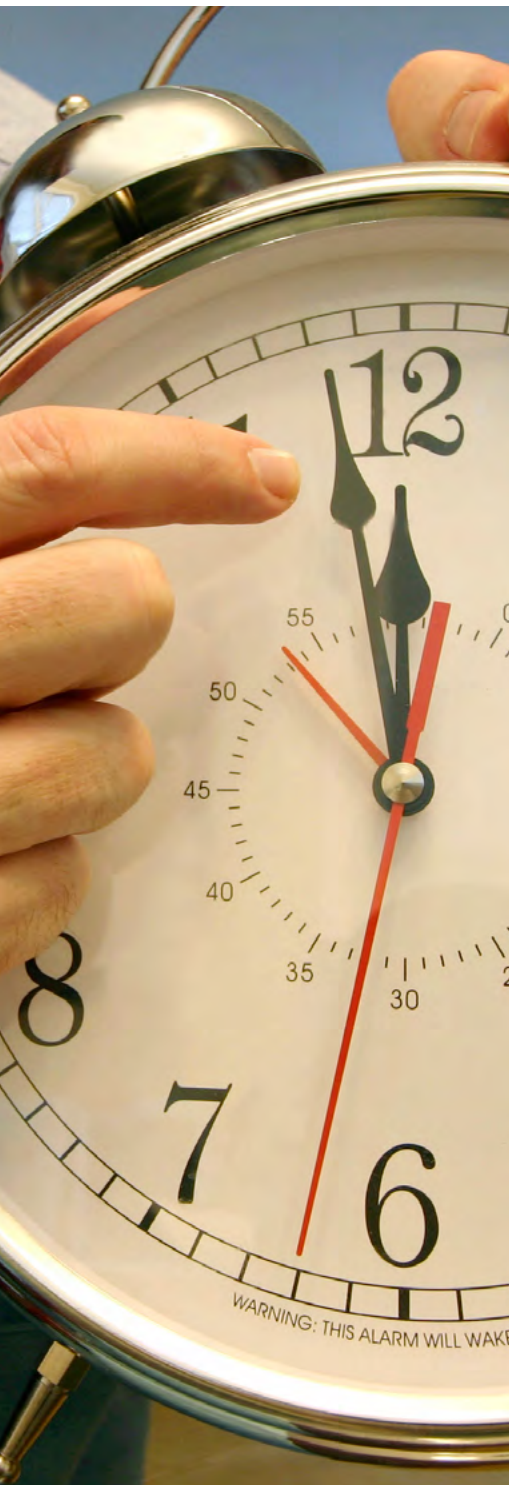
## 4. Test magnetic media and electronic files

Particularly when a jurisdiction's form or format for reporting has changed, it is prudent to perform tests validating that your files match the jurisdiction's reporting requirements. Discovering errors while printing or filing the actual returns and information statements not only creates delays in filing but also can expose you to penalties and other additional costs. For Form W-2 reporting purposes, the SSA makes software available that allows you to edit Form W-2 files before they are submitted electronically.

AccuWage 2015 is available through the SSA's website [here](#).

# Year-end employment tax reporting compliance

Continued



## 5. Verify taxability compliance

Taxability compliance can be verified by printing reports from the payroll system's tax configuration tables. These configuration tables carry the information necessary for including and excluding various wage payments and fringe benefits from taxable wages and the tax computation. Checking to make sure that amounts are reported on the appropriate lines or boxes of returns or statements and that the correct codes are used, where applicable, is a vital element of year-end compliance testing.

Sample configuration tables are shown below.

### 2015 sample federal employment tax configuration table – pay codes

Benefit	Federal income tax (Form W-2, box 1)	Social Security wage (Form W-2, box 3)	Medicare wages (Form W-2, box 5)	Form W-2, box 12	Federal unemployment insurance taxable (FUTA, Form 940)
Business expense accountable plan	No	No	No	N/A	No
Dependent care assistance	Yes – excess over \$5,000	Yes – excess over \$5,000	Yes – excess over \$5,000	N/A, but report in box 10	Yes – excess over \$5,000
Educational assistance, job-related	No	No	No	N/A	No
Educational assistance, non-job-related	Yes – excess over \$5,250	Yes – excess over \$5,250	Yes – excess over \$5,250	N/A	Yes – excess over \$5,250

### Sample federal employment tax configuration table – deduction codes

Benefit	Federal income tax (Form W-2, box 1)	Social Security wage (Form W-2, box 3)	Medicare wages (Form W-2, box 5)	Form W-2, box 12	Federal unemployment insurance taxable (FUTA, Form 940)
Section 125, Dependent care assistance pretax	Reduce up to \$5,000	Reduce up to \$5,000	Reduce up to \$5,000	N/A, but report in box 10	Reduce up to \$5,000
Section 125, Health insurance premium pretax	Reduce 100%	Reduce 100%	Reduce 100%	Considered in arriving at amount in code DD	Reduce 100%
401(k) pretax contribution	Reduce up to \$18,000	No change	No change	Code D	No change

## 6. Reconciliation

Whether your payroll is processed in-house or by a third-party provider, reconciliation is vital to accuracy and internal control. Keep in mind that reconciling does not necessarily mean that there are no differences or adjustments but rather that differences and adjustments have a reasonable explanation and are well-documented.

There are four primary types of year-end reconciliation:

### ► Wage and tax

The wage and tax reconciliation should include a logical and chronological reconciliation of federal, state and local wage and tax information:

- *Chronological.* The purpose of a chronological reconciliation is to make sure that wage and tax information has properly accumulated from each payroll period to the quarter and, finally, to the annual totals.
- *Logical.* The purpose of the logical reconciliation is to compare the wage and tax information of different jurisdictions to make sure that any differences in amounts are logically explained by variations in the tax rules. For instance, employers that provide taxable excess group-term life insurance coverage should have a difference between FICA and federal unemployment covered wages (taxable group-term life is excluded from federal unemployment insurance wages but is included in FICA wages). A similar reconciliation should be performed that compares federal wages to the taxable wages reported to each state and local taxing jurisdiction.

### ► Bank statement

- A bank reconciliation is vital to making sure that checks, including voids and stop payments, were properly posted to the payroll system throughout the year and that outstanding checks are investigated and properly dealt with (keeping in mind the unclaimed property rules of the applicable state) prior to preparing the 2014 returns and information statements. Failure to perform a bank reconciliation prior to filing employment tax returns and issuing information statements exposes an employer to the risk of reporting incorrect wages and paying or withholding an incorrect amount of tax. These errors can result in time-consuming corrections to Forms W-2 and other information returns and statements, creating a potential for interest and penalty assessments.

### ► Accounts payable and third-party payments

The payroll system is not the only door through which wages and fringe benefits enter. All too frequently, expense reports and other business expenses, such as payments made on behalf of employees for educational or relocation expenses, are initially entered into the accounts payable system. Absent an automated interface between accounts payable and payroll, which is rare in today's technological environment, a recurring analysis should be made of accounts payable transactions to pinpoint items potentially reportable or subject to employment tax.

An accounts payable reconciliation of this type includes, for example, a review of expense reports and petty cash or impressed funds; the identification of non-accountable business expense reimbursements and taxable payments made to individual employees or former employees, relocation providers, stockbrokers, life insurance companies, and airlines and travel agents; and an accounting of business and personal use of company vehicles, including cars and airplanes.

See Table 3 for sample list of benefits and other compensation that might be paid through accounts payable or by a third-party service provider.

### ► General ledger

A general ledger reconciliation is routinely necessary to help ensure that the employer's financial statements accurately reflect the payroll transactions of the business. However, at year-end the general ledger reconciliation is also vital to confirming that wages are reported correctly and tax liabilities and payments are stated accurately. General ledger totals of wages, tax expenses and tax liabilities should correspond to the amounts reported to each of the taxing jurisdictions.

See Table 3 for a sample list of special wage payments and other compensation that might be paid through accounts payable or by a third-party service provider.



# Social Security wage base unchanged for 2016



The Social Security wage base for 2016 will remain unchanged at \$118,500, the same as projected in the July 2015 *Annual Report of The Board of Trustees*. (See *EY Payroll NewsFlash*, Vol. 16, #206, 7-28-2015.)

The Social Security tax rate for 2016 remains at 6.2% of covered wages of up to \$118,500 for employees and employers.

The Medicare tax rate for 2016 also remains at 1.45% of all covered earnings for employers and employees; however, for wages in excess of \$200,000, the Additional Medicare Tax of 0.9% applies to earned income of more than \$200,000 (\$250,000 for married couples filing jointly).

While employers are required to withhold the additional 0.9% on covered wages in excess of \$200,000, there is no employer matching contribution.

For the federal and state rates and limits for 2015 see our [special report](#).

## Social Security, Medicare and disability insurance contributions 2015 compared with 2016

Description	2015	2016	Increase
Social Security tax rate for employees	6.20%	6.20%	-0-
Social Security tax rate for employers	6.20%	6.20%	-0-
Social Security wage base	\$118,500	\$118,500	-0-
Maximum Social Security tax for employees	\$7,347	\$7,347	-0-
Medicare tax rate for employers	1.45%	1.45%	-0-
Medicare tax rate for employees	1.45%*	1.45%	-0-
Medicare tax rate for employees on wages above \$200,000*	2.35%	2.35%	-0-
Medicare wage base	No limit	No limit	N/A

\* Employers must withhold an additional Medicare tax of 0.9% of wages in excess of \$200,000. There is no employer matching contribution.

# Qualified retirement plan limitations for 2016

The dollar limitations for qualified retirement and certain nonqualified plans that become effective January 1, 2016, were released by the IRS in [IR-2015-118](#).

The dollar limitations that are adjusted by reference to IRC §415(d) are adjusted for inflation and consequently, many of the pension plan limitations are unchanged for 2016 because the cost-of-living index did not meet the statutory thresholds that trigger their adjustments.

The pretax limit that applies to elective deferrals to 401(k), 403(b) and most 457(b) plans is unchanged at \$18,000. The dollar limitation for catch-up contributions for participants age 50 or over is also unchanged at \$6,000.

Plan participants in qualified retirement plans will need to consider the impact of the 2016 dollar limitations in their overall financial planning.

A complete summary of the cost-of-living adjustments applicable to dollar limitations for qualified retirement plans and other items for 2016 is provided on the following pages.

## Qualified retirement plan limitations (2015 compared with 2016)

Description	2015 limit	2016 limit
Participant pretax contribution limit for 401(k) and 403(b) plans Section 402(g)(1)	\$18,000	\$18,000
Deferral limit for deferred compensation plans of state and local governments and tax-exempts Section 457(e)(15)	\$18,000	\$18,000
Dollar limitation for catch-up contributions for participants age 50 or over in 401(k), 403(b), governmental 457 plans and SEPs Section 414(v)(2)(B)(i)	\$6,000	\$6,000
Dollar limitation for catch-up contributions for participants age 50 or over to a SIMPLE IRA or a SIMPLE 401(k) Section 414(v)(2)(B)(ii)	\$3,000	\$3,000
Defined benefit plan limit <sup>1</sup> Section 415(b)(1)(A)	Lesser of \$210,000 or 100% of the participant's three-year-high compensation	Lesser of \$210,000 or 100% of the participant's three-year-high compensation
Defined contribution plan limit Section 415(c)(1)(A)	Lesser of \$53,000 or 100% of participant's compensation	Lesser of \$53,000 or 100% of participant's compensation
Maximum ESOP account balance subject to a five-year distribution period/increments for additional year Section 409(o)(1)(C)(ii)	\$1,070,000/\$210,000	\$1,070,000/\$210,000
Highly-compensated-employee dollar threshold Section 414(q)(1)(B)	\$120,000	\$120,000
Definition of key employee in a top-heavy plan – officer compensation threshold Section 416(i)(1)(A)(i)	\$170,000	\$170,000
Annual limit on includable compensation for benefits and allocations <sup>2</sup> Sections 401(a)(17), 404(l), 408(k)(3)(C) and 408(k)(6)(D)(ii)	\$265,000	\$265,000
SEP employee participation floor Section 408(k)(2)(C)	\$600	\$600
SIMPLE retirement accounts contribution limit Section 408(p)(2)(E)	\$12,500	\$12,000
Compensation amount of control employees for fringe benefit valuation purposes Treas. Reg. Section 1.61-21(f)(5)(i) and (iii)	\$105,000/\$215,000	\$105,000/\$215,000

### Footnotes

<sup>1</sup> For a participant who separated from service before January 1, 2016, the participant's limitation under a defined benefit plan under IRC §415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2015, by 1.0011.

<sup>2</sup> For eligible participants in certain governmental plans that allow cost of living adjustments to the compensation limit to be taken into account, such limit is unchanged at \$395,000.

# Fringe benefit limits for 2016



In [Revenue Procedure 2015-53](#) the IRS published the inflation adjustments that will apply to various fringe benefits in 2016.

## 2016 Medical Savings Account (MSA) limits go up in some cases

Summarized below are the 2016 limits that apply to MSAs under IRC §220(c)(2)(A).

Provision	Self-only coverage	Family coverage
High-deductible health plan – annual deductible	Not less than \$2,250 (up from \$2,200 in 2015) and not more than \$3,350 (up from \$3,000 in 2015)	Not less than \$4,450 (unchanged from 2015) and not more than \$6,700 (up from \$6,650 in 2015)
Annual out-of-pocket (other than for premiums)	Not to exceed \$4,450 (unchanged from 2015)	Not to exceed \$8,150 (unchanged from 2015)

## Adoption assistance limit goes up

The limit on qualified adoption assistance (including special needs children) under IRC §23(a)(3) for 2016 is \$13,460, up from \$13,400 in 2015.

## Health flexible spending account (FSA) limit goes up

The 2016 annual limit on the amount of pretax contributions employees can make toward their health flexible spending account through a cafeteria plan under IRC §125(i) is unchanged at \$2,550.

# Watch for the possibility of 2015 late-breaking federal employment tax legislation

With memories still fresh of the scramble caused by retroactive reinstatement of the parity in transit and parking benefits for both the 2013 and 2014 tax years, payroll departments are well aware that Congress can enact significant legislation even as the country is ringing in the new year.

In preparation for the 2016 general election, numerous bills have been introduced in the 114th Congress, including [extenders](#) that could retroactively reinstate the Work Opportunity Tax Credit and parity in the tax limits on parking and transit benefits, to name a few.

Also likely to gain attention in this pre-election year is legislation intended to address the billions lost each year in bogus tax refunds due to identity theft as well as various recommendations to guarantee the long-term solvency of the Social Security and disability insurance trust funds (see the Social Security Administration's recommendations [here](#)).

Employers can better manage late-breaking developments in Congress by closely monitoring events as they unfold in the weeks ahead.

To assist in this process, we have provided a list of a few of the employment-tax-related bills already introduced.

## Employment-tax bills introduced in the 114th Congress

Category	Bill number	Description
<b>Extenders</b>		
Work Opportunity Tax Credit	<a href="#">H.R.145</a> <a href="#">H.R.2754</a> <a href="#">H.R.1808</a> <a href="#">H.R.2265</a> <a href="#">S.1517</a>	Reinstate the Work Opportunity Tax Credit effective January 1, 2015, and either make it permanent or extend it temporarily
Parity in parking and transit benefits	<a href="#">H.R.990</a> <a href="#">H.R.1046</a>	Retroactively reinstate parity in the monthly tax-free limit for parking and transit passes, either permanently or temporarily
<b>Wage reporting and tax refund fraud</b>		
Stolen Identify Refund Fraud Prevention Act of 2015	<a href="#">H.R.3832</a> <a href="#">S.137</a> <a href="#">S.676</a>	Changes the filing due date of Forms W-2 to February 15; allows for truncation of the Social Security Number on Form W-2; gives the IRS access to the National Directory of New Hires for the sole purpose of identifying and preventing fraudulent tax return filings and claims for refund
Information Reporting Simplification Act of 2015	<a href="#">H.R.3856</a>	Corrections would not be required for de minimis errors on the Form W-2 return or information statement.
<b>Fringe benefits</b>		
Health savings account (HSA)	<a href="#">H.R.1140</a> (2014)	Removes a long-standing issue by permitting the medical expenses of dependents who have not attained age 27 to be paid from a health savings account
<b>Mobile workforce</b>		
State income tax on nonresidents	<a href="#">H.R.2315</a> <a href="#">S.386</a>	Limits the authority of states to tax certain income of employees for employment duties performed in other states  See our video on recent and upcoming developments in state and local mobile workforce income tax. You can watch it <a href="#">here</a> .
<b>Social Security reform</b>		
Social Security 2100 Act	<a href="#">H.R.1391</a> <a href="#">S.731</a> <a href="#">S.1904</a>	Amends the Internal Revenue Code and the Social Security Act to impose the employment tax on all wage income above \$400,000, effective in 2016. Requires incremental increases, up to 15.3% in 2084, in the employment and self-employment taxes.
Social Security Enhancement and Protection Act of 2015	<a href="#">H.R.1756</a>	Amends the Internal Revenue Code to increase the FICA tax rates on a graduated basis beginning in 2017
Keeping Social Security Solvent Act of 2015	<a href="#">H.R.2078</a>	Repeals the wage limit on Social Security tax
Paycheck Relief Act of 2015	<a href="#">H.R.3267</a>	Amends the Internal Revenue Code to reduce FICA tax rates on wage income and corresponding tax rates on self-employment income

## Arizona

### Job training tax repealed; employers must pay all SUI taxes, regardless of amount

As we reported in the May 2015 issue of *Payroll Perspectives*, effective with the first quarter 2016, the job training tax (JTT) under [ARS §23-769](#) of 0.10% is permanently repealed, for an anticipated savings of \$6.5 million in 2016.

The JTT has been in effect since 2001.

The repeal of [ARS §23-769](#) also resulted in the removal of the provision that allowed employers owing less than \$10 in quarterly state unemployment insurance (SUI) taxes to avoid paying the SUI taxes for the quarter.

As a result, effective January 1, 2016 (applying to the first quarter 2016, due April 30, 2016), even if the total SUI tax owed for a quarter is less than \$10, employers are required to submit the payment. (*Employer newsletter; email response to inquiry, October 2015.*)

For more information on Arizona SUI taxes, see the Department of Employment Security website at [www.azuitax.com](http://www.azuitax.com).

#### Ernst & Young LLP insights

Certain employers are exempt from paying the JTT. These include positive-balanced employers assigned 2015 tax rates of 0.03% and 0.22% and negative-balanced employers assigned 2015 tax rates of 4.11% and higher. New employers paying at 2.0% and reimbursing employers are also exempt from the JTT.

## Delaware

### SUI taxable wage base to remain at highest possible; tax rate schedule also to remain the same

Per a Delaware Department of Labor representative, the state unemployment insurance (SUI) taxable wage base will remain at \$18,500 for calendar year 2016, and the 2016 SUI tax rates are expected to continue to range from 0.3% to 8.2%. (*Email response to inquiry/telephone conversation, representatives, Delaware Department of Labor, October 2, 2015.*)

#### Mailing of 2016 tax rate notices

The 2016 SUI tax rate notices will be mailed to employers in mid-December 2015.

For more information on SUI taxes in Delaware, contact the Department at +1 302 761 8482 or see the Department's [website](#).

#### 2013 legislation increased SUI taxable wage base

As we previously reported, legislation enacted in mid-August 2013 changed the determination of the SUI taxable wage base from a set amount of \$10,500 to a range of \$10,500 to \$18,500 beginning calendar year 2014. The measure tied the wage limit to the balance of the state's unemployment trust fund: the higher the trust fund balance, the lower the taxable wage base.

Because the trust fund balance as of September 30, 2015, was \$68,909,100 (less than \$125 million), the highest possible taxable wage base, \$18,500, will be in effect for 2016. (HB 168, signed by the governor on August 15, 2013.)

If the state's trust fund balance continues to climb, employers may see the taxable wage base decrease in future years:

- ▶ If the UI Trust Fund balance is \$125 million or less as of September 30 of the preceding year, the taxable wage base will be \$18,500.
- ▶ If the trust fund balance is greater than \$125 million but less than \$175 million, the taxable wage base will be \$16,500.
- ▶ If the trust fund balance is at least \$175 million but not greater than \$225 million, the taxable wage base will be \$14,500.
- ▶ If the trust fund balance is greater than \$225 million but less than \$275 million, the taxable wage base will be \$12,500.
- ▶ If the trust fund balance is \$275 million or greater, the taxable wage base will be \$10,500.

#### Special training tax assessment

The special training tax assessment, billed semi-annually at a rate of 0.15% prior to 2014, increases when the SUI taxable wage base decreases. Because the taxable wage base will be \$18,500 for 2016, the assessment rate will continue to be 0.085% for 2016.

#### FUTA taxes for calendar year 2015

Because Delaware repaid its federal UI loan balance – which began in March 2010 – prior to November 10, 2014, the net FUTA rate returned to 0.6% for calendar year 2014. The minimum net FUTA rate of 0.6% continues for calendar year 2015.



## Illinois

### Penalties of \$16 million to be credited to employers for SUI reporting errors

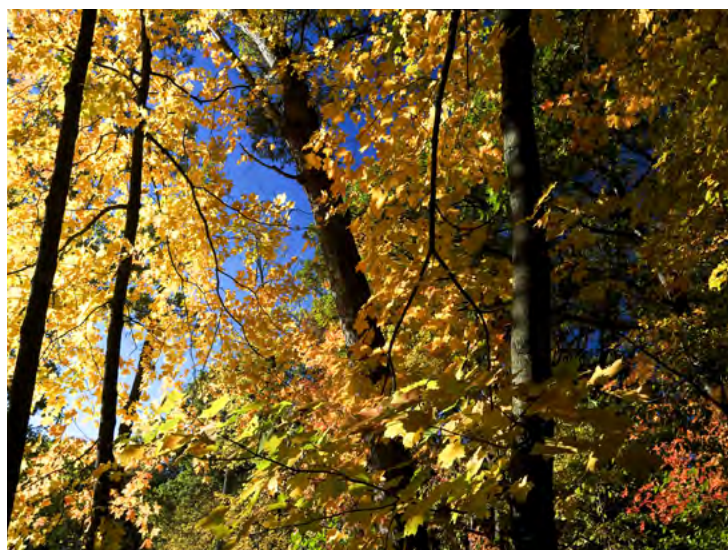
The Illinois Department of Employment Security [announced](#) it is issuing credits totaling \$16 million to nearly 13,000 employers that experienced difficulties in transitioning to the monthly state unemployment insurance (SUI) wage reporting requirement under the 2012 Medicaid reform law and Department rulemaking.

On August 14, 2015, the Department issued credits equaling \$1.5 million to approximately 4,000 affected employers and will issue credits equaling \$14.5 million to remaining employers by the end of the fourth quarter 2015. These credits include associated interest charges.

Refunds will be issued only if the credits cannot be applied to SUI liabilities by January 31, 2016, under a rule agreed upon by the business and labor communities.

As we reported in the September 2015 issue of *Payroll Perspectives*, the Department previously announced that it would waive monthly UI reporting penalties and interest for employers that had trouble complying with the monthly wage reporting requirement or were confused about the requirement's implementation schedule. The Department agreed to waive up to the first two quarters' worth of penalties, along with any related interest, for late monthly reports, as long as the employer timely submitted quarterly reports.

For more information, contact the Department's Employer Hotline at +1 800 247 4984.



## Indiana

### County income tax rate changes effective October 1, 2015

The Indiana Department of Revenue announced that the counties of Blackford, Greene, Hendricks, Howard, Putnam and Tipton have changed their local withholding income tax rates effective October 1, 2015. ([Departmental Notice #1, September 28, 2015.](#))

The changes are as follows:

- ▶ **Blackford** – The resident rate has increased from 0.0136 to 0.015. The nonresident rate has decreased from 0.0061 to 0.005.
- ▶ **Greene** – The resident rate has increased from 0.01 to 0.0125. The nonresident rate has increased from 0.0025 to 0.005.
- ▶ **Hendricks** – The resident rate has increased from 0.014 to 0.015. The nonresident rate is unchanged.
- ▶ **Howard** – The resident rate has increased from 0.016 to 0.0165. The nonresident rate has increased from 0.0055 to 0.005625.
- ▶ **Putnam** – The resident rate has increased from 0.015 to 0.0175. The nonresident rate is unchanged.
- ▶ **Tipton** – The resident rate has increased from 0.0158 to 0.0198. The nonresident rate is unchanged.

### State income tax rate to decrease in 2017

As we reported in the February 2015 issue of *Payroll Perspectives*, the state individual income tax rate was reduced from 3.4% to 3.3% effective for calendar years 2015 and 2016, and is scheduled to be further reduced to 3.23% for 2017 and later years. (*H.B.1001, PL 205, signed by the governor on May 8, 2013.*)

### Be prepared for major change in 2017

As we reported in the June 2015 issue of *Payroll Perspectives*, effective January 1, 2017, the law requires that local income taxes collected by Indiana counties be consolidated into one local income tax rate per county.

The bill also requires that both residents and nonresidents living and/or working in the county pay at one local income tax rate, increasing the taxes paid by nonresidents. (*H.B.1485, signed by the governor on May 6, 2015.*)

Like the overhaul of the Pennsylvania local earned income tax (EIT), employers as well as software and service providers should be prepared for an extensive implementation and testing period before the first wages are paid in January 2017.

## Indiana increases audit focus on businesses with multiple unemployment insurance accounts

Under legislation enacted in 2011, Indiana joined several other states (e.g., Michigan and North Carolina) in mandating the consolidation of multiple state unemployment insurance (SUI) tax accounts held by affiliated or related employers. (Title 646 IAC Article 5.)

In contrast to a joint account election where employers may voluntarily choose to consolidate separate SUI accounts for a temporary period (e.g., New York), an account consolidation generally is a mandatory and permanent combining of SUI experience to arrive at a single SUI contribution rate.

Recently, the Indiana Department of Workforce Development (DWD) launched an aggressive audit strategy to identify and consolidate multiple SUI tax accounts, an effort that has resulted in the issuance of substantial retroactive employer assessments.

Indiana law continues to make provisions for separate SUI tax accounts, and based on the facts and circumstances, an account consolidation may be inappropriate. Accordingly, employers are given the right to protest DWD findings and any related assessments.

### When does Indiana require account consolidation?

An employing unit that is wholly or partially owned by another employing unit is not eligible for a separate SUI tax account if either of these applies: (646 IAC 5-2-12.)

- The employing units are so closely related that it would be appropriate to disregard the corporate structure under Indiana law.
- One of the employing units has failed to assume all the requisite employment responsibilities necessary to provide its employees with employment.

### DWD's audit process

DWD uses software to monitor the movement of employees between entities as well as information provided by employers such as reports of mergers and acquisitions and new account registrations. If, based on the data, DWD believes that related employing units may be using multiple SUI tax accounts, it will conduct a *Rate Assurance Investigation*.

Pursuant to a *Rate Assurance Investigation*, DWD might interview employees, review grant applications, request copies of tax returns, review benefit programs, request information on human resources administration, interview tax preparers (internal or external), research public records, ask for fulfillment contracts, request asset purchase/asset sale documents, and (or) conduct a compliance audit for one or more of the employing units in question.

In its request for information, DWD will provide education on the factors to be evaluated and ask employers to make an assertion in writing that they are aware of the requirements for separate SUI tax accounts as explained to them.

If the determination does require DWD's re-examination for cause, the employer's assertions will be considered to be willfully made in the event that an investigation results in a determination that the employer knew or should have known that it was not entitled to separate SUI tax accounts. (*Indiana Unemployment Insurance Employer Handbook*, pg. 43.)

### What are the employer's responsibilities?

The risk of penalty and interest falls on employers if DWD can demonstrate their failure to meet one or more of these three statutory responsibilities: (646 IAC 5-2-12; 646 IAC 5-2-13.)

1. Determine with accuracy eligibility for a separate SUI tax account before requesting a new one.
2. When not eligible for a separate SUI tax account, report wages under a single account.
3. When employing units with properly acquired experience accounts become related and ineligible for separate SUI tax accounts through acquisition or merger, timely report the transaction to DWD. (DWD will combine the experience balance of the accounts once it receives this report.)

### What are the employer's risks?

- **Rate recalculation and penalties.** If an employer is found to have improperly used a separate SUI tax account, DWD will retroactively recalculate the employer's SUI experience rate as if it had reported using a single SUI tax account without regard to the rate implication of such decision. (646 Ind. Admin. Code 5-2-14.) The SUI contribution rate recalculation must be made no later than four completed calendar years subsequent to the date that the contributions, penalties or interest would have become due. (646 Ind. Admin. Code 5-2-14.)

The assessment limitation of four completed calendar quarters does not apply with respect to any report filed where the employer knew or should have known that the report was incorrect. (646 Ind. Admin. Code 5-2-14.) In addition, the employer could be subject to additional penalties and interest, an increased merit rate or criminal penalties. (646 Ind. Admin. Code 5-2-14.)

- **Penalties and interest.** Contributions unpaid will bear interest at the rate of 1% per month or a fraction thereof until payment is received by DWD. (*Ind. Code §22-4-29-1(a).*)

If the failure to pay any delinquent contributions is due to negligence or intentional disregard of authorized rules, regulations or notices, but without the intent to defraud, a 10% penalty will be charged on the total amount of unpaid contributions. (*Ind. Code §22-4-29-1(b).*)

If the failure to pay any delinquent contributions is due to fraud with the intent to evade payment of contributions, then a 50% penalty will be charged on the total amount of unpaid contributions. (*Ind. Code § 22-4-29-1(c).*)

#### The Indiana three-step for employers

1. Indiana employers with multiple DWD SUI tax accounts should immediately evaluate if an account consolidation may be required under Indiana law. Where an audit exposure or tax overpayment exists, these businesses should consider immediate mitigation steps.
2. Indiana employers that have been involved or are currently involved in an audit should seek tax advice on the merits of the actual or potential assessment and their protest and appeal rights.
3. Develop a strategy and workflow for the future that includes protocols for proper transaction planning and implementation; SUI tax account review including verification that wages, benefits, contributions (including voluntary) are correctly posted; and risk and controversy.

For more information, contact Chris Peters at [christina.peters@ey.com](mailto:christina.peters@ey.com) or Fred Branditz at [fred.branditz@ey.com](mailto:fred.branditz@ey.com).



## Maine

### Employers that are transferring to Maine or that will hire five or more new employees: don't miss this income tax withholding credit

If you are a non-retail, for-profit business that plans on hiring five or more new full-time employees for your Maine business, or you will be transferring employees to Maine over the next two years, make sure to claim this tax credit.

Under Maine's Employment Tax Increment Financing (ETIF) program, new and established businesses meeting the hiring criteria shown at the right are entitled to a refund of up to 30% to 80% of their Maine state income tax withholding for up to 10 years.

#### The deadline to apply for this credit is December 1 of the year for which reimbursement is sought.

The rate of reimbursement on state income tax withholding rises with the level of local unemployment, with those in Pine Tree Development Zones receiving the highest refund rate.

The Maine Department of Economic Opportunity and Community Development (DECD) reports that in 2013 alone, almost 126 Maine companies claimed \$13 million in state income tax withholding reimbursements for more 8,550 new, well-paid jobs with retirement and health care benefits.

#### How it works

A qualifying business begins the application and approval process as soon as it plans on hiring (or transferring) five or more new Maine employees over the next two years. The deadline is December 1 of the year it is seeking reimbursement.

Once approved, the state income tax withholding reimbursement is available in the first quarter of the next fiscal year.

Businesses in Pine Tree Development Zones will enroll in the ETIF program as part of their PTZ application, with a minimum of at least one new hire.

#### How to apply

To apply for your ETIF, you will need the [application sample \(Excel\)](#) and [application form \(Excel\)](#). You will need to print out two copies of the application form.

Follow the instructions to fill out both copies of the application. Then mail them to the address listed. You should receive approval within weeks.



To receive compensation, you will need to complete and send in a [Vendor Activation Form \(PDF\)](#). You only need to do this once to establish your business as a vendor.

Once you've been approved, DECD will send you a notification to file your reimbursement request in February or March.

Use the DECD approval letter, which outlines your base level of employment and your reimbursement rate, and the [ETIF Reimbursement Request Instructions \(PDF\)](#) to fill out the ETIF reimbursement request after logging into your account ([click here to log in](#)).

Keep your employee documentation current, all Forms W-2, and records of health insurance and retirement contributions and other benefits, for potential audit.

### When does a business qualify for the credit?

1. The business will hire five or more new, full-time employees for an established Maine non-retail, for-profit business over a two-year period, or the employer will move its business and employees to Maine to start a business in the state with five or more new full-time hires within the next two years.
2. The business offers new employees a group health care plan and Employee Retirement Security Act (ERISA)-qualified retirement plan such as a 401(k) or pension plan.
3. The average annual income of each new employee is higher than the average for the county the employer is doing business in. The [2015 EDP Income Guidelines \(PDF\)](#) listing provides county averages to determine qualified employees and their incomes.

More information is available [here](#).

## Maryland

### All employers required to file quarterly SUI returns electronically

Effective first quarter 2016 (returns due April 30, 2016), Maryland employers are required to file the Form DLLR/DUI 15, *Unemployment Insurance Quarterly Contribution and Employment Report*, electronically.

The Maryland Department of Labor, Licensing and Regulation will no longer mail paper returns to employers. ([Notice, Maryland Department of Labor, Licensing and Regulation website; email response to inquiry, September 24, 2015.](#))

Currently, employers of 100 or more employees must file electronically or by magnetic media.

Employers with 5,000 employees or less should use the Department's [Web Tax internet](#) application. Payroll service providers and large employers with more than 5,000 employees should use the Department's FTP Application to file returns, rather than the current practice of mailing magnetic media.

Employers will no longer have the option to submit their wage report by email to [electronic.wage@maryland.gov](mailto:electronic.wage@maryland.gov) using the E-wage system or to file zero reports over the telephone. Reporting by magnetic media on CD or diskette will also no longer be an option. Note, however, that the same format used for email or magnetic media reporting may be used for internet reporting.

Payments of associated SUI taxes may still be made by paper check or electronically using ACH Debit, ACH Credit or by credit card (fees apply).

For more information on filing electronically, contact the Department's Wage Records Unit by email at [electronic.wage@maryland.gov](mailto:electronic.wage@maryland.gov) or see the Department's [website](#).



# Minnesota

## 2016 SUI taxable wage base to increase

According to a UI Minnesota representative, the Minnesota state unemployment insurance (SUI) taxable wage base for 2016 will increase to \$31,000, up from \$30,000 for 2015. (*Telephone conversation, UI Minnesota, Employer Accounts department, September 25, 2015.*)

General tax rate information for 2016 should be available by early November, and 2016 tax rate notices should be mailed to employers in mid-December 2015. For more information, contact the Department at +1 651 296 6141, option 4.

## Employers reminded of change in due date for fourth-quarter 2015 withholding tax return

Minnesota employers are reminded of the new requirement effective for returns due after January 1, 2016, to file the fourth-quarter Minnesota Quarterly Tax Withholding Return by January 31 (or February 10 if all withholding deposits for the quarter have been timely made). This has changed from the previous due date of February 28 to match the federal Form 941 deadline. (*What's new, Minnesota Department of Revenue [website](#) (2014 HF 3167, Chapter 308, enacted May 20, 2014).*)

As we reported in the January 2015 issue of *Payroll Perspectives*, the change in due date is effective with the filing of fourth-quarter 2015 quarterly return. As a result, the fourth-quarter 2015 Minnesota Quarterly Tax Withholding Return must be filed electronically over the Department of Revenue's website by February 1, 2016 (extended from January 31, 2016, because it falls on a Sunday). The deadline is extended to February 10, 2016, if all withholding deposits for the fourth quarter have been timely made.

A Department representative confirmed that this change affects only the fourth-quarter 2015 return filing deadline – it does not affect payment due dates and frequencies or the February 29, 2016 deadline for filing calendar year 2015 Forms W-2, as the sections of state law pertaining to these deadlines were not changed. (*Telephone conversation, Minnesota Department of Revenue, withholding tax section, September 17, 2015.*)

Calendar year 2016 withholding information should be released by the Department by mid-December 2015. For more information on Minnesota withholding taxes, see the Department's [website](#) or call +1 651 282 9999.

# Missouri

## Law reduces UI benefits, gives successor employers limited period to protest rates, changes rate calculations

During this year's annual veto session, the Missouri Senate overrode the governor's veto of H.B.150, which will, effective January 1, 2016, reduce unemployment insurance (UI) benefits for unemployed workers and make other changes.

Another significant bill provision will allow for a 60-day period for successor employers to appeal a UI rate incorrectly assigned to them as a result of the purchase of a company and to recover UI tax overpayments for the last five years caused by the erroneous rate assignment.

## H.B.150 allows for a limited rate protest period for successor employers

For 60 days after the bill's effective date of October 16, 2015 (*Missouri House of Representatives' Assistant Chief Clerk's office, October 2, 2015; RSMo §25.250.1.*), successor employers that reasonably believe that they have been assigned an erroneous UI experience rating as a result of the purchase of a company may file a timely appeal for the recovery of UI tax overpayments for the last five years caused by such erroneous assignment. The Missouri Department of Labor and Industrial Relations has determined that the 60-day window will be from October 16, 2015, through December 14, 2015.

An employer wishing to file an appeal of a rate assigned pursuant to a previous acquisition must submit the appeal in writing between October 16, 2015, and December 14, 2015. The Department further clarifies that the appeal must be submitted by the employer or the employer's third-party legal counsel. Further, the wording of the appeal should include which determination the employer is appealing and the reason for the appeal. (*Department response to email, October 15, 2015.*)

### Ernst & Young LLP insights

The Senate's override of the governor's veto of H.B.150 during the veto session may be challenged in court. The governor has contended that under the Missouri Constitution, the Senate had to have acted on the governor's veto during the regular 2015 legislative session (as the House did) because the bill was vetoed more than six days before the regular session ended.

The question then becomes, if the veto override is overturned by court decision, what will happen to any successful appeal made under the successor provision discussed above? Businesses that make any such appeals should keep this in mind if such appeal is approved (and a refund is issued and SUI rate assignments, particularly for the current year, are revised).

## Reduction in UI benefit eligibility

Legislation enacted in 2011 reduced the maximum number of weeks a claimant may collect state UI benefits. Under H.B.163, the maximum total state UI benefits payable to a claimant during any benefit year cannot exceed the lesser of 20 times (down from 26 times) his or her weekly benefit amount or 33 1/3% of his or her wage credits. (*H.B.163, signed by the governor on April 13, 2011.*)

Under H.B.150, Missouri joins Florida, Georgia, Kansas and North Carolina in basing the duration of a claimant's UI benefits on a sliding scale that depends on the state unemployment rate.

Effective January 1, 2016, the Missouri maximum number of benefit weeks is as follows:

- ▶ 20 weeks if the Missouri average unemployment rate is 9% or higher
- ▶ 19 weeks if the Missouri average unemployment rate is between 8 1/2% and 9%
- ▶ 18 weeks if the Missouri average unemployment rate is 8% up to and including 8 1/2%
- ▶ 17 weeks if the Missouri average unemployment rate is between 7 1/2% and 8%
- ▶ 16 weeks if the Missouri average unemployment rate is 7% up to and including 7 1/2%
- ▶ 15 weeks if the Missouri average unemployment rate is between 6 1/2% and 7%
- ▶ 14 weeks if the Missouri average unemployment rate is 6% up to and including 6 1/2%
- ▶ 13 weeks if the Missouri average unemployment rate is below 6%

"Missouri average unemployment rate" means the average of the seasonally adjusted statewide unemployment rates as published by the U.S. Department of Labor, Bureau of Labor Statistics, for January 1 through March 31 and July 1 through September 30. The average of the seasonally adjusted statewide unemployment rates for January 1 through March 31 will be used to determine maximum UI benefits for July 1 through December 31. The average of the seasonally adjusted statewide unemployment rates for July 1 through September 30 will be used to determine maximum UI benefits for January 1 through June 30.

(For example, the Missouri seasonally adjusted unemployment rate for August 2015 was 5.6%. Under the above schedule, that figure would result in maximum unemployment benefits of 13 weeks.)

H.B.150 also adds termination and severance pay to the definition of wages for the purposes of UI benefit eligibility. The total wages derived from severance pay, if paid to a UI claimant in a lump sum, will be prorated on a weekly basis at the rate of pay received by the claimant at the time of termination for the purposes of determining unemployment benefit eligibility.

## Bill will change triggers that determine decreases in employers' UI tax rates

H.B.150 will adjust the solvency triggers that determine when decreases, termed "contribution rate adjustments (CRA)," are made to employers' UI tax rates.

Under current law, when on October 1 of the preceding year, the average balance of the UI trust fund:

Equals more than	But is equal to or less than	The percent of decrease is:
\$600,000,000	\$750,000,000	7%
\$750,000,000		12%

Under H.B.150, when on October 1 of the preceding year, the average balance of the UI trust fund:

Equals more than	But is equal to or less than	The percent of decrease is:
\$720,000,000	\$870,000,000	7%
\$870,000,000		12%

If an employer's calculated contribution rate is 6% or greater, the reduction may be no more than 10%.

Currently, and continuing for 2016, employers have a 30% CRA added to their tax rates because of the condition of the state's trust fund.

## State board must in the future consider alternative funding method to continued federal borrowing

H.B.150 will require the state Board of Unemployment Fund Financing to meet and consider the issuance of credit instruments (i.e., bonds) to repay a federal UI loan when a balance of the loan exceeds \$300 million. Also, the bill requires that Missouri employers continue to pay quarterly interest assessments when credit instruments are issued to repay a federal UI loan.

Missouri repaid its previous outstanding federal UI loan balance during the last week of May 2014 and the federal interest assessment that was in effect from calendar year 2011 to 2014 was not in effect for calendar year 2015.



## Nevada

### Missouri law prevents localities from passing ordinances raising the minimum wage or paid sick leave requirements

During this year's annual veto session, the Missouri state legislature overrode the governor's veto of H.B.722, which restricts political subdivisions from passing ordinances that provide for minimum wage increases to above the state minimum wage.

H.B.722 prohibits a political subdivision from establishing, mandating or otherwise requiring an employer to provide to an employee a minimum or living wage rate or employment benefits that exceed the requirements of federal or state laws, rules or regulations. ([H.B.722 summary](#).)

The term "employment benefits" is defined in the bill as anything of value that an employee may receive from an employer in addition to wages and salary. The term includes but is not limited to health, disability, retirement, profit-sharing, and death benefits; group accidental death and dismemberment benefits; paid or unpaid days off from work for holidays, sick leave, vacation, and personal necessity; and terms of employment, attendance, or leave policies. This would forestall any locality from enacting a paid sick leave ordinance, as has occurred in other states, such as New Jersey.

### Local wage increase implications for St. Louis and Kansas City

**St. Louis increase struck down by judge.** H.B.722 provides that it will not pre-empt any state law or local minimum wage requirements that were in effect on August 28, 2015. As a result, the ordinance to increase the minimum wage in St. Louis city, enacted on August 28, 2015, could possibly have stood if not for being challenged by business groups in court. On October 14, 2015, a judge struck down the St. Louis minimum wage increase, the day before it was to become effective.

**Kansas City increase is blocked.** A potential minimum wage increase in Kansas City is blocked under this new state law. The Kansas City minimum wage ordinance was postponed until voters could approve it in November. A circuit judge ordered the provision removed from the November 3, 2015, ballot.

### Overall increase in 2016 SUI taxes proposed

The Nevada Department of Employment, Training and Rehabilitation is proposing to decrease the average state unemployment insurance (SUI) tax rate for 2016 to 1.95% (down from 2.0%), while increasing bond contribution rates from an average of 0.56% in 2015 to an average of 0.62% in 2016.

Combined, the overall average tax rate for 2016 would increase to 2.62%, up from 2.61% for 2015, and the average cost per employee would increase to \$738.84 from \$725.58, primarily because of the increase in the taxable wage base for 2016 to \$28,200. (*Hearing notice and agenda, Nevada Department of Employment, Training and Rehabilitation.*)

The proposed change is expected to increase the state's UI trust fund balance from \$409 million to \$585 million.

Employer SUI tax rates are usually issued in mid- to late December.

### Quarterly bond assessment

The Department repaid its federal loan during the first week of November 2013 through the issuance of bonds. This allowed the net FUTA tax rate to return to 0.6% beginning with calendar year 2013. As a result, contributory employers are required to pay a quarterly bond assessment to cover the principal, interest and administrative payments on the bonds. Collection of bond contributions began with the first quarter 2014 and will continue to be collected quarterly from employers until the bonds are fully repaid in late 2017 or early 2018.

The bond assessment is computed on a four-tier system, varying based on the employer's SUI experience, as the quarterly SUI taxable wages multiplied by the employer's assigned bond factor rate.

Employers should be notified by the Department of their 2016 bond factor rates in late January 2016. The bond factor rates will be reviewed annually after SUI tax rates are computed and will be based on the employers' previous SUI experience. Employers with low SUI tax rates will have lower bond factor rates than employers with higher SUI rates.

For more information, read the Department's announcement [here](#).

# New Hampshire

## SUI tax rates are reduced for fourth quarter 2015

The New Hampshire Department of Employment Security announced that a “fund balance reduction” of 1.0% is in effect for the fourth quarter 2015. As a result, beginning October 1, 2015 (reports and payments due January 31, 2016) most positive-balanced and new employers will see a 0.5% reduction from their third-quarter 2015 state unemployment insurance (SUI) tax rates. (*New Hampshire Department of Employment Security website, September 25, 2015.*)

The fund balance reduction will decrease the tax rate at most to the minimum rate of 0.1%; therefore, employers originally assigned close to or at the minimum tax rate will not see the full 1.0% reduction.

Negative-balanced employers will also see a 0.5% reduction for the fourth quarter 2015 in the inverse rate surcharge added to their SUI tax rates.

Employers registered with the Department's *Webtax* electronic reporting system can access the rate that applies effective October 1, 2015.

### New employer rate

The new employer rate is 1.7% for fourth quarter 2015, including the additional 0.2% administrative contribution surcharge, down from 2.2% for third quarter 2015.

### Taxable wage base

The taxable wage base continues at \$14,000 for the remainder of 2015 and will continue for calendar year 2016 unless legislatively changed. (*New Hampshire Department of Employment Security website; RSA §282-A69.*)

## State law provides for reductions when the UI trust fund is strong

A 0.5% reduction in the assigned SUI tax rate is allowed if the state UI trust fund equals or exceeds \$250 million throughout the preceding quarter (as it did for the first quarter 2015); a 1.0% reduction is allowed if the trust fund equals or exceeds \$275 million (as it did for the fourth quarter 2014); and a 1.5% reduction is allowed if the trust fund equals or exceeds \$300 million.

## Fund balance reductions started up again in fourth quarter 2014

As we previously reported, a fund balance reduction of 0.5% went into effect for the fourth quarter 2014, increased to 1.0% for first quarter 2015, but decreased to 0.5% for the second and third quarters 2015. As stated above, the fund balance reduction increased to 1.0% for the fourth quarter 2015. Prior to fourth quarter 2014, a fund balance reduction had not been in effect since the fourth quarter 2008.

## Emergency and inverse rate surcharge

State UI law gives the commissioner of Employment Security the discretion to add or remove a surcharge based on the balance of the trust fund.

Because of the economic downturn, a 0.5% emergency surcharge was added to all employers' tax rates in 2009 to help increase the UI trust fund balance. A second 0.5% surcharge was added in 2010 as the downturn continued to affect the state. New Hampshire borrowed briefly from the federal government in March 2010 when the trust fund was temporarily insolvent but repaid the loan before the end of the same year. The first 0.5% surcharge was removed beginning October 1, 2012, and the second surcharge was removed as of the fourth quarter 2013.

A 1.5% inverse rate surcharge had been added to negative-balanced employers' tax rates since first quarter 2010, decreasing to 1.0% for the fourth quarter 2014 and to 0.5% for first quarter 2015, and increasing back to 1.0% for the second and third quarters 2015. The surcharge decreased to 0.5% for the fourth quarter 2015.

For more information on SUI taxes in New Hampshire, see the Department's [website](#).

## New Jersey

### New Jersey 2015 Form W-2 reporting guidelines now available

To help New Jersey employers properly report calendar year 2015 withholdings of employee contributions on the 2015 Form W-2, the New Jersey Department of Labor and Workforce Development and the New Jersey Division of Taxation have established official Form W-2 reporting guidelines for 2015.

Samples of the preferred and alternative methods for reporting worker contributions for 2015 for unemployment insurance, the Workforce Development Program/Supplemental Workforce Fund, family leave insurance and disability insurance are available by downloading the information from the division's [website](#).

For more information about New Jersey Forms W-2 and NJ-W-3 reporting requirements, go to the Division of Taxation [website](#) or call the Division's Customer Service Center at +1 609 292 6400.



## New York

### Labor Commissioner orders \$15 minimum wage for fast food workers; governor pushes for state- and industry-wide implementation

On September 10, 2015, New York State Labor Commissioner Mario Musolino signed an [order](#) approving the [recommendations](#) of the Governor-appointed Fast Food Wage Board to increase the state and New York City minimum wage for fast food workers.

The current state minimum wage is \$8.75 and is scheduled to increase to \$9 on December 31, 2015.

Under the order, the minimum wage for fast food workers increases during a phase-in period, with a quicker turnaround for New York City than in the rest of the state. The board recommended that the new \$15 minimum wage rate be phased in to take effect by December 31, 2018, for New York City, and by July 1, 2021, for the rest of the state, on the following schedules:

- ▶ **For New York City:** to \$10.50 on December 31, 2015; \$12.00 on December 31, 2016; \$13.50 on December 31, 2017; and \$15.00 on December 31, 2018.
- ▶ **For the rest of the state:** to \$9.75 on December 31, 2015; \$10.75 on December 31, 2016; \$11.75 on December 31, 2017; \$12.75 on December 31, 2018; \$13.75 on December 31, 2019; \$14.50 on December 31, 2020; and \$15.00 on July 1, 2021.

The following definitions apply:

- ▶ “Fast food employee” means any person employed or permitted to work at or for a fast food establishment by any employer where such person’s job duties include at least one of the following: customer service, cooking, food or drink preparation, delivery, security, stocking supplies or equipment, cleaning, or routine maintenance.
- ▶ “Fast food establishment” means any establishment in the state serving food or drink items: (a) where patrons order or select items and pay before eating and such items may be consumed on the premises, taken out, or delivered to the customer’s location; (b) which offers limited service; (c) which is part of a chain; and (d) which is one of 30 or more establishments nationally, including: (i) an integrated enterprise that owns or operates 30 or more such establishments in the aggregate nationally; or (ii) an establishment operated pursuant to a franchise where the franchisor and the franchisee(s) of such franchisor owns or operates 30 or more such establishments in the aggregate nationally.

## North Carolina

### New York governor announces push for state- and industry-wide minimum wage increase to \$15

On the same day that Labor Commissioner Musolino signed the order approving the recommendations for a \$15-per-hour minimum wage for fast food workers, New York Governor Andrew Cuomo, joined by Vice President Joseph Biden, [announced](#) a push for New York state to adopt a \$15-per-hour minimum wage for all workers in the state.

According to the governor's news release, the proposed all-industry minimum wage increase would be phased in to mirror the fast food wage order, taking full effect by December 31, 2018, in New York City and July 1, 2021, for the rest of the state.

#### Ernst & Young LLP insights

According to the Department's director of communications, the order signed by the labor commissioner will have the effect of raising the minimum wage for fast food workers without passing legislation, circumventing the state legislature. (*Email response to inquiry.*)

The New York State Senate Labor Committee held a [hearing](#) on September 10, 2015, questioning the process behind the fast food minimum wage increase.

In February 2015, the labor commissioner signed an [order](#) increasing the minimum wage for tipped employees to \$7.50 per hour effective December 31, 2015. This increase was based on recommendations made by the 2014 Hospitality Wage Board.

The New York City Council earlier this year approved a [resolution](#) asking the New York State Legislature to pass, and the governor to sign, legislation granting the city the authority to set its own minimum wage. (*Res. 0610-2015, approved by the council on April 28, 2015.*)

For more on the Fast Food Wage Board, go [here](#).

For the board's final report, including a list of potentially affected New York businesses, go [here](#).

### Law accelerates W-2 filing deadline; conforming changes apply to pensions and independent contractors

Under the recently enacted *North Carolina Competes Act* and effective for tax year 2015 (filed in 2016), Forms W-2 are required to be filed electronically no later than January 31.

Previously, the filing deadline followed the federal rule of February 28 for paper returns and March 31 for electronic files.

Also effective for tax year 2015, the law stipulates that pursuant to pension and independent contractor payments, the requirements for filing returns and remitting income tax withholding for wage payments under [G.S. 105-163.6](#) (as modified under H.B.117) and annual statements to payees under [G.S. 105-163.7](#) (as modified under H.B.117)) now apply. Of particular note, these returns are also required to be filed electronically with the North Carolina Department of Revenue by the accelerated due date of January 31. (*L. 2015, H.B.117, enacted September 30, 2015.*)

#### Other filing and reporting changes

H.B.117 makes a number of other information reporting changes:

- ▶ With 90 days' notice, the Department may require that additional information be reported on Form W-2.
- ▶ For good cause, the Department may waive the requirement to file information returns electronically.

Effective September 30, 2015, the Department is authorized to reduce or waive interest on taxes imposed prior to or during a period for which a taxpayer has declared bankruptcy under Title 11, Chapter 7 or Chapter 13 of the United States Code.

### Employers increasingly relied on to help curtail tax refund fraud

In response to an escalation in tax refund fraud involving identity theft, North Carolina joins several other states (i.e., Alabama, Connecticut, Indiana, Utah, Virginia) that recently passed legislation to accelerate the deadline for filing state Forms W-2 and annual reconciliation returns to January 31.

The Obama Administration has also proposed in its fiscal year [2016 budget](#) that the due date for Forms W-2 and 1099 be pushed up to January 31.

Utah's 2015 legislation more effectively deals with tax refund fraud not only by accelerating the Form W-2 filing due date but also by prohibiting income tax refunds any sooner than March 1 unless an employer's Form W-2 is on file and the taxpayer has filed the income tax return. ([S.B.250](#))



## North Carolina law modifies how employers are charged for UI benefits; other rate computation and benefit changes apply

Under recently enacted legislation (S.B.15), the North Carolina Division of Employment Security will begin charging unemployment insurance (UI) benefits to employers' accounts on a quarterly, rather than annual, basis, beginning with UI claims effective on or after January 3, 2016.

Under current law, benefits are charged annually on August 1 and a benefit may not be charged until the claim's benefit year has expired.

According to the governor's news release, North Carolina is the only state that charges on an annual basis. Most states charge benefits quarterly. (*News release, Governor's office.*)

As we reported in the October 2015 issue of *Payroll Perspectives*, S.B.15 is also expected to result in the suspension of the 20% surtax added to employer's state unemployment insurance (SUI) tax rates for calendar year 2016, resulting in an estimated \$240 million savings to businesses.

The transition from an annual benefit charging system to a quarterly one is expected to affect less than 20% of North Carolina employers. For example, reimbursing employers would see quarterly, rather than annual, billing.

### Other employer UI changes

- ▶ **Rate computation date.** The bill makes the technical change of moving the rate computation date from July 31 to June 30, the end of the second quarter.
- ▶ **Employer fax no longer required for notice of UI claim filing.** The Division is no longer required to notify employers via fax when a UI claim is filed. Instead, employers are encouraged to sign up for the State Information Data Exchange (SIDES) program, which notifies employers electronically of separation information and gives employers the ability to respond electronically to that information.

### Claimant benefit changes

Other changes in the bill will affect UI claimants (i.e., modifying the work search requirement effective January 1, 2016, by increasing the number of job contacts a claimant must make each week from two to five and by eliminating the requirement that the claimant must make those contacts on two different days). The bill will also provide expanded methods to enhance UI program integrity and adjust the number of weeks an individual is allowed to receive UI benefits.

To prevent identity fraud, claimants must present valid photo identification to collect UI benefits. The bill also allows investigators to cross-reference various state databases, such as DMV records, to detect identity theft. The new law will also allow investigators to check criminal justice databases to ensure inmates aren't applying for unemployment benefits. According to the governor's news release, in 2012, three Swain County Jail inmates were collecting UI benefits while incarcerated.

### Collection of delinquent employer taxes

The new law will also allow for the attachment and garnishment of a delinquent employer's credit card receipts to satisfy a judgment for unpaid UI taxes.

#### Ernst & Young LLP insights

Current law causes significant delays between the time UI benefits are paid and when they are charged. For example, UI benefits paid on a claim opened on May 1, 2015, would not be charged to the employer's account until August 2016. Had the law not changed, the benefits charged on August 1, 2016, would not affect the employer until the 2017 tax rate computation.

As a result of current law, the computation of the 2016 tax rates will be the first year that employers will realize the impact of the reduced maximum weekly benefit amount and the maximum duration of UI benefits in their benefit charges caused by the passage of H.B.4 in February 2013.



# Oklahoma

## 2016 SUI tax rates issued

The Oklahoma Employment Security Commission issued the 2016 state unemployment insurance (SUI) tax rate notices on September 25, 2015. Employers that disagreed with the account-specific information used to compute their tax rates had until October 25, 2015, to send a protest to the Commission.

## 2016 SUI rate schedule to remain the same as in 2015

As we reported in the October 2015 issue of *Payroll Perspectives*, the 2016 SUI tax rate schedule remains the same as what is in effect for calendar year 2015, with tax rates ranging from 0.1% to 5.5%. The 2016 SUI taxable wage base is 17,500, up from \$17,000 for 2015.

Because of the continued strength of the UI trust fund, SUI tax rates again will not be based on a conditional factor.

## New employer rate falls because of legislation enacted earlier this year

As we reported in the July 2015 issue of *Payroll Perspectives*, under H.B.1001 and effective January 1, 2016, the SUI tax rate assigned to newly liable employers changes to a set rate of 1.5% from the greater of 1.0% or the average contribution rate paid by all employers.

For more information on SUI taxes in Oklahoma, contact the Commission at +1 405 557 7222 or see the Commission's website [here](#).



# Oregon

## Workers' compensation insurance costs to decrease for 2016 for third year in row

The Oregon Department of Consumer and Business Services has released the 2016 workers' compensation rates. Oregon employers will again see an average 5.3% decrease in the workers' compensation "pure" premium rate, while other workers' compensation rates will remain the same as in 2015. This is the third year in a row, and eighth year in the past decade, that Oregon businesses are seeing an average decrease. (*News release, Oregon Department of Consumer and Business Services, September 15, 2015.*)

### Oregon workers' compensation insurance taxes

In Oregon, three rates need to be considered in determining workers' compensation insurance costs. The "pure premium rate" is the base premium reflecting the actual cost of workplace injury and illness claims, before insurer administrative expenses and profit are added. The "premium assessment" is used to fund the state workers' compensation-related programs and workplace safety and health programs. The "benefit fund assessment" pays for programs that provide direct benefits to injured workers and their beneficiaries.

The following information was released on the workers' compensation rates in effect on and after January 1, 2016:

- ▶ **Pure premium rate.** The Department has determined that the average pure premium rate that Oregon employers will pay for workers' compensation insurance in 2016 will decrease by an average of 5.3% from 2015. The rate decrease is effective January 1, 2016, but employers will see the changes when they renew their policies in 2016. The pure premium rate is the base premium reflecting the actual cost of workplace injury-and-illness claims before insurer administrative expenses and profit are added. The decreased rate represents an average across all types of businesses. Rates for specific businesses and industry groups may be higher or lower, depending on group and individual claim records. Employers pay their premiums directly to their insurers. Premiums do not fund state programs or services.
- ▶ **Premium assessment.** The 2016 workers' compensation premium assessment rate for Oregon employers will remain at 6.2%. (Self-insured employers will continue to pay at 6.4% for 2016, and self-insured employer groups will continue to pay at 7.2%.) Workers' compensation insurers, self-insured employers and self-insured employer groups pay this assessment to the state. Insurers can pass on the cost of the assessment to the employers they cover, but they must identify that cost as a separate line item on the billing statements.
- ▶ **Benefit fund assessment.** The 2016 workers' benefit fund assessment rate will remain at 3.3 cents per hour. That is the combined employer and worker rate. Employers pay at least half of this assessment and deduct no more than half of it from workers' wages. Employers then submit the total to the state through Oregon's Combined Payroll-Tax Reporting System.

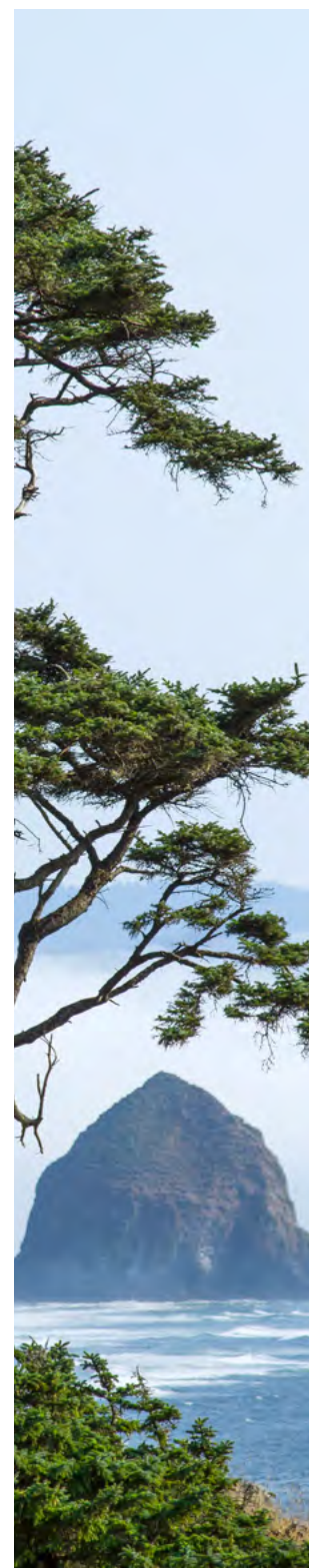
### Oregon workers' compensation insurance reporting

Each quarter, employers use Forms OQ and OTC to report and pay the assessment through Oregon's Combined Payroll Tax Reporting System.

For the news release, go [here](#).

For more information on the 2016 workers' compensation costs, go [here](#).

To speak to an Oregon Department of Consumer and Business Services representative, call +1 503 378 2372 or +1 503 947 7815, or you can email: [workcomp.questions@oregon.gov](mailto:workcomp.questions@oregon.gov).



## Washington

### Workers' compensation rates for employees and employers could increase in 2016

The Washington [State Department of Labor](#) and Industries proposed an average increase in workers' compensation insurance premiums of 2.0% for 2016 (up from a 1.8% increase for 2015), which is under the current rate of wage inflation. According to the Department's news release, the proposed rate reflects an increase of about 1 cent per hour worked.

Washington is the only state where workers contribute a substantial portion of the premium charge. Under this rate proposal, workers would pay on average of about 25% of the premium, similar to 2015.

Individual employers may see their rates go up or down, depending on their recent claims history and changes in the frequency and cost of claims in their industry.

The Department has published a rate table [online](#). Businesses are classified by risk classes, based on hazards in the industry. According to information posted on the Department's website, out of the state's 324 risk classes, 90 would have lower or similar base rates in 2016.

More information on the proposal is available at [www.Lni.wa.gov/Rates](http://www.Lni.wa.gov/Rates). Final rates will be adopted by early December and go into effect January 1, 2016.

### Washington unemployment agency issued duplicate billing statements in error

The Washington Employment Security Department [announced](#) that it may have issued duplicate billing statements to employers in September 2015. The computer system that runs the billing statements had a system failure that caused the Department to believe the statements had not been run, so a second batch was run. The Department has since resolved the issue.

Employers that received duplicate billing statements in error should disregard the second statement. For questions, call the Department at +1 888 836 1900.

## Wisconsin

### 2016 SUI rates down; wage base unchanged

The 2016 state unemployment insurance (SUI) tax rates will range from 0.05% to 12% for small employers with annual taxable payrolls of less than \$500,000, and 0.10% to 12% for large employers with annual taxable payrolls of \$500,000 or more. (*Email response to inquiry, October 9, 2015; DWD [website](#).*)

As we previously reported, because the state's UI trust fund balance exceeded \$300 million on June 30, 2015, the 2016 SUI rate schedule moves from Schedule A to Schedule B, saving employers an estimated \$97 million next year.

New small employers will pay at 3.25% for 2016 (down from 3.6%) and new large employers will pay at 3.4% (down from 4.1%), except for new construction employers, which will continue to pay at 6.6%.

### 2016 rates could be lowered if voluntary contributions made by November 30

Merit-rated employers may make a voluntary contribution by November 30, 2015, to lower their tax rates by one rate bracket. Voluntary contribution payments may be made by check or online via the Wisconsin Department of Workforce Development's EFT debit payment system. Voluntary contributions are nonrefundable, so careful calculation is recommended. See the specific instructions included with your 2016 tax rate notice or the Department's website for a voluntary contribution calculator.

### Taxable wage base

The taxable wage base for 2016 will remain \$14,000.

### 2016 mailing of rate notices

The Department mailed the 2016 state unemployment insurance (SUI) tax rate notices to employers during the week of October 5, 2016.

For more information on Wisconsin unemployment taxes, go [here](#).

## Certain negative-balanced employers paying higher tax rates for 2015 and 2016

The addition of three higher tax brackets for negative-balanced employers, increasing the maximum tax rate to 12.0%, was the result of the 2013-15 budget act that passed in 2013. (*Wisconsin Department of Workforce Development website, email response to inquiry, October 9, 2014; AB 40, 2013 Wisconsin Act 20, signed by the governor on June 30, 2013.*)

Under Act 20, effective with tax rates assigned for 2015 and after, the four tax schedules provided for under Wis. Stats. §108.18(4) are expanded by three brackets so that negative-balanced employers with reserve percentages lower than negative 6.0% have higher contribution rates than in the past. As a result, the highest contribution rate under Rate Schedule A, including the solvency rate portion, increased from 9.8% to 12.0%.

## Further state rate reductions possible in the future

As we reported in the June 2015 issue of *Payroll Perspectives*, employers may see a further reduction in SUI taxes in future years, as the UI trust fund balance is projected to be \$887 million in 2017, close to the \$900 million needed to change to Rate Schedule C. ([April 2015 UI Financial Outlook Report](#).)

## Status of Wisconsin's UI trust fund

Wisconsin repaid its federal unemployment insurance (UI) loan during the last week of May 2014. As a result, Wisconsin employers saw their net FUTA tax rate for 2014 return to 0.6%, rather than increase to at least 1.8%. The net FUTA rate for 2015 will continue to be 0.6%.

Wisconsin started borrowing in February 2009. Employers were subject to a FUTA credit reduction of 0.3% for calendar year 2011, 0.6% for calendar year 2012 and 0.9% for calendar year 2013.

The state's SUI trust fund ended calendar year 2014 with a balance of \$214 million, the first year since 2008 that the trust fund finished a year in the black. As a result, the Department can meet its UI benefit costs without having to borrow from the federal government and expects to have sufficient funds to pay benefits for the immediate future.





# Federal employment tax due dates for October 2015



Due date	Deposit or filing requirement
November 2	File the third-quarter 2015 Form 941; an extended due date of November 10 applies if all taxes were timely paid and in full. 2015 Form 941 liabilities of less than \$2,500 must be paid with the third-quarter 2015 Form 941. Deposit federal unemployment insurance (FUTA) tax through September 2015 of more than \$500.
November 4	Semiweekly deposit due date for liabilities incurred October 28-30
November 6	Semiweekly deposit due date for liabilities incurred October 31-November 3
November 10	Form 4070 is due from employees who received \$20 or more in tips in October.
November 12	Semiweekly deposit due date for liabilities incurred November 4-6
November 16	Monthly deposit due date for liabilities incurred in October. Semiweekly deposit due date for liabilities incurred November 7-10
November 18	Semiweekly deposit due date for liabilities incurred November 11-13
November 20	Semiweekly deposit due date for liabilities incurred November 14-17
November 25	Semiweekly deposit due date for liabilities incurred November 18-20
November 30	Semiweekly deposit due date for liabilities incurred November 21-24
December 2	Semiweekly deposit due date for liabilities incurred November 25-27
December 4	Semiweekly deposit due date for liabilities incurred November 28-Dec. 1

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