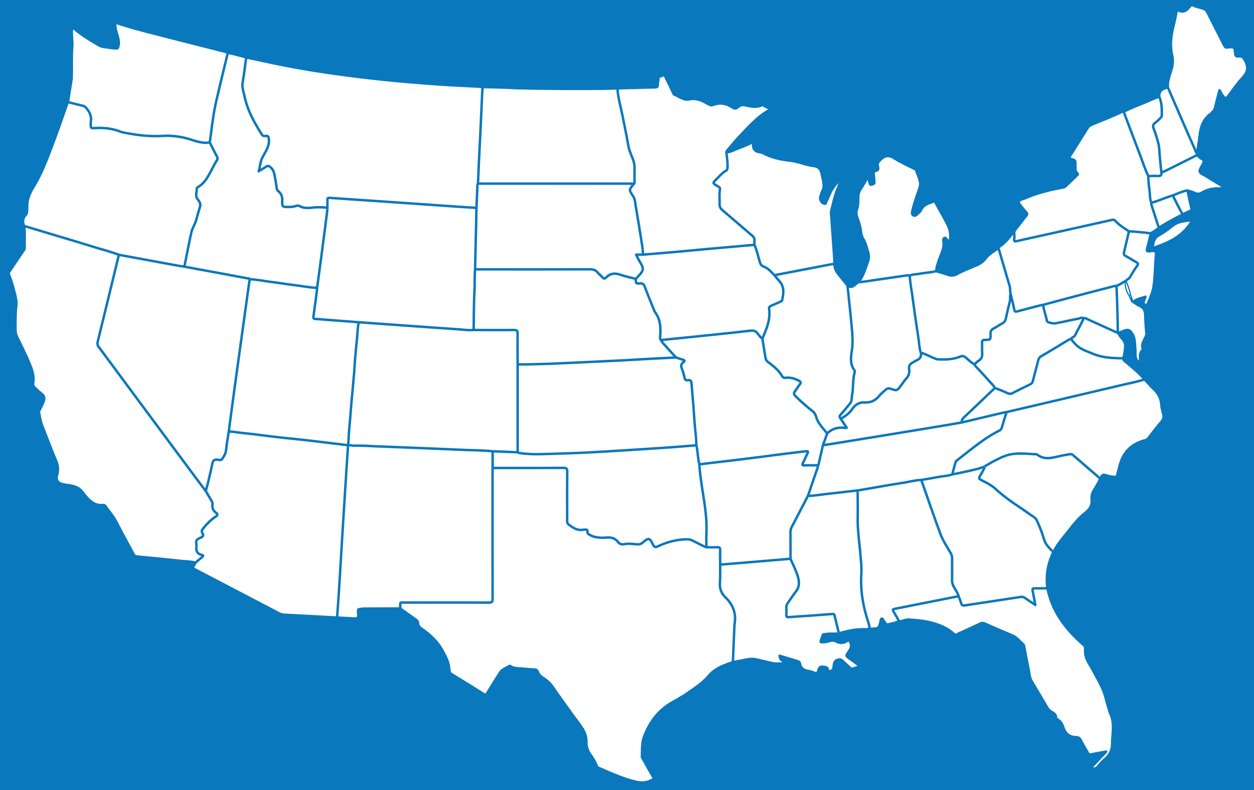

Your Guide for Taking the Worry Out of **Multistate Payroll Tax Management**

A Whitepaper

PTM®
PAYROLL TAX MANAGEMENT

Your Guide for Taking the Worry Out of Multistate Payroll Tax Management

Table of Contents

PTM
PAYROLL TAX MANAGEMENT

I. Executive Summary

It's a great feeling when hard work and a solid plan create new opportunities to take your business to the next level. But when a workforce begins to cross state lines, opportunity can start to feel a little treacherous.

Managing payroll taxes for a multistate workforce can seem overwhelming. A patchwork of state and local laws, regulations and deadlines has to be navigated under the threat of penalties that in many cases are only getting stricter.

It's hard enough keeping up with record keeping and compliance in one state. Do you want to take on the risks of trying to manage compliance with a collection of them?

But you can't let regulatory hurdles keep you locked into familiar territory at the expense of your ability to grow and compete. As technology drives the growth of the remote workforce, the multistate staff is becoming a reality for all kinds of businesses.

For a growing number of employees, work is wherever their laptop and internet connection are. That kind of flexibility can accommodate a company's business needs and make it more competitive in recruitment.

And increasingly, there are third-party and software options to help you find your way through.

This whitepaper outlines key challenges for businesses dealing with or planning for a multistate workforce, and identifies some of the best practices for resolving them in the following sections:

- The Challenge: A Wide Range of Jurisdictions with Different Reporting Requirements
- The LeBron James Test: Where Do You Pay Taxes for Someone Who Worked in 21 States?
- What You Need to Know about Reciprocal Agreements
- A Wide Range of Wage & Hour Rules
- Cash-Strapped Governments Trying to Do More with Less
- Common Missteps & Best Practices
- How to Keep up with Multistate Payroll Tax Management Without Losing Sleep

II. The Challenge: A Wide Range of Jurisdictions with Different Reporting Requirements

When your workforce and your company are all in the same jurisdiction, payroll tax compliance can be time consuming enough, but when you begin to cross state lines, the differing regulations can make your head spin.

Educating yourself is the first step. Before your employees start working in other states, research the laws. Each state has different deadlines, forms and reporting requirements and it can take some digging to find the information you need.

For example, companies pay the Federal Unemployment Tax (FUTA) to the federal government but states also have a state unemployment tax (SUI).

For the SUI tax, if an employee lives in one state but works in another, the work state will receive the taxes. In a temporary transfer to a new state, SUI is paid to the permanent work state. If an employee is permanently transferred to a new state, the SUI money goes to the new work state. For work done in multiple states, the SUI is paid to the state where the work is based, the home office or the mailing location. Employees who are fully remote and work in different states pay SUI taxes to their home state instead of the state in which the business is located.

Complications ensue for employees who work in several states such as:

- **Truck Drivers**
- **Health-care Workers**
- **Entertainers**
- **Professional Athletes**

PTM
PAYROLL TAX MANAGEMENT

III. The LeBron James Test: Where Do You Pay Taxes for Someone Who Worked in 21 States?

In 2016 basketball player LeBron James was paid $80 million in salary and endorsements earned in at least 21 states, according to K. Sean Packard, a CPA specializing in tax planning for pro athletes, who authored an article on multistate taxes in Forbes Magazine.

Athletes have to file taxes in their home state and every state and some cities where they play. Calculations vary by state. The type of sport an athlete plays can also determine the amount of taxes owed. For example, Pennsylvania taxes baseball, basketball and hockey players based on the ratio of games in the state over the number of games played including the pre and post season games; Football players in Pennsylvania are taxed based on the days worked in the state over the total days worked, Packard wrote.

According to Packard, most states use the days worked method but Arizona excludes days athletes work in the pre-season. Athletes can save money by choosing to reside in a low-income tax or no-income-tax state but many states consider a person to be a statutory resident if they live in the state for 183 days in that year. In New York, if the plane leaves at 12:01 a.m., the entire day is counted as presence in the state.

Those who work for two athletic teams in one year due to being traded midseason may have two separate domiciles and would have to file partial tax returns in two states.

PTM
PAYROLL TAX MANAGEMENT

IV. What You Need to Know about Reciprocal Agreements

Reciprocal agreements can ensure that employees who live and work in different states are not subjected to double tax withholding. Companies should keep track of reciprocity agreements between states to know what taxes are due and to be sure that taxes are not overpaid.

Here are the states that have reciprocal agreements:

Specific policies and practices may vary.

Arizona
CA • IN • OR • VA • Washington DC

Washington DC
VA • MD

Iowa
IL

Kentucky
IL • IN • MI • OH • WV • WI

Maryland
Daily commuting from DC • PA • VA • WV

Michigan
IL • IN • KY • MN • OH • WI

Pennsylvania
NJ

These states do not have reciprocal agreements:

Alabama
California
Colorado
Connecticut
Delaware
Georgia
Hawaii
Idaho
Kansas
Louisiana
Maine
Massachusetts
Mississippi
Nebraska
New Mexico
New York
North Carolina
Oklahoma
Oregon
Rhode Island
South Carolina
Utah
Vermont

V. A Wide Range of Wage & Hour Rules

While your own situation is likely less complicated than LeBron James' payroll taxes, it can be cumbersome to keep up with the wide range of tax rates and wage and hour rules for a multistate workforce. The federal minimim wage is $7.25 but employees are paid the higher of the federal rate or the rate in the state where they work. In California, minimum wage is $11 an hour, but is slated to increase each year through 2023. In Colorado it is $10.20; New York is $10.40; and New Jersey $8.60, according to the NCSL Foundation for State Legislatures. Minimum rates from the NCSL Foundation can be found here.

Some cities have established their own wage and hour rules as well. In Los Angeles, a "living wage ordinance" establishes minimum wage and benefits for employees of companies that have city contracts.

Additional rules are tied to types of employment, like laws that establish minimum wage rates for tipped employees. Federal law allows tipped employees to be paid $2.13 per hour in direct wages if tips bring the hourly rate up to the federal minimum, but in some states the minimum rate for tipped employees is higher.

PTM
PAYROLL TAX MANAGEMENT

VI. Cash-Strapped Governments Trying to Do More with Less

In the past, small businesses with compliance concerns could call the government agency offices with their questions. But today, you'd likely end up on hold, listening to an automated menu running through your options while you calculate the time spent not running your business.

With governments doing more with less, there is also a greater chance of error. Errors can be made in calculating how much you owe. You should not assume that notices of amounts due are correct. It's important to check for agency mistakes.

Is there an employee who used to cross state lines for work but no longer does so? Let the states involved know you no longer have a business presence there in order to avoid inaccurate charges.

At the same time don't assume doing less with more means there will be a shortage of government auditors scrutinizing your tax payments. In lean times, there will be no shortage of auditors working to maximize government collections.

"There has been an increased scrutiny of non-resident taxation by the states," Mayo Clinic spokesman Kelley Luckstein told The Rochester MN Post Bulletin of Clinic employees who were required to file tax forms for every state in which they traveled for work.

In 2016, the federal government increased tax penalties for incorrect and late filings.

VII. Common Missteps & Best Practices

Here are a few common missteps and some best practices for avoiding them:

- ***Tracking payroll taxes manually can result in costly errors.*** Use payroll and payroll tax software to automate what is most likely your largest business expense.
- ***Don't keep tax funds in the general account.*** Estimate your payroll tax liability and keep tax funds separate to be sure they are available when taxes are due.
- ***Reconcile payroll accounts daily so that problems can be identified immediately.***
- ***Keep up with regulatory changes.*** Failure to keep up with new regulations can result in costly penalties. You need to monitor states where your employees work as well as keep up to date in training on payroll issues and new laws. Establish a system to keep up with new regulations or changes to deadlines.
- ***Bring on professionals with multistate tax expertise.*** Whether you use a third-party tax service or do it in-house, be sure that you've got the skills you need to keep up with your multistate tax obligations. If you hire someone in-house, hire someone with multistate experience and provide additional training to keep your employee up to date. Offer incentives for workers who earn Certified Payroll Professional certificates and have employees repeat referesher courses every year. Bigger companies often provide industry-leading training so you can benefit from hiring from such Big-Box providers because your employee will already have extensive training.
- ***Consider using fully-automated tax software and third party expertise.*** An experienced third-party provider like Payroll Tax Management can save you time and worry, allowing you to focus on your business.

VIII. How to Keep up with Multistate Payroll Tax Management Without Losing Sleep

Multistate payroll issues can be challenging, but they shouldn't keep you up at night or intimidate you into walking away from opportunities to grow your business across state lines. A careful strategy for keeping up with deadlines and regulations in a variety of jurisdictions should take advantage of tax software that automates compliance for both regulatory and reconciliation accuracy.

FOR MORE INFORMATION ON COST-EFFECTIVE STRATEGIES FOR MANAGING YOUR MULTISTATE PAYROLL TAX CHALLENGES

VISIT US	EMAIL US TO SCHEDULE A DEMO	CALL US
payrolltaxmgmt.com	**marketing@payrolltaxmgmt.com**	**855.591.9863**

IX. About Payroll Tax Management

Payroll Tax Management offers both software and services for tax processing to payroll providers and corporate clients. PTM ensures payroll tax compliance for federal, all states and locals, and U.S. territories. The FlexTax® suite of payroll tax software and service provides clients with the ability to retain their tax float and control over their payroll tax processing. PayTax® Plus is a comprehensive service where payroll providers send in their payroll files and PTM does the rest. PTM is based in Santa Ana, CA, and is a subsidiary of FBG Holdings, Inc. More: www.payrolltaxmgmt.com.

PTM®
PAYROLL TAX MANAGEMENT