EDD Employment Development Department
State of California

e-Services Business

A Model e-file System for Payroll Tax Reporting

FTA Technology Conference 2008

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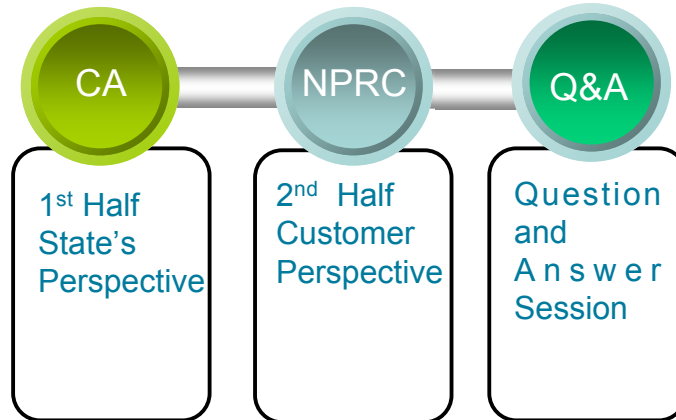
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e-Services Business

Class Objective

When you walk away from this class, you will:

- Know what FSET is.
- Have the basic knowledge on how to implement FSET by either developing your own application or by using a vendor.
- Have the tools you need to implement the program.
- Obtain a customer's perspective.

Session Structure

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   CA  ───  NPRC  ───  Q&A
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| 1st Half State's Perspective | 2nd Half Customer Perspective | Question and A n s w e r Session |

Overview Agenda (1st Half)

- What is Federal/State Employment Taxes (FSET)?
- Implementation Models
  - Develop your own
  - Use a vendor
- Benefits
- Registration
- Sample paper forms, magnetic media and eXtensible Markup Language (XML)
- Demo
- Q&A

Why are we doing this?

Old Technology Phase-Out and Security:

- Electronic Data Interchange (EDI)
- Magnetic Media:
  - Reel tapes
  - Cartridges
  - Diskettes
  - Compact Disk Read Only Memory (CD-ROM)
- Security

What is FSET?

- FSET was developed by several states, the IRS and some software vendors.
- Standardized Record Layouts
  - eXtensible Markup Language (XML)
- Standardized Submission
  - Web Services (sent as a file attachment over the Internet)
  - Why not FTP?

FSET for California EDD
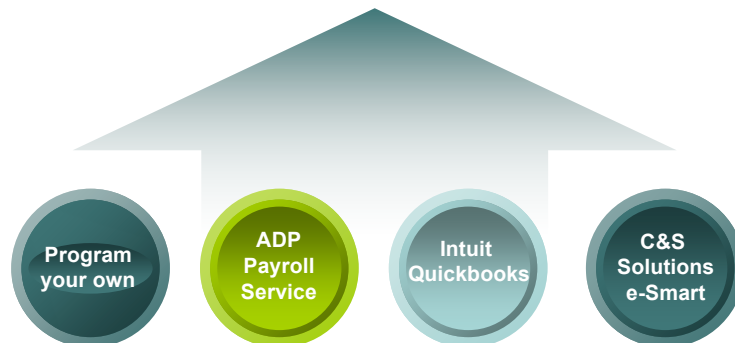
e-File your Forms:

- Quarterly Wage and Withholding Report, DE 6
- Annual Reconciliation Report, DE 7
- Report of New Employee(s), DE 34
- Report of Independent Contractor(s), DE 542

Implementation Choices

Partnerships

- Program your own
- ADP Payroll Service
- Intuit Quickbooks
- C&S Solutions e-Smart

Implementation Choices

- Convert record structure to XML and program the transmission piece

- Convert record structure to XML and use our Test Client

- Use a vendor for both data conversion and transmission

Benefits

- Security

- Acknowledgements

- Accuracy

- Immediate posting of data

- Reduces manual processing of data

- Production system is available 24x7

FSET Resources for Customers

- Informational web pages
- Frequently Asked Questions (FAQs)
- FSET Implementation Guide, DE 545
- Web Services Definition Language (WSDL)
- Website Link Agreement for software vendors, Form DE 548
- Enrollment form, DE 547
- Test Client Guide, DE 546
- Schemas
- Toll free customer service number

FSET Registration

- How to login to e-Services the first time
  - Log on from EDD's website at www.edd.ca.gov
  - Create your own User ID and Password
  - Password hint
- Receive online confirmation
- Enrollment form, DE 547 (best practices two IDs)
- Successful certification testing (forms and gateway) before production ID

Sample Forms & Demo

- Paper DE 34
- Magnetic Media
- Schemas
- XML (sample file and acknowledgements)
- Test client

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What's New with FSET Nationwide Standards?

Data Exchange:

- Electronic Funds Transfer (EFT) mandatory filers
- Employer rates
- Employer Account Numbers – Applied for account validation

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Question and Answers

E-File Systems for Payroll Tax Reporting

National Payroll Reporting Consortium (NPRC)

Automatic Data Processing, Inc	Paychex, Inc
Ceridian Corporation	PayCycle, Inc
CompuPay, Inc	Payroll People, Inc
Fidelity Employer Services Co, LLC Horizon Payroll Services, Inc	PrimePay, Inc
	Sage Software, Inc
Intuit, Inc	SurePayroll, Inc

Pete Isberg — NPRC
Jenine Hallings – Paychex/NPRC

August 12, 2007

National Payroll Reporting Consortium (NPRC)

- NPRC is a non-profit trade association whose members provide payroll tax reporting and payment services to over 1.3 million employers nationwide – *more than one-third of the private sector workforce*.

    - NPRC actively supports appropriate electronic filing and tax payment programs.

    - For over 30 years, NPRC members have supported electronic tax administration in every state

Background: Why We're Here

- State Revenue Departments are in a period of sweeping changes in electronic filing systems

    - Revenue Agencies have often struggled on their own with issues/elements common to all:

        - Edit standards for payroll reporting

        - Authorizations

        - Programs to improve data quality

    - NPRC collaborates with state developers of e-file systems for payroll taxes

NPRC Shares Your Goals for Electronic Filing:

- On-time, accurate, e-filed tax returns and payments
  - Error-free processing
- Clarity and Collaboration would help
  - Clarity: Industry would adopt and enforce your edits, if known
  - Collaboration: filing organizations would prevent most errors, given a pre-filing opportunity

Edit Standards for Payroll Reporting: Standards Would Increase Electronic Filing

- EDD presented an FSET-based Model for Payroll
  - Payroll Tax Reporting is an excellent subject for standards
    - Elements and functions are highly uniform between states
  - Standards in these areas would facilitate e-file adoption and improve efficiencies:
    - Edits
    - Authorizations
    - Programs to improve data quality

Edit Standards for Payroll Reporting:
Diverse Edits Make It More Difficult To e-File

- New e-file systems are obviously the change opportunity, but
  - Consistency with SSA, IRS, other agencies, other states, and prior practice?
  - What is the deterrent effect on software and service providers?
    - On multi-state employers?

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Edit Standards for Payroll Reporting:
Diverse Edits – Example Set #1

- Name formatting
  - 'Missing' first/last (what is sufficient?)
    - 'U Ng'
  - Punctuation and special characters
    - *John Smith Jr., John O'Malley,*
    - *Jones, John; Jill Ortiz-Diego*
    - *St. Regis; N. Hollywood*

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Edit Standards for Payroll Reporting:
Diverse Edits - Example Set #2

- Addresses
  - Missing fields (street, city, ST…)
  - ZIP doesn't match city/state
    - Conflicts
      - Some are missing: Not a requirement to get a job
      - 20% annual address change rate
  - Foreign country addresses
    - Will employers look up country codes/names?
    - If so FIPS or ISO standards?
    - Conflicts
      - Few states require/edit - - no consensus

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Edit Standards for Payroll Reporting:
Diverse Edits – Example Set #3 – SSNs

- Social Security Numbers
  - What is considered invalid?
    - 123456789, 111111111 etc..
    - Treatment of missing SSNs
      - Format for missing SSNs (zeros, nines, "I", etc.)
    - Range edits
      - SSA 'High Group numbers' – newest SSN ranges issued
      - ITINs
    - Conflicts
      - Employers are only required to solicit SSNs
      - No expectation that employers detect false documents
      - Some authorized workers can not get a SSN in time for reporting
      - Diversity (e.g., some require reporting of ITINs, some prohibit)

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Edit Standards for Payroll Reporting:
What Edits are Appropriate for Payroll?

- Current Process: Each state independently maintains its own error conditions
  - *Adding* as they become aware of new error conditions
  - *Modifying* as experience is gained
  - *Refining* ambiguous error descriptions
    - E.g., 'EIN invalid' could be 'never issued', 'not found', 'inactive', 'predecessor with/without active successor'; 'invalid character/number of characters' …
    - Error descriptions must be actionable to prevent calls to more specifically identify the problem
  - Frequent and costly program changes result

Edit Standards for Payroll Reporting:
Why Reinvent the Wheel?

- Most errors in wage and employment tax reporting are common to all states
- It may help to have a common set of error codes and definitions
  - Sufficiently detailed to avoid ambiguity
- NPRC compiled all known error conditions from IRS and state e-file programs
  - A starting point, if not a comprehensive set to be adopted

Draft Standard Error Codes & Definitions for Payroll Reporting

BUSINESS RULE	CODE	ERROR LEVEL	OUTPUT TYPE (UI/WH/ENR/ DE/MT)	REJECT/ WARNING
Employer account number was located, but is not active.	000511	Employer	UI/WH/ENR/DE	Warning
Employer name is required.	000515	Employer	UI/WH/ENR/DE	Employer-level reject
Employer name does not match account number on file.	000516	Employer	UI/WH/ENR/DE	Warning
Subject wage totals do not match reported employee detail records.	000522	Employer	UI/WH	Employer-level reject
Incorrect deposit frequency for this account number and tax period	000528	Employer	WH/DE	Warning
Incorrect filing form/type for this account number and tax period.	000529	Employer	UI/WH	Warning
Filing received after due date	000533	Employer	UI/WH	Warning

Authorizations in *e-file* Systems

- For clients associated with a high volume filer, must enrollment/authorization precede an e-filed return?
  - E.g., SSA makes no effort to track associations between payroll service providers and their client employers in advance of filing
  - But the IRS does
    - *Recommendation: Don't reject otherwise-valid electronic filings for lack of enrollment/authorization*

How to Manage Authorizations

- Authorizations are generally necessary to release otherwise confidential tax information to the service organization
  - Such information enables the service provider to file with accurate client information (assigned deposit/filing schedules, employer identification numbers)
- Paper world: Copies of signed authorization forms are sent to States for slow, costly, painstaking recording and file maintenance

How to Manage Authorizations

- Future: Rely on a trading partner agreement ('memorandum of understanding') and electronic submissions of client information
  - Use new XML schema to identify all clients

What else is happening with FSET?

- XML Schema for a Pre-filing data exchange processes are being finalized within the Tax Information Group for E-Commerce Requirements Standards. (TIGERS)

What are the benefits of pre-filing data exchange?

- Essential component to achieve optimal efficiencies and accuracy inherent in electronic file.

- A pre-filing exchange through existing filing systems provides an opportunity to identify any problems.

- States have been conducting these data exchanges via magnetic media for many years.

What type of data can be verified?

- In the context of payroll related reporting the following elements can be verified through data exchange.

  - State Employer Identification Number
  - State Employer Identification Number Extensions.
  - Federal Employer Identification Number
  - Business Name as registered by the state

What type of data can be verified?

- Employer contact information
- UI Tax Rates
- UI Account Type (reimbursable, contributory)
- Account Status (active, inactive)
- Account Credit Amount (credit to apply to a subsequent payment

How else can a process like this be utilized?

- Memorandum of Understanding
  - Many states avoid the need to handle paper POA and related record keeping through the use of a MOU
  - The MOU certifies that the agent has POAs on file and invites random requests
  - Electronic data exchanges can be utilized to report authorized clients

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How else can this process be utilized?

- Identification Format change with a tax authority
  - This XML schema is going to be utilized by a tax authority to transition their taxpayers to a new identification format

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How will it work?

- The Service Provider will initiate a file containing taxpayer identification information for clients on it's base

- The responding tax authority will then compare each record to it's current base using the same XML schema and transmit back the new identification format for each taxpayer contained in the file

How can I learn more about this exchange?

- NPRC Recommendations and Considerations for Designing Electronic Filing Systems: www.nprc-inc.org

- The TIGERS State Schema Development site: www.statemef.com

Early Collaboration is Helpful

- NPRC members would like to work with interested state agencies who are working on or planning new electronic filing systems

Top ~~Five~~ Six Designs to Avoid

Require all employers to access a state website to authorize a third party to file

Constrain employers to no more than one service provider at a time

No ability to conduct 'pre-filing' data exchanges to perfect data quality

Plan to reject entire submissions (many employers) for an error in one employer return

Plan to reject certain employee (W-2) records while accepting others within an employer

Make up your own 'error' conditions. Change them often

Question and Answers

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