



Employment Tax Look-Back Review Services

Recovering employment
tax overpayments



EY

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Employment tax look-back review

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In response to current economic challenges, employers are increasingly diligent in their quest to reduce costs and increase capital, making it a good time to consider a look-back review – an employment tax-focused analysis to uncover areas of federal, state and local employment tax recovery.

Wages and related expenses represent one of the top five corporate expenditures, and because of the recent economic climate, employment tax liabilities are expected to continue to increase over the next several years. In addition, to meet budgetary objectives, many companies have placed greater reliance on third-party payroll providers. The trend is a transformed payroll department that is challenged to keep pace with the rapidly changing landscape of employment tax compliance. This can leave insufficient time for the retroactive review and prospective focus that can help to identify compliance gaps, implement cost-saving initiatives, or identify and recover employment tax overpayments. Through a look-back review, our experienced team of employment tax professionals delivers the resources and focus that can help to identify opportunities that may potentially improve financial performance within the to identify opportunities to improve financial performance within the employment tax process. tax recoveries and tax benefits.

It adds up

In a recent look-back review for a major US retailer, Ernst & Young LLP's employment tax team identified more than \$3.8 million in employment tax overpayments.

Examples of areas where a look-back review can potentially lead to refunds and/or future cost reduction include:

- ▶ **Mergers and acquisitions** - The moment a merger, acquisition or reorganization is contemplated, an intricate system of federal, state and local employment tax requirements is potentially triggered. From due diligence to the filing of returns, opportunities can arise to manage employment tax costs. And, because most taxing jurisdictions allow businesses to file corrections for prior periods, it is often not too late to look back for savings and refund opportunities. With years of experience in guiding businesses through these transactions, our employment tax team is positioned to provide the employment tax skills necessary in the planning, implementation and post-implementation review of mergers, acquisitions and reorganizations.
- ▶ **Statutory elections** - With state unemployment tax costs currently on the rise, it is advised that businesses review options to control costs. Statutory elections are one such area that deserves a careful review. Statutory elections come in the form of voluntary contributions and joint accounts. These elections are offered once a year and must be filed by a deadline that varies by state. Whether or not a statutory election will have a favorable result in unemployment insurance rates requires careful analysis by experienced employment tax professionals.
- ▶ **Unemployment tax rate analysis** - The current economy has overloaded state unemployment insurance trust funds, causing many states to make rapid legislative and administrative changes that impact employers' state unemployment insurance rate calculations. Even in stable employment periods, rate calculation errors resulting in tax overpayments can and do occur. However, that risk is far greater in these changing times. This type of tax overpayment may be reduced by reviewing the rate calculations and protesting erroneous rates by the applicable state deadline. Unfortunately, if protests are not made in a timely fashion, employers may end up paying pay at the higher incorrect rate, even if the rate error was caused solely by the state.

It is never too late to look back, and now is an ideal time to identify potential employment tax savings. A look-back review puts the tedious effort of identifying potential employment tax savings opportunities in our hands so that payroll departments can keep their focus on current tasks.



Potential opportunities	Events <ul style="list-style-type: none"> ▶ Acquisitions ▶ Mergers ▶ Reorganizations ▶ Divestitures ▶ Compliance ▶ Legislative changes ▶ Payroll conversions ▶ Recent outsourcing ▶ Decentralized payroll functions
Information	Past three years' data <ul style="list-style-type: none"> ▶ Federal Form 940, <i>Employer's Annual Federal Unemployment Tax Return</i>, with: <ul style="list-style-type: none"> ▶ Supporting state credit schedule to 940 ▶ State unemployment tax rate notices ▶ State unemployment tax quarterly returns for the current and prior two years
Process	<ul style="list-style-type: none"> ▶ Collect relevant employment tax information needed in order to assess potential qualification for any preliminary tax refunds ▶ Conduct analysis to quantify any potential employment tax refund opportunities ▶ Initiate discussions with the identified taxing jurisdictions and initiate recovery process ▶ Submit refund calculations to appropriate state jurisdictions for substantive review ▶ Act as liaison with state tax jurisdiction personnel to confirm refunds/credits are successfully secured
Deliverables	<ul style="list-style-type: none"> ▶ Written documentation of findings ▶ Forms for signature for federal, state and local taxing authorities

How the look-back review works

First, we request access to: (1) the past three years' federal and state employment tax returns and other related documents, (2) a description of the company's merger/acquisitions and restructurings for the prior three years and (3) a copy of the company's organizational chart describing the legal-structure of the parent(s) and subsidiary(s).



Resources you need when you need them

As employment tax costs continue to rise, businesses are challenged to seek efficient management strategies. Whether payroll and employment tax functions are handled internally or outsourced to a third party, there are a number of situations that may require assistance from an experienced payroll and employment tax professional. Our experienced professionals can help businesses meet sensitive deadlines and collaborate to develop processes and policies that aim to achieve compliance and cost-containment goals.

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SCORE No. 18103-221US
CSG No. 2212-4145914
ED None

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