

The employment tax
administration &
compliance survey
How do your processes
measure up?



Deloitte Tax LLP (Deloitte) is proud to present the results of the Employment Tax survey. The survey explored issues around the practical aspects of U.S. payroll tax administration and difficulties with tax compliance. The survey was completed by payroll professionals, with an average of 19 years of experience, across a variety of industries.

The survey reveals that employers generally have confidence in their system's ability to accurately tax compensation, their ability to capture taxable fringe benefits, and are generally satisfied with their third party providers. Despite this confidence in processing and taxation, respondents cited that tax notices continue to be one of the most common challenges. Additionally, 45 percent of the participants indicated that they undergo at least one federal or state audit each year.

The survey also showed that there is wide range in the responsibilities and administrative approaches of the respondents. While tax compliance, and time and attendance were the most common responses to those aspects of payroll under the respondent's jurisdiction, many participants shared that they have broader responsibility that included areas such as, accounting, international payroll, HRIS, and worker classification. 90 percent of the participants stated that they outsourced some aspect of their payroll operations, yet there was no singular universal process that was outsourced. The variety of responsibilities and approaches may be attributable to the department within which payroll resides. 51 percent of respondents stated that they report to Finance, with 39 percent reporting to Human Resources. Only 6 percent of those surveyed operate a shared service center.

We hope you find the results of the survey useful. If you have any questions regarding the survey or specific employment tax challenges, please do not hesitate to contact our employment tax specialist listed at the end of the report, or me directly.

As responses were anonymously submitted, I am unable individually thank each respondent, therefore my sincerest thanks go to all participants and everyone at Deloitte who made this survey possible.

All the very best,

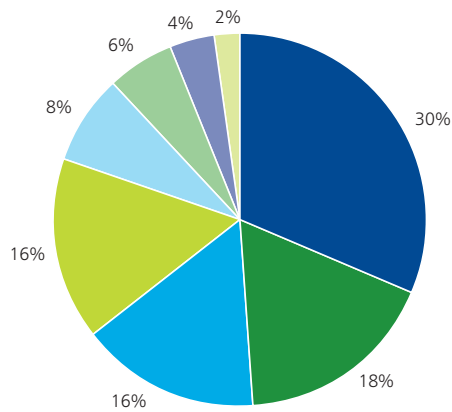
William D. Posey



Partner
Global Employer Services
Deloitte Tax LLP
Tel: +1 713 982 2289
Email: wposey@deloitte.com

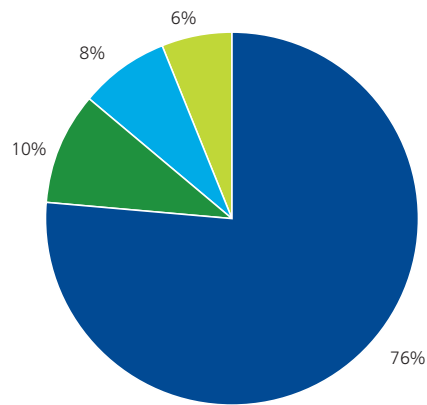
Section 1 - Demographics

1.1 - Number of active employees



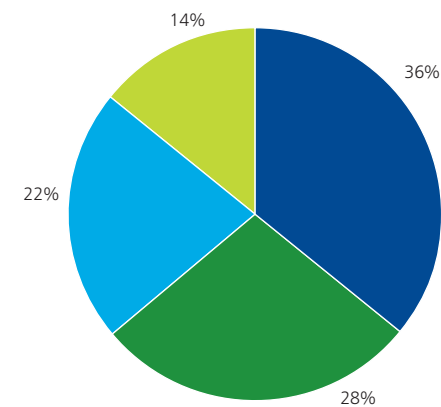
- <1000 - 18%
- 1,001 - 5,000 - 30%
- 5,001 - 10,000 - 16%
- 10,001 - 20,000 - 16%
- 20,001 - 30,000 - 8%
- 30,001 - 40,000 - 2%
- 40,001 - 50,000 - 4%
- >50,000 - 6%

1.2 - Number of states in which employees are reported



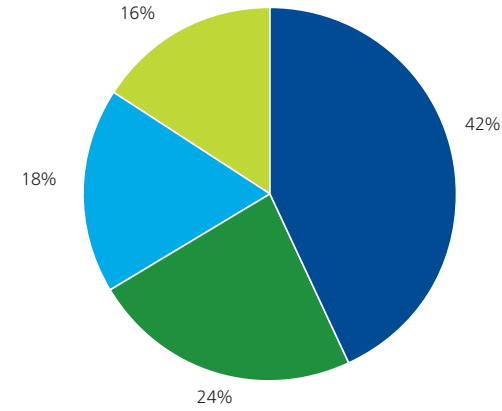
- 1 - 6%
- 2-5 - 10%
- 6-10 - 8%
- >10 - 76%

1.3 - Number of entities for which payroll is processed



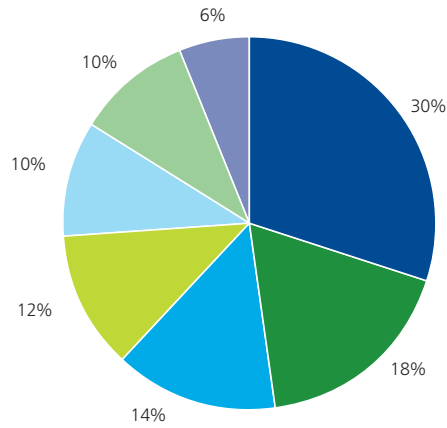
- 1 - 14%
- 2-5 - 36%
- 6-10 - 22%
- >10 - 28%

1.4 - Number of payroll returns filed each quarter



- <6 - 16%
- 6-50 - 42%
- 51-250 - 24%
- >250 - 18%

1.5 - Primary industries represented

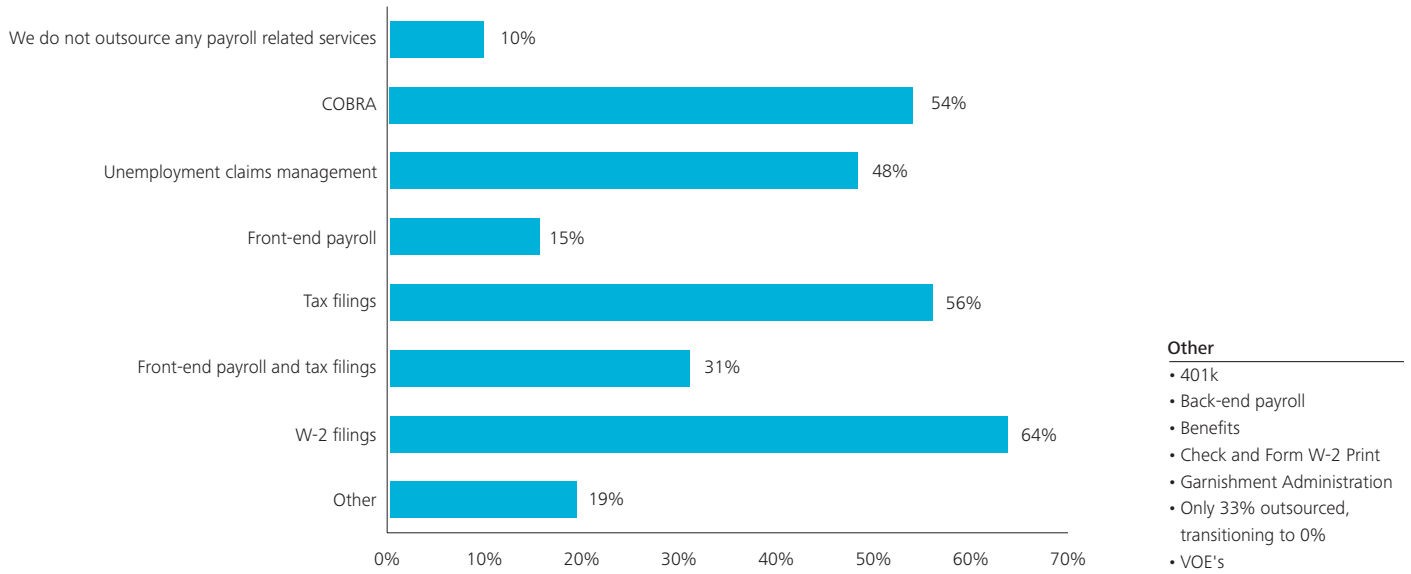


- Consumer & Industrial Products - 30%
- Technology, Media & Telecommunications - 18%
- Financial Services - 14%
- Transportation & Logistics - 12%
- Health Sciences & Government - 10%
- Energy & Resources - 6%
- Other - 10%

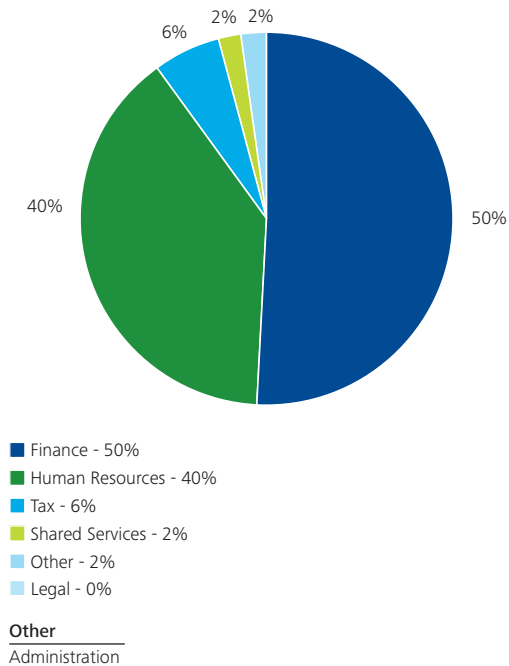
- Other**
- Waste Management
 - PEO
 - Maritime classification services
 - Legal
 - Higher Education

Section 2 - Operations

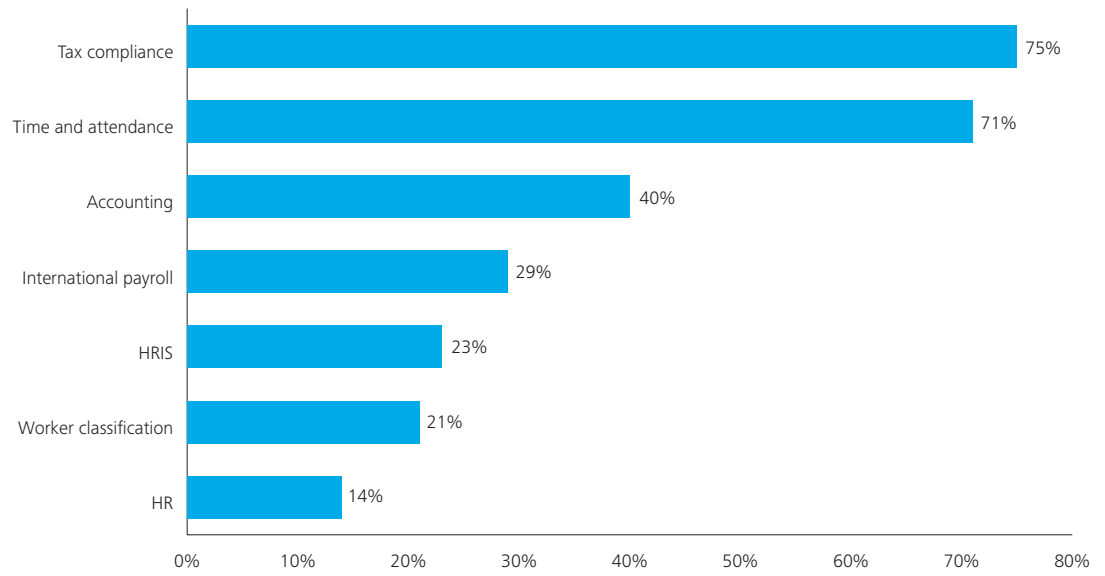
2.1 - Outsourced services



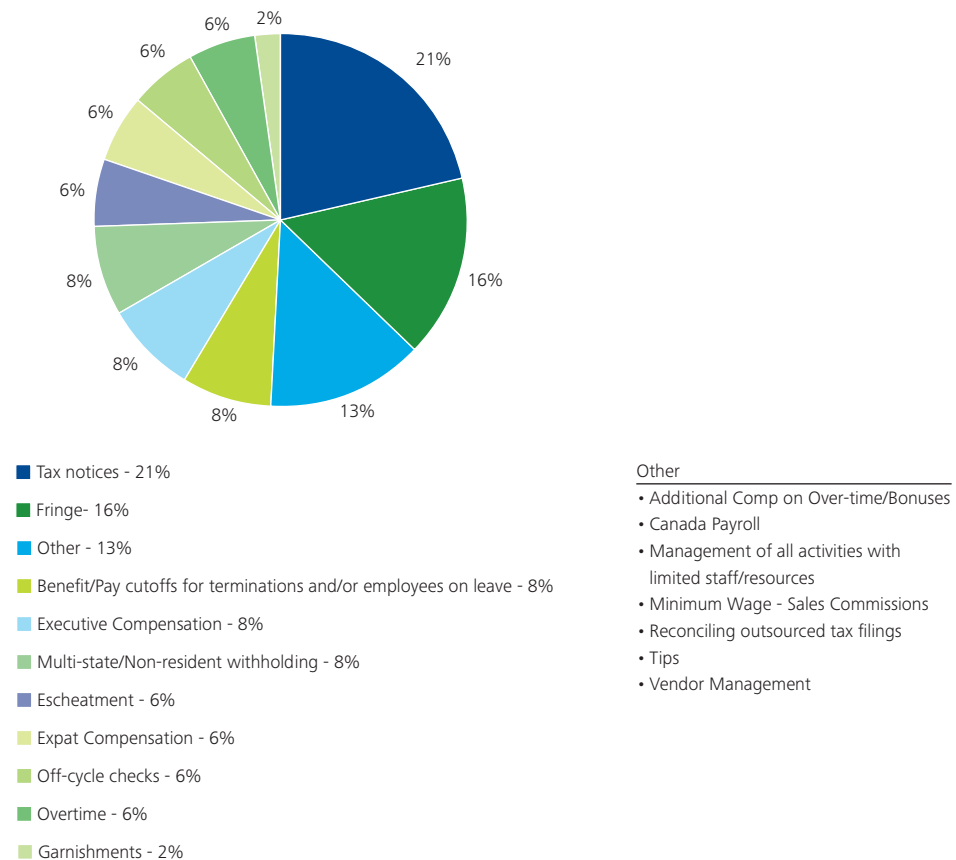
2.2 - Functions that Payroll reports to



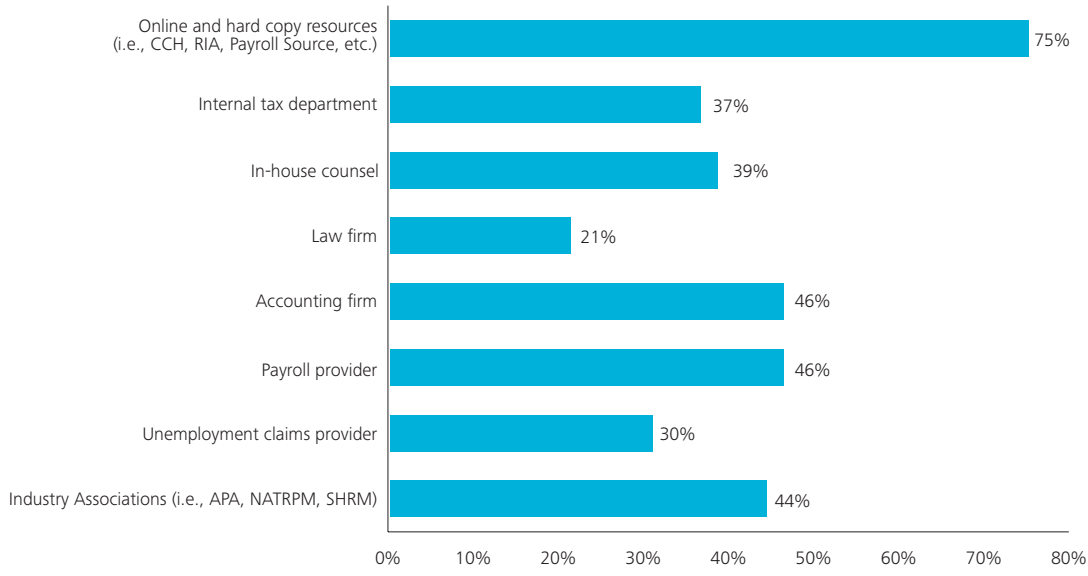
2.3 - Which of the following are under your jurisdiction?



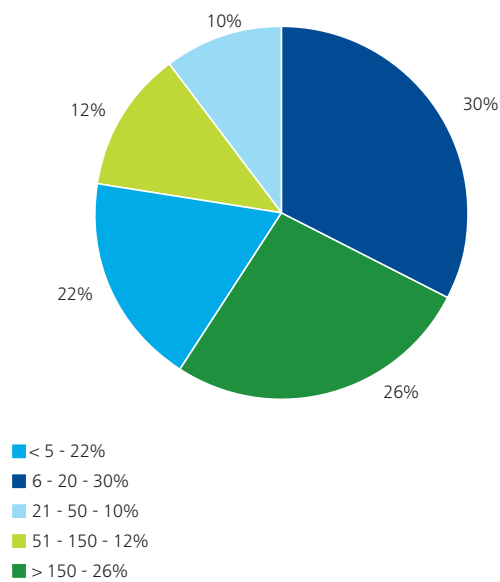
2.4 - Biggest challenges



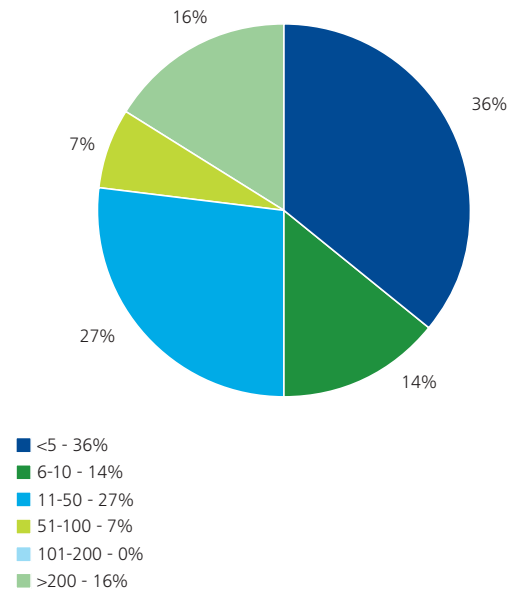
2.5 - Resources used for tax advice



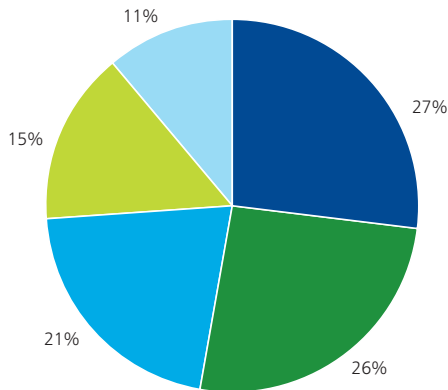
2.6 - Average number of payroll notices received in a year



2.7 - Number of W-2cs processed each year

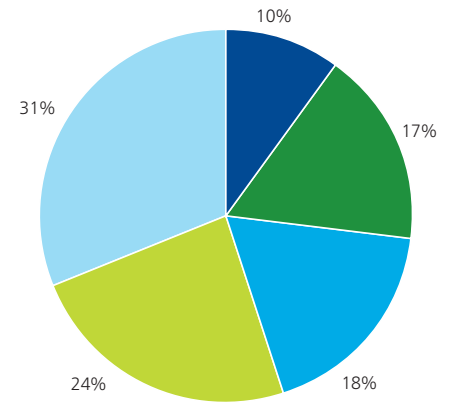


2.8 - Utilization of E-Verify



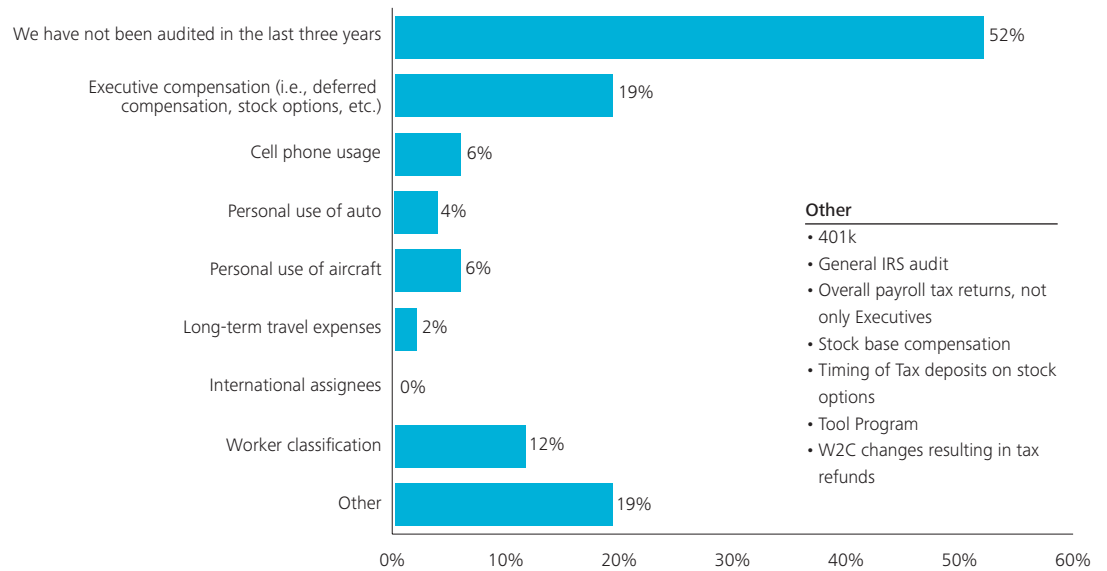
- All the time - 27%
- Regularly - 26%
- Sometimes - 21%
- Never - 15%
- What is E-Verify? - 11%

2.9 - Degree of State/Federal payroll audit activity in the last three years



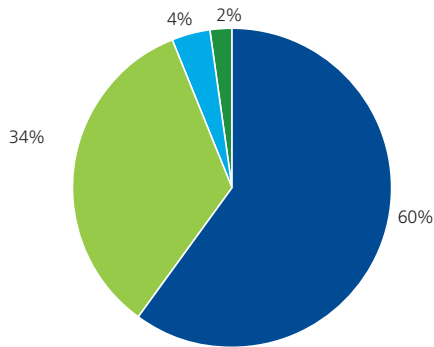
- 4 or more per year - 10%
- 2 to 3 times a year - 17%
- Once a year - 18%
- Once every 2 to 3 years - 24%
- None - 31%

2.10 - Issues audited by the IRS in the last three years



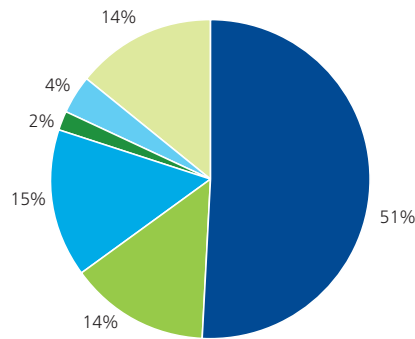
- Other**
- 401k
 - General IRS audit
 - Overall payroll tax returns, not only Executives
 - Stock base compensation
 - Timing of Tax deposits on stock options
 - Tool Program
 - W2C changes resulting in tax refunds

2.11 - Confidence level in the accuracy of payroll system taxation



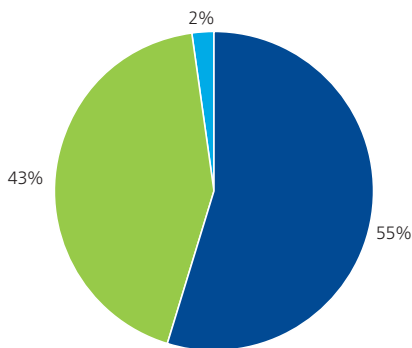
- Extremely confident - 60%
- Somewhat confident - 34%
- Don't know - 4%
- Somewhat unconfident - 2%
- Completely unconfident - 0%

2.12 - Time since the tax set-up for payroll earnings and deduction codes was last validated for accuracy



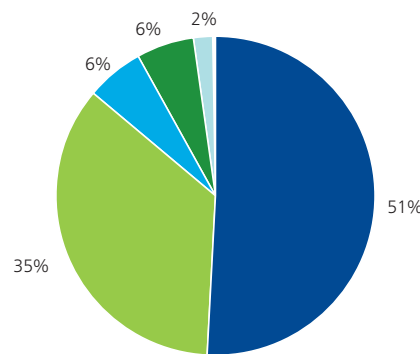
- Less than 1 year - 51%
- 1 - 2 years ago - 14%
- 2 - 3 years ago - 15%
- 3 - 4 years ago - 2%
- 5 years or more - 4%
- Never - 14%

2.13 - How W-2 name/SSN mismatch notices from the IRS are handled



- We solicit the listed employees for correct information - 55%
- We have not received any notices - 43%
- We disregard the notices - 2%

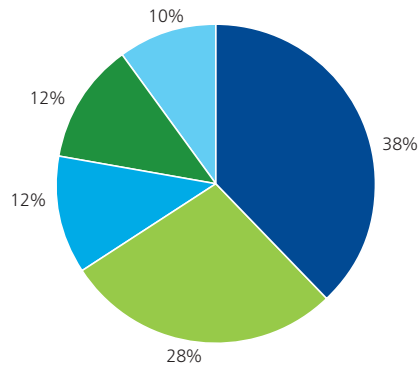
2.14 - How all other payroll tax notices are handled



- We rely on our payroll provider to respond - 51%
- We contest each notice on our own, as appropriate - 35%
- We don't receive penalty notices - 6%
- We rely on a consulting group to respond - 6%
- We contest all penalties above a certain dollar amount - 2%
- We automatically pay them - 0%

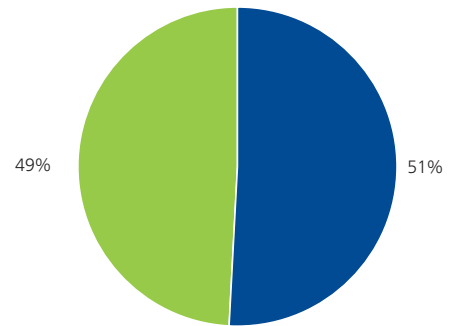
Section 3 - Taxation

3.1 - Methods used to value personal use of employer-provided auto



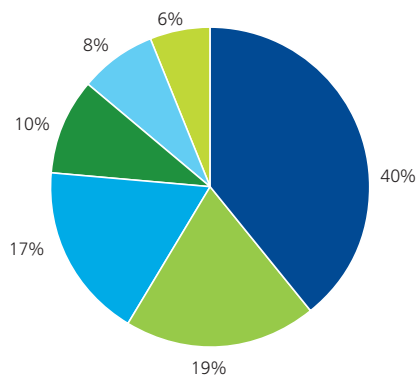
- We do not have employer provided vehicles - 38%
- Annual lease value method - 28%
- Fair market value - 12%
- Cents per mile - 12%
- We do not impute any income for personal use - 10%

3.2 - Number of companies using the "special accounting rule" for taxable noncash benefits



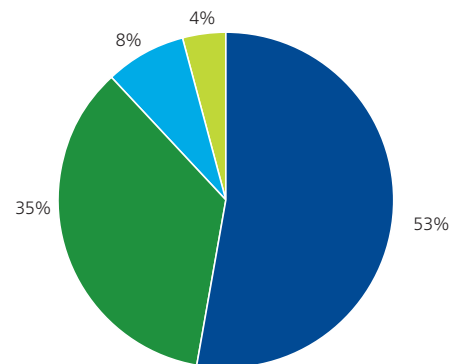
- No - 51%
- Yes - 49%

3.3 - Approaches to the taxation of prizes and awards



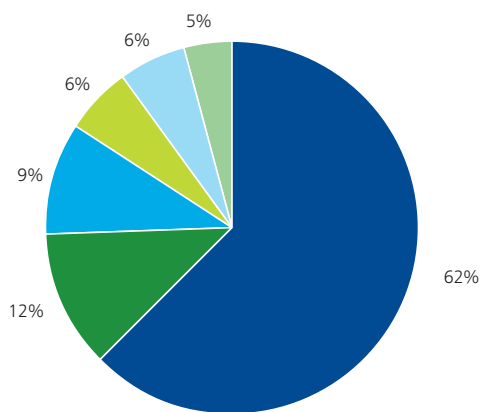
- Anything over \$25 in value is taxable - 19%
- Anything over \$50 in value is taxable - 6%
- Anything over \$100 in value is taxable - 10%
- Anything that is a cash equivalent, regardless of value, is taxable - 40%
- All prizes and awards are taxed - 17%
- Prizes and Awards are offered to employees without our knowledge - 8%

3.4 - Comfort level regarding the proper capturing and taxation of taxable fringe benefits



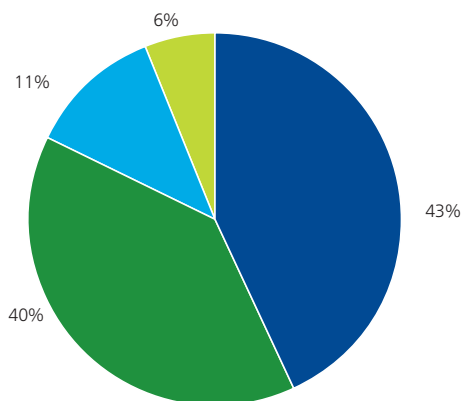
- Most taxable fringe benefits are included in income - 53%
- All taxable fringe benefits are included in income - 35%
- Few taxable fringe benefits are included in income - 8%
- Some taxable fringe benefits are included in income - 4%

3.5 - Treatment of employer provided cell phones



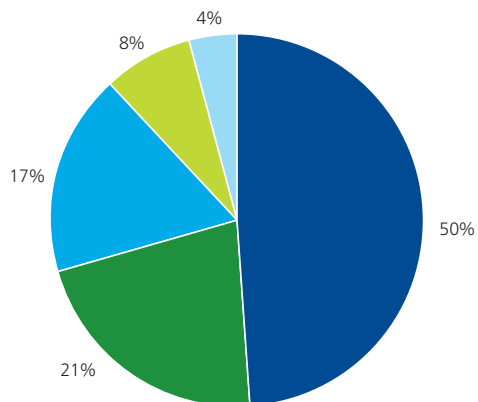
- We do not require documentation nor impute income - 62%
- We do not provide employees with cell phones - 12%
- We rely on the employee to identify a dollar amount for personal use - 9%
- We impute income using a flat dollar amount for personal use - 6%
- We request documentation from the employee that itemizes personal use and identifies the appropriate dollar amount - 6%
- We impute income using a flat percentage for personal use - 5%

3.6 - Description of the relationship with 3rd party stock plan administrators



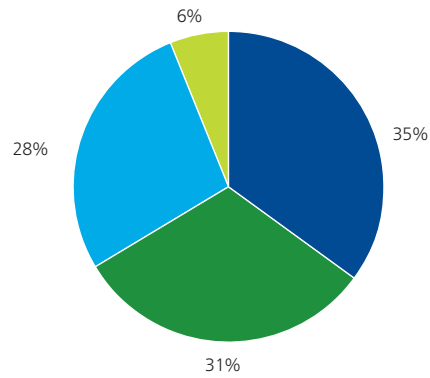
- Very efficient - 11%
- Acceptable - 40%
- Sometimes strained - 6%
- Not applicable - 43%

3.7 - General timing for the inclusion of nonqualified stock option income in payroll



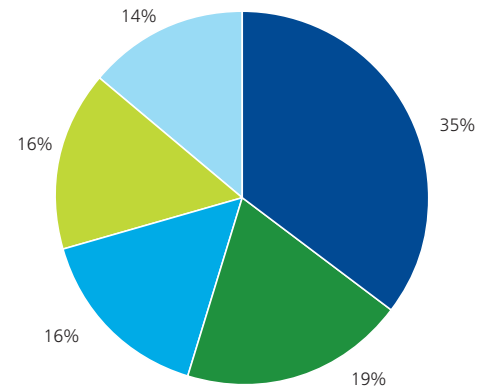
- We don't have nonqualified stock options - 50%
- Within 3 days of exercise - 21%
- Within 5 days of exercise - 8%
- In the next regular payroll cycle - 17%
- At some date after the next regular payroll cycle - 4%

3.8 - Comfort level regarding the handling of new COBRA provisions



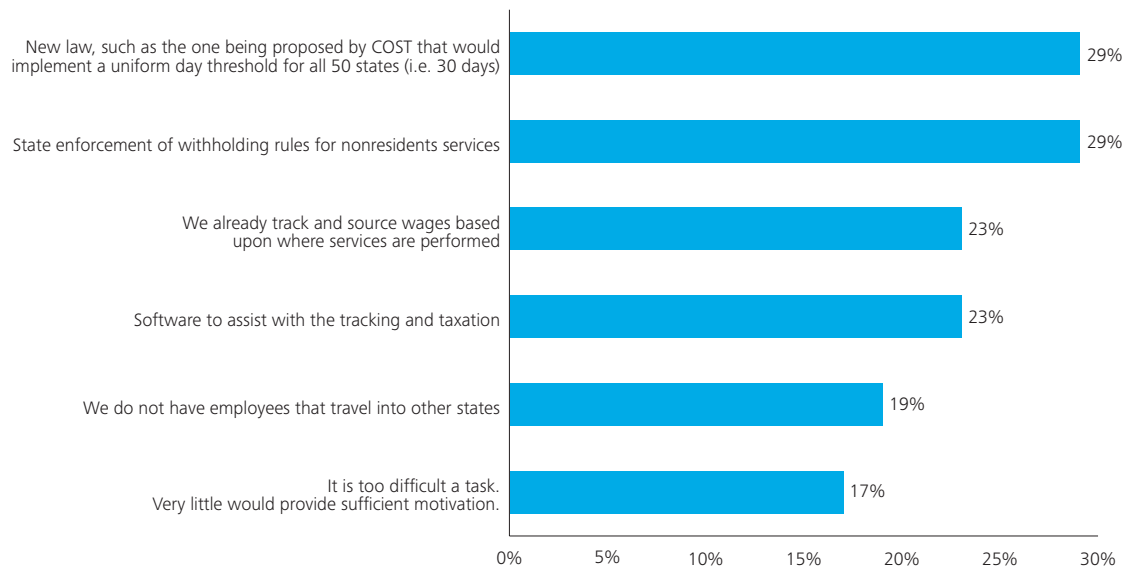
- Not sure, it's being handled by another department - 28%
- Confident in our collaboration with payroll, accounting, HRIS, and TPA - 35%
- Somewhat confident in our collaboration with payroll, accounting, HRIS, and TPA - 31%
- Not confident in our collaboration with payroll, accounting, HRIS, and TPA - 6%

3.9 - Sourcing wages and withholding state income tax for traveling employees

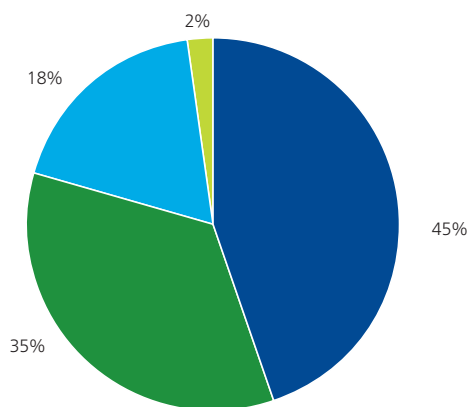


- We source wages to a single work state - 35%
- We source wages to a single resident state - 19%
- We rely on the payroll system to apply the reciprocity rules - 16%
- We track employee travel and source wages based upon where services are performed throughout the year - 16%
- We do not have employees that travel into other states - 14%

3.10 - What would motivate you to track traveling employees for wage sourcing?

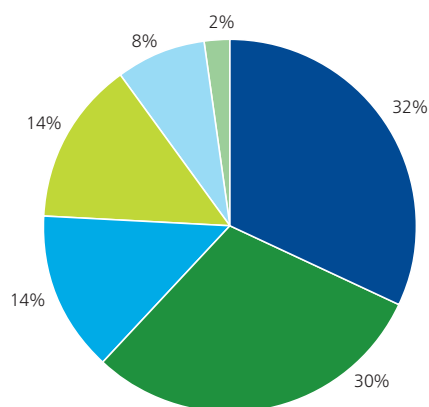


3.11 - Frequency of inquiries or audits from the IRS or states related to worker classification



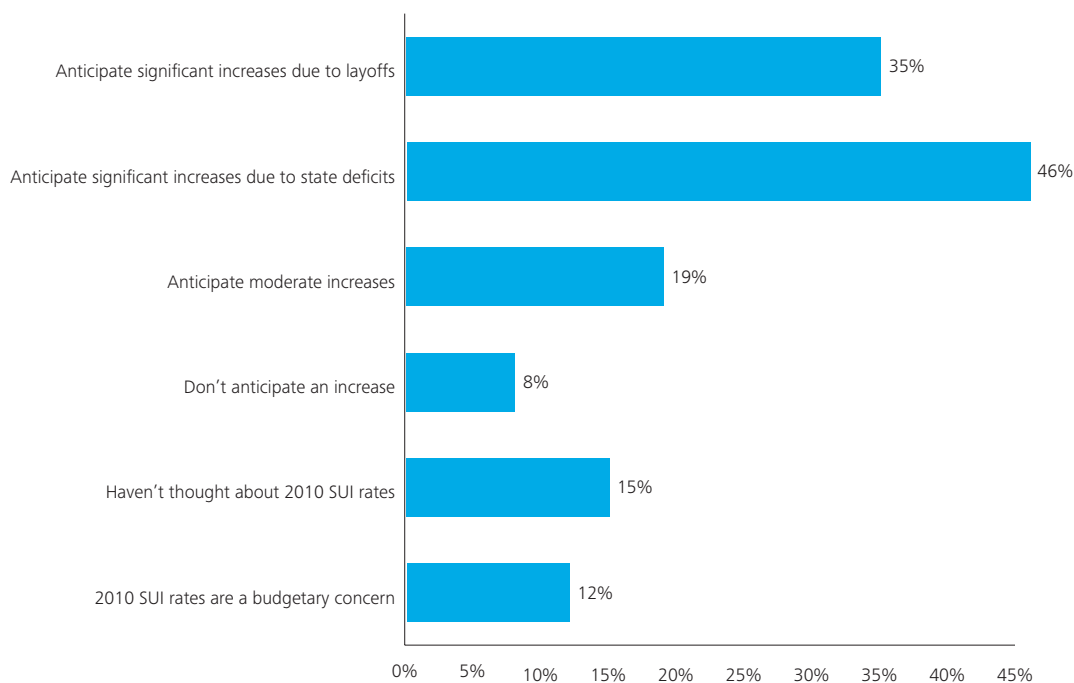
- Regularly - 2%
- Occasionally - 18%
- Rarely - 45%
- Never - 35%

3.12 - Processes and procedures for evaluating worker classification

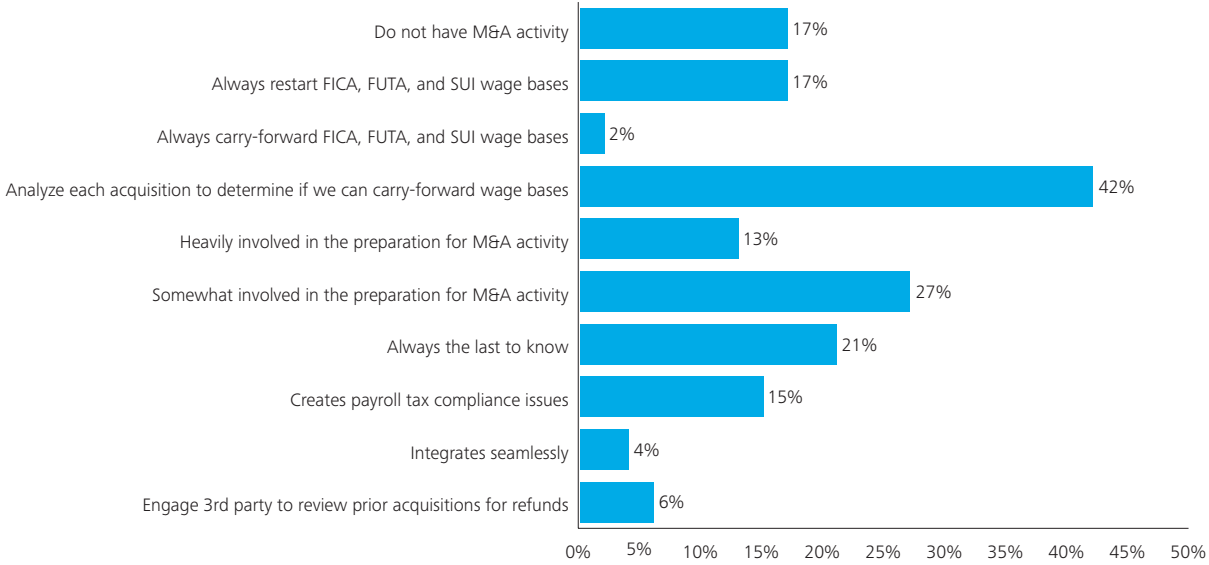


- Don't know - 30%
- Have formal decision making procedures in place - 32%
- Allow each business unit to decide - 8%
- Follow industry standard - 14%
- Rely on prior audits/opinions - 0%
- Evaluate each case on its own facts and circumstances - 14%
- Classify workers as independent contractors without thorough analysis - 2%

3.13 - Which of the following apply to you with respect to your 2010 SUI rates?



3.14 - How do you manage mergers and acquisitions (M&A) and what is their impact on your department?



About us

Deloitte Tax LLP provides a broad range of payroll and employment tax services. These services are designed to accommodate both large and small employers across an array of industries. Our services are tailored to our clients' specific needs, utilizing established methodologies and strategies.

As a leading provider of compensation and benefits services, Deloitte Tax, its U.S. affiliates, and the member firms of Deloitte Touche Tohmatsu and their affiliates (the "DTT Member Firms") bring together a broad range of professionals with experience in various areas including; remediation, fringe benefit reviews, payroll integration, Global payroll, taxation, process management, audit assistance and regulatory compliance. This provides our clients with the breadth and depth of experience locally, nationally and globally. Our professionals have diverse backgrounds that include prior public and private sector employment and have the experience to address a client's employment tax needs.

In addition, Deloitte Tax and its U.S. affiliates are able to provide our services using a multidisciplinary coordinated approach with Human Capital, Tax, Accounting, Risk Management and Employee Benefits. This multifunctional approach allows us to provide a dynamic perspective to our clients' payroll issues through technical excellence, thought leadership and innovation around four core business issues: Financial Management, Risk Management and Compliance, Operational Excellence and Transaction Effectiveness.

For more information

Deloitte Tax LLP has an extensive global and national network of Employment Tax specialist. For more information on the survey or to discuss any aspect of employment tax, please contact:

Eric Franklin

Senior Manager
Global Employer Services
Deloitte Tax LLP
Tel: +1 404 460 3266
Email: erfranklin@deloitte.com

Nick Broomhead

Senior Manager
Global Employer Services
Deloitte Tax LLP
Tel: +1 404 460 3222
Email: nbroomhead@deloitte.com

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