



CASE STUDY

Unemployment Tax Services

National Restaurant Chain



CHALLENGE

To implement an acquisition plan and adhere to required unemployment tax obligations.



SOLUTION

Equifax helped provide guidance and support in addressing the unemployment tax aspects of the acquisition.



RESULT

Unemployment tax requirements were addressed in a timely fashion and the client was able to recover significant tax overpayments.

Client profile

The employer is a quick service restaurant chain with approximately 6,000 active employees operating over 120 locations in 16 states. The restaurant chain has two brands with both corporate and franchise operations. The corporate operations of one of its brands will be the focus of this case study, but it is equally relevant to franchised operations.

Challenge

In order to meet certain strategic initiatives, the restaurant chain planned an internal realignment of one of its brands, whereby the corporate operations and workforce of two predecessor legal entities (the Northwest and Southwest operations) were to be “consolidated” into a third legal entity (the West operations) on July 1:



Since the transaction involved multiple employers under the same corporate umbrella, each of the legal entities involved were considered related by common ownership, management, and/or control, which can have meaningful implications on how the transaction is treated for unemployment tax purposes. Due to the passage of the SUTA Dumping Prevention Act, adherence to notification requirements is imperative. The Act requires employers to notify state workforce agencies of workforce transfers between related legal entities and dictates the assessment of penalty rates for non-compliance. With these stricter requirements, the restaurant chain had greater exposure to unemployment tax risk associated with not complying with the mandated notification requirements (compliance risk) and resulting transfers of unemployment experience and tax rates (tax rate risk). If an employer does not meet the state notification requirements and pays unemployment tax at a lower than deserving tax rate, additional tax, interest and penalties can be assessed once the transaction is detected by the state workforce agencies (financial risk).

Beyond the compliance, tax rate, and financial risks, the restaurant chain was interested in better understanding the financial impacts of the transaction on unemployment tax costs, including the extent of tax rate revisions and the timing of such revisions. Also, due to system limitations the restaurant chain was unable to carryover the social security, federal unemployment, and state unemployment annual taxable wage bases.



The SUTA Dumping Prevention Act requires companies to notify state workforce agencies of workforce transfers between related legal entities and dictates the assessment of penalty rates for non-compliance with the notification requirements.

Solutions

As an Equifax Workforce Solutions client, the restaurant chain regularly received educational unemployment tax information and periodically met with members of the Equifax Team to assist in understanding the impact an internal workforce restructuring can have on its unemployment claims and tax management programs. As a result, when the restaurant chain was preparing to undergo the workforce realignment they reached out to Equifax for assistance. After providing the Equifax Employment Tax Consulting Group with preliminary details on the contemplated transaction, the restaurant chain chose to work with Equifax to assist them in addressing the unemployment tax aspects of the realignment.

During the initial planning meeting, Equifax and the restaurant chain collaborated to develop a comprehensive work plan to help address the unemployment tax implications of the realignment. This work plan detailed each task, responsible party, and a timeline for completion. It was during the initial planning meeting that Equifax identified a potential tax savings opportunity. Although the restaurant chain was unable to carryover the annual taxable wage bases, the duplicated taxes associated with treating the impacted employees as new hires could be recovered. The following illustrates a simplified calculation of taxes that can be recovered when wage bases are restarted after an internal realignment of workforce:



Equifax and the restaurant chain collaborated to develop a comprehensive work plan to help address the employment tax implications of the realignment.

This work plan detailed the following:

- task
- responsible party
- timeline for completion

Type of Tax	Number of EEs	Predecessor Taxable Wages Jan. 1 – June 30	Successor Taxable Wages July 1 – Dec. 31*	Total Taxable Wages for Year	Taxable Wage Base Limits*	Duplicated Taxable Wages	Effective Tax Rates	Overpaid Tax Recovered
IRS: Social Security	Not applicable, employees were not paid more than the social security taxable wage base during the year.							
IRS: FUTA	1,500	\$10,500,000	\$10,500,000	\$21,000,000	\$10,500,000	\$10,500,000	0.6%	\$63,600
IRS: FUTA Credits	525	\$3,675,000	\$3,675,000	\$7,350,000	\$3,675,000	\$3,675,000	1.5%	\$55,125
States: Various Unempl.	1,500	\$12,750,000	\$12,750,000	\$25,500,000	\$12,750,000	\$12,750,000	4.5%	\$573,750

*Of the 6,000 employees impacted, 50% will not attain the annual taxable wage bases because of part-time status and 25% will turnover before attaining the taxable wage bases.

\$691,875

Understanding the unemployment tax implications of the transaction:

- ✓ Analysis of alternative legal entity and integration structures
- ✓ Review state timing requirements for transfers of experience/rates
- ✓ Assessing the tax rate implications of a June 30 versus July 1 effective date
- ✓ Preparation of state unemployment tax rate and tax cost impact analyses for accrual and budgeting purposes

Transaction requirements:

- ✓ Closing predecessor state employment tax accounts (state/local withholding and state unemployment)
- ✓ Preparing successor state employment tax registrations (state/local withholding and state unemployment)
- ✓ Completing state filings to help secure transfers of experience
- ✓ Monitoring filings and responding when necessary in pursuit of intended outcomes
- ✓ Verifying state acknowledgments for accuracy and confirming transfers of experience in rating calculations
- ✓ Protesting potentially incorrect unemployment tax rate assignments

Recovering overpaid employment taxes:

- ✓ The filing of amended Forms 940, 941, and quarterly contribution reports

Results

Engaging Equifax Workforce Solutions to help address the unemployment tax issues associated with the restaurant chain's workforce realignment plan helped the client ensure that statutory requirements were addressed timely and opportunities were identified. Equifax provided subject matter experience and resources to a transaction that was outside the client's normal business practices, allowing the restaurant chain to focus on what they do best, operating restaurants!

The restaurant chain is contemplating a similar realignment of its workforce for its other brand, eventually consolidating both brands into a single legal entity, which will require similar planning, collaboration and tax filings as those described above.

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