

# Employment Tax Services

## Professional Employer Organizations

### Overview

Professional Employer Organizations (“PEOs”) have many business risks that are unique to the industry. One of those risks is state unemployment insurance (“SUI”). For most industries, SUI tax is an overhead cost but for PEOs SUI tax is a direct cost of providing services. When PEOs underwrite SUI for their clients in states that require or allow “PEO-level” reporting, PEOs are often exposed to competitive risks (including marketplace strategy and positioning) and margin risk.

A comprehensive unemployment cost management program includes both claims and tax components, each equally as important. Equifax presents PEOs with strategies aimed at helping mitigate risks and potentially improving tight margins through the use of solutions designed specifically for the PEO industry.

### SUI Tax Rate Risk Assessments

In states that require or allow “PEO-level” reporting, a PEO’s SUI tax rate is developed utilizing the unemployment experience of all clients engaged with the PEO legal entity. PEOs may have discretion in determining which of its legal entities will contract with its clients. It is a prudent practice for PEOs to perform due diligence on its clients to assess risk prior to engaging its clients to determine how the anticipated unemployment experience might impact the SUI tax rate of the PEO.

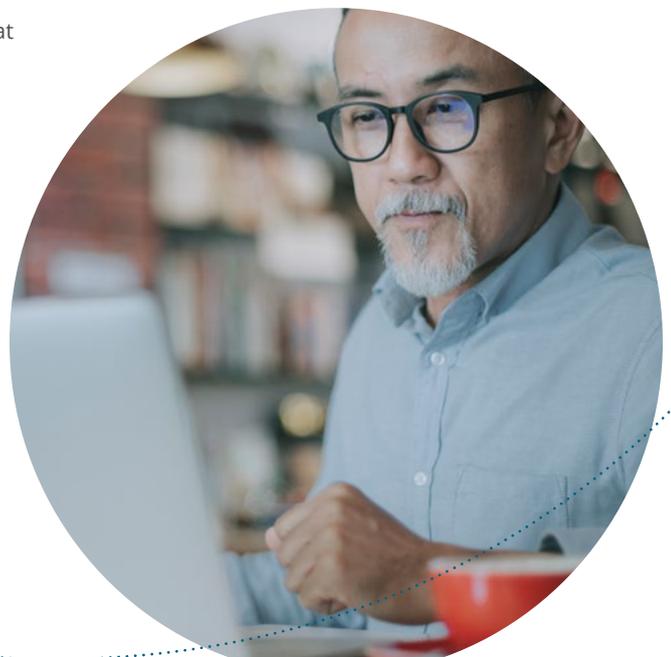
By understanding the impact a client has on rates, a PEO may better recover and/or justify its costs through its billing practices while seeking to assure that high risk clients do not “taint” the unemployment tax costs of other clients.

Equifax helps develop strategies unique to each PEO’s set of facts and circumstances, no matter the stage in the PEO’s lifecycle.

### RETROACTIVE FEDERAL EMPLOYMENT TAX RECOVERIES

Our federal employment tax recovery services are predicated on the position that a PEO’s clients are the common law employers of their respective worksite employees for federal tax purposes.

It is typically unnecessary to restart taxable wage base limits for social security (“FICA”) and federal unemployment (“FUTA”) taxes when onboarding new clients mid-year, even prior to the enactment of the SBEA. As such, PEOs are often able to retroactively (three years) recover overpaid FICA and FUTA taxes.



Objectives of a risk assessment include:

- Competitive advantage
- Client retention
- Increased profitability
- Consistency in SUI tax rates

In addition, with the trend in state workforce agencies moving toward “client-level” reporting options, Equifax has the subject matter experts to assist PEOs in analyzing “PEO-level” vs. “client-level” reporting decisions.

### Small Business Efficiency Act (SBEA)

The SBEA (enacted December 19, 2014, effective January 1, 2016) codifies, among other provisions, a PEO’s ability to treat the wages paid by a client prior to mid-year onboarding as wages paid by the PEO for determining the annual taxable wage base limits for FICA and FUTA tax purposes (i.e., the PEO becomes a “successor employer” when certain qualifications are met).

Prior to the effective date of the SBEA, PEOs may still have an opportunity to recover overpaid FICA and FUTA taxes if wages paid by the client prior to mid-year onboarding were not taken into consideration when calculating the applicable annual taxable wage base limits.

In addition to assisting PEOs with potentially recovering overpaid FICA and FUTA taxes, both before and after the effective date of the SBEA, Equifax can assist PEOs in meeting requirements of other provisions of the SBEA.

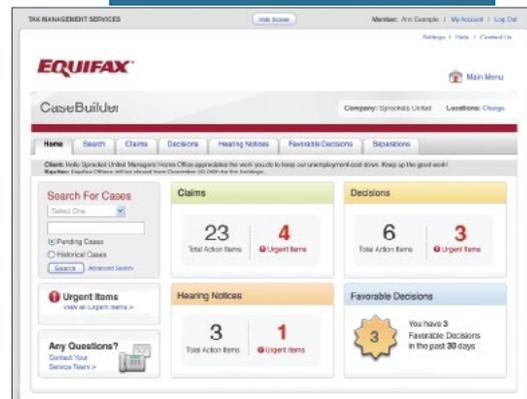
### Account Registrations and Closures

PEOs often have a need to establish or inactivate large volumes of employment tax accounts when clients are onboarded or when clients expand or constrict their business operations once onboarded. PEOs provide these services to their clients to ensure proper tax administration and to improve client satisfaction during the onboarding implementation process. Equifax helps provide registration and closure services for SUI tax, state income tax withholding, and local income tax withholding purposes.

### Mergers and Acquisitions (M&A)

When a PEO contemplates the acquisition of another PEO, there are several key federal and state employment tax matters, including SUI tax rate risk, that must be addressed. Equifax has developed a solution designed to assist PEOs with mandatory reporting requirements so PEOs are better positioned to make decisions regarding SUI tax rates. Equifax assists PEOs undertaking an M&A transaction by providing such services as:

- Assessing SUI tax rate risk
- Identifying legal entity structures to better optimize SUI tax rates
- Performing financial impact modeling
- Identifying reporting filing obligations and options
- Assessing outcomes for accuracy



CaseBuilder™ provides a centralized dashboard for more efficiently monitoring claims activity while potentially delivering increased win rates and a reduced number of hearings.



## Unemployment Tax Rate Forecasting

Understanding where future SUI tax rates will be is necessary for PEOs to properly budget for employment tax costs and to establish billing rates, whether the PEO uses a bundled or itemized pricing model.

Using sophisticated techniques, incorporating both state and employer variables, Equifax is able to assist PEOs in forecasting next year's SUI tax rates in "PEO-level" reporting states. Also, by monitoring federal Title XII loan activity, we are better able to help forecast which states may be subject to FUTA credit reductions, including the so-called Benefit Cost Rate (BCR) and "2.7%" add-ons.

## Unemployment Claims Management

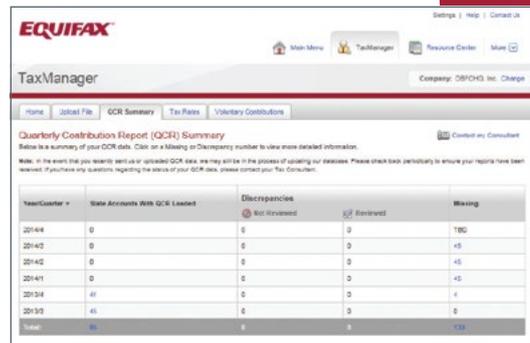
Adhering to standards established by the State Information Data Exchange System ("SIDES"), CaseBuilder™ (an Equifax proprietary platform) guides employers through a defined series of information requests to systematically address each benefit claim. This assists PEOs in ensuring that data, triggered by the initial reason for separation, is provided in response to every claim, thereby helping minimize exposure to benefit overpayments and escalating non-compliance penalties driven by "UI integrity" legislation. The platform allows client access, if desired, making the process more efficient and effective for the PEO to administer unemployment claims.

As part of the unemployment claims administration program, Equifax also assists PEOs with appellate and hearing preparation, including representation, and the audit of benefit charges to help verify the accuracy of the charges and attribution to the proper SUI tax account. In addition, our reporting allows PEOs access to real-time unemployment claims information to assist PEOs in gaining actionable insights into its claims administration program.

## Unemployment Tax Rate Management

Building on the same innovative technology used in the CaseBuilder platform, Equifax has developed TaxManager™ that allows PEOs to:

- View a single dashboard of key drivers to tax rate management and awareness
- Upload and view quarterly contribution reports ("QCRs") and identify those that are missing
- Upload and view tax rate notices ("TRNs") and identify those that are missing
- Identify inconsistencies that may exist on QCRs (e.g., tax rate on the QCR does not match the TRN)
- Review the results of voluntary contribution analyses
- Access to forecasts of future year tax rates



The screenshot shows the Equifax TaxManager interface. At the top, there are navigation links for Home, Upload File, QCR Summary, Tax Rates, and Voluntary Contributions. Below this is a 'Quarterly Contribution Report (QCR) Summary' section with a note about data accuracy. A table follows with columns for Year/Quarter, State Accounts With QCR Loaded, Discrepancies (Not Reported, QCR Reported), and Missing. The table contains data for quarters 2018Q4, 2019Q1, 2019Q2, 2019Q3, 2019Q4, and 2020Q1, with a total row at the bottom.

Year/Quarter	State Accounts With QCR Loaded	Discrepancies	Missing	
		Not Reported	QCR Reported	
2018Q4	0	0	0	TBD
2019Q1	0	0	0	45
2019Q2	0	0	0	45
2019Q3	0	0	0	45
2019Q4	45	0	0	4
2020Q1	45	0	0	0
Total	90	0	0	139

TaxManager™ provides easy visibility into tax applications that impact your organization—providing a valuable link between unemployment claims and tax management.



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