EQUIFAX | WORKFORCE SOLUTIONS

CASE STUDY

Employment Tax Services

Financial Services Institution Recovers $2.4M in Employment Taxes

CHALLENGE

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

SOLUTION

Equifax provided help and support in addressing the employment tax aspects of the transaction.

RESULT

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

Client profile

On July 1, a large financial services institution acquired the credit card business operations, including employment, of another unrelated large financial services institution. At the time of the transaction, the credit card business unit operated under three separate legal entities, in four states, with approximately 3,000 employees.

Challenge

When a financial services institution engages in an acquisition transaction whereby employees are transferred from one legal entity to another, certain state unemployment insurance (SUI) tax filings are required. These filings are mandated by state workforce agencies to ensure the proper administration of unemployment claims and the proper assignment of SUI tax rates to the buyer and the seller after the transaction. If an employer pays SUI 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. All state workforce agencies use automated SUTA (State Unemployment Tax Act) Dumping Detection Systems to monitor the movement of employees between legal entities.

Many, if not most, mid-year merger and acquisition (M&A) transactions (i.e., those occurring anytime other than Jan 1 or Dec 31) qualify for “successor employer” treatment for social security, federal unemployment (FUTA), and SUI tax purposes. This means that the wages paid by a predecessor employer (seller) can be used by the successor employer (buyer) to meet the annual taxable wage base limits, which avoids the duplication of tax payments. At the time, the seller was not willing to provide year-to-date wage data to the buyer. This, coupled with payroll system and implementation limitations, forced the buyer to treat the acquired workforce as “new hires” and the annual taxable wage base limits were restarted as of the transaction date.

Equifax provided subject matter expertise and resources to a transaction that was otherwise outside the client's normal business practices.

Solutions

As an Equifax Workforce Solutions client, the buyer received monthly unemployment tax educational information and regularly met with members of the Equifax Account Management Team to help gain an understanding of the potential impact an M&A transaction can have on its unemployment claims and tax management programs. As a result, when the financial services institution was preparing to undergo the acquisition of the credit card business unit, they reached out to Equifax for guidance and support in helping address the employment tax aspects of the transaction.

After analyzing the financial impacts (and available elections relating to transfers of SUI rating experience) of the transactions on the buyer, Equifax helped prepare the required SUI compliance filings for each state workforce agency in which the affected employees operated. This addressed some of the employment tax requirements and helped reduce future SUI tax rates and resulting tax costs.

As a leading provider of unemployment cost management solutions, Equifax has extensive data assets, including wage data. Because the financial services institution selling the credit card business unit was also a client of Equifax, we were able to facilitate an understanding between the two parties concerning the use of detailed pre-acquisition employee wage data. This permitted the buyer to recover the duplicated taxes that resulted from treating the acquired employees as "new hires."

Results

Engaging Equifax Workforce Solutions to help address the employment tax issues associated with the financial services institution's acquisition helped ensure that statutory requirements were addressed timely and tax cost minimization opportunities were identified. Equifax provided subject matter expertise and resources to a transaction that was otherwise outside the client's normal business practices.

As a result of these efforts, Equifax assisted client in recovering $2.4M in employment tax overpayments, determined as follows:

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	200	$18,000,000	$16,200,000	$34,200,000	$23,130,000	$11,070,000	6.2%	$686,340
IRS: FUTA	3,000	$20,000,000	$18,000,000	$38,000,000	$20,900,000	17,100,000	0.6%	$102,600
IRS: FUTA Credits	1,290	$8,600,000	$7,740,000	$16,340,000	$8,987,000	7,353,000	1.5%	$110,295
States: Various	3,000	$40,000,000	$36,000,000	$76,000,000	$41,800,000	34,200,000	4.4%	$1,504,800
								$2,404,035

* Takes into consideration that some of the 3,000 employees terminated post-transaction and did not attain the annual taxable wage base.

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