

NATIONAL PAYROLL REPORTING CONSORTIUM, INC.

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July 7, 2006

Victor M. Aledo, JD
Deputy Assistant Secretary
Internal Revenue Area
Departamento de Hacienda
EDIF INTENDENTE RAMIREZ
10 Paseo Covadonga
San Juan, PR 00901-2618

Ms. Lizette Ortiz Berrios
Director, Returns Processing Bureau
Departamento de Hacienda
EDIF INTENDENTE RAMIREZ
10 Paseo Covadonga
San Juan, PR 00901-2618

Dear Mr. Aledo and Ms. Ortiz Berrios:

The National Payroll Reporting Consortium (NPRC) is a non-profit trade association whose member organizations provide payroll processing and related services to over one million employers nationwide, covering over one-third of the private sector work force. Payroll service providers have long served an important role in our nation's tax collection system as a conduit between employers and government tax authorities. Payroll service providers improve the efficiency of government tax collection through electronic filing and tax payment programs and improve tax compliance.

Our members are concerned about the Department's recent changes to requirements for 'sequence numbers', which are a range of sequential numbers assigned to particular Puerto Rico employers and printed on Forms W-2PR and reported to the Hacienda as a fraud measure. Payroll services are given a range of numbers to apply to the W-2PRs of their clients, and asked to provide an allocation report of which sequence numbers are associated with which employers.

Previously a multi-site employer with one Employer Identification Number (EIN) could have several ranges assigned (one per site typically). The Hacienda recently said that it will now require that each employer only have a single range assigned, which is difficult if a client has many sites, or many accounts with a payroll processor. It may not be feasible at all if an employer has accounts with more than one payroll processor. As described by a recent message from the Hacienda:

"If any company has more than one store or branch and they use the same tax ID number the payroll service can only report to us one range of numbers for the tax ID. Example: K-mart has 25 stores around the island, you must assign to them a hole role of numbers from 1000 to 5000 they or you will make the distribution and report to us K-mart

form 1000 to 5000. This way any form that comes from San Juan, Bayamon, and Ponce will come from the same Employer.”

Puerto Rico employers and their service providers would have major difficulties in complying with this requirement. In some cases it would not be feasible to comply. The situations described below are all instances which involve multiple payroll systems and/or service providers generating Forms W-2PR. Generally payroll systems are independent of each other, and it is a major systems development effort to have two payroll systems communicate with each number regarding sequence numbers. When there are two or more service providers involved in the generation of W-2PRs, the parties would have to coordinate so that duplicate sequence numbers are not used and the same range is used for the same EIN.

1. Many large employers maintain multiple payroll systems that are not coordinated. In mergers and acquisitions, organizations typically continue to use different payroll systems for a period of time, if not indefinitely.
2. Large employers often have many locations whose payroll systems are not linked; for example, a warehouse division processing in Chicago and the retail division out of Miami.
3. Companies often have separate payroll systems for union or factory workers and executives or office staff. Separate divisions are often handled by different payroll departments.
4. Large employers often have many different payroll service providers. These service providers are often unaware that there are other divisions of a client that are being processed by other service providers. How would a single range of numbers be coordinated?
5. Late-issued W-2PRs; e.g., for contractors re-characterized as employees after the W-2PRs are printed, or workers added to the payroll retroactively. It would be necessary to implement special programming to reserve a certain number of unused sequence numbers for each employer.

The requirement that each employer only have a single range assigned per EIN would probably mean that payroll service providers would be unable to provide W-2PR preparation and filing services for large employers with any of these very common conditions. These employers would have to generate Forms W-2PR themselves, and would have great difficulty attempting to comply with this new requirement. We ask that the Hacienda continue to accept separate sequence number range assignments per EIN. We would like to meet with affected Hacienda officials, including Dinorah Lopez and Hacienda programming staff, to discuss this as soon as possible. Please call me at (610) 827-1591 if we can be of service.

Sincerely,



Pete Isberg
National Payroll Reporting Consortium