

Taxpayer Information Validation Program Guide

*CONNECTING the
PAYROLL INDUSTRY
with GOVERNMENT*



Pre-filing Taxpayer Information Validation programs are designed to improve the accuracy of electronically filed tax returns and payments filed by payroll service providers, software developers and transmitters to government tax authorities.

Taxpayer Information Validation programs serve to **verify or correct taxpayer information** *before* a tax return or payment becomes due, to minimize errors in tax return and payment processing. Taxpayer information to be perfected includes such information as Employer Identification numbers, business names, tax rates, assigned filing schedules, and other variables that affect the processing of tax returns,

This guide explains how to implement Pre-Filing Taxpayer Information Validation programs.

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Background

The National Payroll Reporting Consortium (NPRC) is a non-profit trade association whose member organizations provide payroll, tax reporting, tax payment, and related services to more than 1.4 million employers nationwide, covering more than one-third of the private sector workforce. The NPRC actively supports appropriate electronic filing and tax payment programs. In addition to our long-time association with state workforce agencies, we have long worked with the IRS and state revenue agencies and private sector organizations dedicated to developing and improving electronic filing standards.

Summary

Data interchanges between payroll service providers and state agencies can be consolidated into two basic types and two basic formats -- filing and pre-filing.

- **Filing** includes periodic company-level tax returns and reconciliation returns, employee level quarterly wage and annual W-2 reports, acknowledgements, and amended returns.
- **Pre-filing** applications include tax information validation programs to improve the accuracy of electronically filed returns and payments. Examples of tax information validation programs include electronic file exchanges to verify pertinent client employer information such as State Employer Identification numbers (SEINs), names, tax rates, deposit schedules, electronic filing/payment mandates, and other variables that improve the accuracy of tax filings.

This document is concerned with pre-filing tax information validation exchanges. For details concerning electronic filing systems, see NPRC's [Recommendations and Considerations for Designing Electronic Filing Systems](#), at www.nprc-inc.org.

Pre-filing tax information validation applications represent a truly new feature of the tax reporting process that is necessary to fulfill the promise of electronic filing. Electronic filing should not just eliminate costly agency processing of paper returns. Electronic Filing should also *dramatically improve the accuracy and quality* of incoming data.

Benefits

The real value in conducting pre-filing tax information validation exchanges is to identify and prevent error conditions before a return or tax payment becomes due. Payroll Service Providers report and pay employment taxes based on information provided by clients, but the process of obtaining new client account information is somewhat error-prone. Clients occasionally provide incorrect SEINs, filing or deposit requirements, or business names, so the information provided does not always match the state's files. Many of the critical elements also change over time. Organizations change their form of ownership or buy other businesses, changing their names and SEINs in the process. Deposit schedules and filing requirements change as a business grows. Some employers cease operations 'temporarily' keeping their account open until the agency inactivates the SEIN. Unemployment Insurance tax rates change annually.

To maintain a high degree of accuracy, it has proven necessary to verify client tax information between high volume electronic filers and tax authorities directly. Payroll

service providers have clients sign authorization forms to expressly permit such verification programs.

Intended Users

Pre-filing data exchange programs are designed for use by payroll service providers, software developers, electronic return originators, and transmitters, in conjunction with government tax authorities.

Process Flow

The service provider or transmitter initiates a request file containing taxpayer identification information for all tax payment/returns that it will file in the identified tax period. The responding tax authority compares each record to its database and returns the current information requested for the targeted tax period, as well as any error conditions as described below.

Target Tax Period

The file will identify the tax period to which the request applies. For example, a request may be sent, received, and processed in December 2010, but if the Target Tax Period indicates 1/1/2011 through 3/31/2011, the information provided should be related to the first quarter of 2011, not December 2010. This is a critical element because the requested data often changes from quarter to quarter and from year to year.

Timing

The frequency and timing of data exchanges is by mutual agreement, although tax authorities are invited to establish recommended schedules. Many agencies exchange such information more than once per quarter. A 'first pass' (e.g., on January 15th for the first calendar quarter) identifies discrepancies early enough for the service provider to work with clients to correct them. One or more additional passes (e.g., March 30th for the first calendar quarter) serve to verify that corrections made actually resolved any error conditions identified previously, and to verify any new accounts added since the first pass.

Transmission Protocols

Several protocols are available, including FTP, HTTP, magnetic media, CDs, etc., and can be selected by mutual agreement. For details on protocols, see NPRC's [Recommendations and Considerations for Designing Electronic Filing Systems](http://www.nprc-inc.org), at www.nprc-inc.org.

Formats

Several formats are available and are in widespread use today. In addition to fixed length (magnetic media or CDs) and comma delimited ASCII files, new XML schemas have been developed to support tax information validation programs.

The proposed XML format is currently pending finalization of a schema for pre-filing data exchange, which NPRC members are working in partnership with the Federation of Tax Administrators (FTA), several participating states, and the Tax Information Group for Ecommerce Requirements Standardization (TIGERS). With each file format, there are generally separate sections:

- File information to identify the tax authority and target tax period to which the information applies.
- Agent identification information.
- Employer information to identify each client and the data elements to be verified.

The schema will provide for reporting of client information to the state agency, and corresponding responses from the agency providing current information regarding the SEINs reported. XML schema samples can be accessed at: <http://www.statemef.com> in the Data Exchange Schemas from the FSET 4.1 Link.

Alternatively, the attached appendices include a fixed-format file layout for those agencies that do not use XML or prefer to use flat files to exchange.

Data Elements

Data elements are also by mutual agreement, and should reflect tax information deemed by the tax authority to be important to the error-free posting of returns and/or payments by the agency. Commonly verified data elements include:

- State Employer Identification Number (SEIN)
- SEIN extensions (e.g., unit codes, plant codes); designating sub-units within the SEIN
- Secondary SEIN
- Federal Employer Identification Number (FEIN)
- Business name as registered with the state
- Business Location
- Payroll Service Provider Client identification
- Employer contact information
- UI tax rates
- Special fund rates
- Account type (reimbursable, contributory)
- Account status (active, inactive, exempt, non-liable)
- Disability Plan Type
- Assigned deposit frequency
- Account credit/debit amount (to apply to a subsequent payment)

- EFT status (Required and/or Registered)
- POA on file

Definitions and Processing

- **Incorrect SEIN**

If a reported SEIN does not match the SEIN on file with the tax authority but the FEIN does match a valid FEIN, please provide the correct SEIN with the error message. The service provider will confirm the new SEIN with the client taxpayer.

- **Missing SEIN**

If an SEIN field is blank for a particular record, it represents a request for the SEIN (if available) from the tax authority. The client/taxpayer has advised the service provider that they have applied for a SEIN but have not received it yet.

The FEIN provided is used to look up corresponding SEINs. Employer name and address are provided as a secondary element. If the FEIN matches a valid account with the tax authority, please provide the SEIN. The service provider will confirm the new SEIN with the client taxpayer. If there is no application on file for the taxpayer, please indicate this status. The service provider will prompt the taxpayer to apply for a SEIN.

- **Secondary Identification Number**

This field is used to obtain secondary identification account numbers, such as EFT access codes, when applicable. SEIN extensions, where required, identify any sub-units within the SEIN, such as unit codes or plant codes. These sub-units are often established by multi-location employers who wish to receive separate reports of unemployment insurance activity and/or notices of claims filed. When applicable, the schema may be used to convey all recognized SEIN extensions for a given employer for validation.

- **Federal Identification Number**

The FEIN is a secondary identification number for most agencies. It can be used to verify that a reported SEIN matches the corresponding entity in the state's files. Employers occasionally forget to advise all agencies when a change is made to their FEIN, so if a FEIN does not match a reported SEIN, a warning notice should be generated to the service provider. The correct UI rate and/or deposit frequency for the SEIN provided should also be returned, in addition to the FEIN warning message.

- **Business Names**

Business names reported often reflect the legal name as registered with the IRS, which can often differ from the name registered with a state tax authority. Business names can be used as a secondary element to verify that a reported SEIN matches the corresponding entity in the state's files. If a business name does not match the name on file for the reported SEIN, a warning notice should be generated to the

service provider, along with the name registered with the state tax authority. The correct UI rate and/or deposit frequency for the SEIN provided should also be returned, in addition to the name warning message.

- **Employer Address and Contact Information**

Employer contact information is a secondary element that may be helpful if it is unclear whether a reported SEIN, business name, etc., relates to an entity on the tax authority's system. A match on address may be helpful in confirming that the accounts are the same (where a reported name differs somewhat, for example).

However non-matches in addresses are not significant; e.g., service providers may only have the corporate address of a multistate employer. The corporate address may not relate to the local worksite addresses on file with the state. In any event, employer addresses reported by service providers should not be used to update state addresses.

- **Client ID**

Client ID is a field used by service providers to identify clients, and is unique to each record. This information should be returned without alteration, for reconciliation purposes.

- **UI Tax Rates**

Unemployment insurance tax rates typically change annually but may change more often (based on reorganizations, acquisitions or redeterminations). The agency is asked to provide the UI tax rate on file for the targeted tax period requested.

- **Special Fund Rates**

When applicable, identify separately any special fund tax rates, if applicable. Special fund rates are tax rates that must be separately displayed on the tax return, and/or that are not FUTA certifiable. Sometimes these rates change annually, and can vary based upon experience or other criteria. The agency is asked to provide the current special fund rates on file for each SEIN.

- **Account type (reimbursable, contributory, exempt, etc)**

If a SEIN is reimbursable (i.e., no tax payments are due with quarterly wage reports), identify the SEIN as such. Otherwise the employer will be assumed to be contributory. Other designations may be accommodated with mutual agreement.

- **Account status (active, inactive, not-liable, etc)**

If a SEIN is inactive, or not-liable on the tax authority's database, return an indicator to that effect. If an SEIN is a predecessor, the successor EIN, and related information should be provided in corresponding fields. Other designations may be accommodated with mutual agreement.

- **Credit or Debit amount (e.g., credit to apply to a subsequent payment)**

If an employer account has an outstanding credit or debit amount to be applied, provide the outstanding dollar amount.

- **EFT Required and/or Registered**

If an employer account is required to remit payments via EFT, return an indicator to that effect. If an employer is required to register to remit payments via EFT, return an indicator to that effect.

- **Assigned Deposit Frequency**

Deposit frequencies vary by jurisdiction, deposit thresholds, and terminology. Return a two character code to indicate the assigned frequency. See Appendix III for specific codes.

- **POA On File**

If Power of Attorney is tracked by state, return indicator to show status.

- **Error Codes and Messaging**

Use applicable error codes and messages to reflect record changes when returning the file. See Appendix IV for additional details.

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Appendix I: Formats/Specifications

I. Fixed length sample data exchange format:

Header Record Specifications

A RECORD - SUBMITTER RECORD			
A POSITION	FIELD NAME	LENGTH	FIELD SPECIFICATIONS
1	RECORD IDENTIFIER	1	CONSTANT "A"
2 - 18	REQUESTOR STATE EMPLOYER IDENTIFICATION NUMBER (SEIN)	17	Enter the requestor's identification number as assigned by the state. Left justify and fill with blanks.
19 - 27	REQUESTOR FEDERAL IDENTIFICATION NUMBER (FEIN)	9	Enter the requestor's identification number as assigned by the IRS.
28 - 84	REQUESTOR COMPANY NAME	57	Enter the company name. Left justify and fill with blanks.
85 - 106	REQUESTOR STREET ADDRESS	22	Enter the company's location address (Attention, Suite, Room Number, etc.). Left justify and fill with blanks.
107 - 128	REQUESTOR CITY	22	Enter the company's city. Left justify and fill with blanks.
129 - 130	REQUESTOR STATE	2	Enter the company's State or commonwealth/ territory. Use a postal code abbreviation as shown in Appendix F. of the SSA <i>EFW2 Specifications</i> . For a foreign address, fill with blanks.
131 - 135	REQUESTOR ZIP CODE	5	Enter the company's ZIP Code. For a foreign address, fill with blanks.
136 - 139	REQUESTOR ZIP CODE EXTENSION	4	Enter the company's four digit extension of the ZIP code. If not applicable fill with blanks.
140 - 162	REQUESTOR FOREIGN STATE/PROVINCE	23	If applicable, enter the company's foreign state/province. Left justify and fill with blanks. Otherwise fill with blanks.
163 - 177	REQUESTOR FOREIGN POSTAL CODE	15	If applicable, enter the company's foreign postal code. Left justify and fill with blanks. Otherwise fill with blanks.

178 - 179	REQUESTOR COUNTRY CODE	2	<p>If one of the following applies, fill with blanks:</p> <ul style="list-style-type: none"> • One of the 50 states of the U.S.A. • District of Columbia • Military Post Office (MPO) • American Samoa • Guam • Northern Mariana Islands • Puerto Rico • Virgin Islands <p>Otherwise, enter the applicable Country Code (see Appendix G of the SSA EFW2 Specifications).</p>
180 - 206	REQUESTOR CONTACT NAME	27	<p>Enter the name of the person to be contacted concerning processing problems. Left justify and fill with blanks.</p>
207 - 221	REQUESTOR CONTACT PHONE NUMBER	15	<p>Enter the contact's telephone number (including area code). Left justify and fill with blanks.</p>
222 - 226	REQUESTOR CONTACT PHONE EXTENSION	5	<p>Enter the contact's telephone extension. Left justify and fill with blanks.</p>
227 - 266	REQUESTOR CONTACT EMAIL/INTERNET	40	<p>If applicable, enter the contact's e-mail/Internet address. This field may be upper or lower case. Left justify and fill with blanks. Otherwise fill with blanks.</p>
267 - 276	REQUESTOR CONTACT FAX	10	<p>If applicable, enter the contact's fax number (including area code). Otherwise, fill with blanks. For U.S. and U.S. territories only.</p>
277 - 316	REQUESTOR RETURN EMAIL/INTERNET	40	<p>If applicable, enter the contact's preferred acknowledgement e-mail/Internet address. This field may be upper or lower case. Left justify and fill with blanks. Otherwise fill with blanks.</p>
317 - 331	REQUESTOR SUBMISSION ID	15	<p>Enter the submission identification number unique to each transmission. Left justify and fill with blanks. Otherwise fill with blanks.</p>

332	REQUEST TYPE	1	Enter the applicable indicator for the type of request being made: <ul style="list-style-type: none"> • A = Add Report • D = Delete Report • R = Rate Exchange • F = Frequency Exchange
333 - 337	REQUEST PERIOD	5	Enter the tax period being requested - CCYYQ

Employer Detail Record Specifications

E RECORD - EMPLOYER DETAIL RECORD				
Source determines initiator of data. 1 = Requestor, 2 = Agency				
E POSITION	FIELD NAME	LENGTH	FIELD SPECIFICATIONS	SOURCE CODE
1	RECORD IDENTIFIER	1	Constant "E"	1,2
2 - 18	STATE EMPLOYER IDENTIFICATION NUMBER (SEIN)	17	Enter the employer's identification number as assigned by the state. Left justify and fill with blanks.	1,2
19 - 38	SEIN EXTENSIONS	20	If applicable, enter the employer's SEIN extension (Unit Code, Plant Code, etc.). Left justify and fill with blanks. Otherwise fill with blanks.	1,2
39 - 47	SECONDARY SEIN	9	If applicable, enter the employer's secondary SEIN (EFT Access Code, Successor SEIN, etc.). Left justify and fill with blanks. Otherwise fill with blanks.	1,2
48 - 56	FEDERAL EMPLOYER IDENTIFICATION NUMBER (FEIN)	9	Enter the employer's identification number as assigned by the IRS.	1,2
57 - 113	EMPLOYER NAME	57	Enter the employer's name. Left justify and fill with blanks.	1,2
114 - 135	EMPLOYER STREET ADDRESS	22	Enter the employer's location address (Attention, Suite, Room Number, etc.). Left justify and fill with blanks.	1,2
136 - 157	EMPLOYER CITY	22	Enter the employer's city. Left justify and fill with blanks.	1,2
158 - 159	EMPLOYER STATE	2	Enter the employer's State or commonwealth/ territory. Use a postal code abbreviation as shown in Appendix F. of the <i>SSA Specifications for Filing Forms W-2 Electronically (EFW2)</i> . For a foreign address, fill with blanks.	1,2

160 - 164	EMPLOYER ZIP CODE	5	Enter the employer's ZIP Code. For a foreign address, fill with blanks.	1,2
165 - 168	EMPLOYER ZIP CODE EXTENSION	4	Enter the employer's four digit extension of the ZIP code. If not applicable fill with blanks.	1,2
169 - 191	FOREIGN STATE/PROVINCE	23	If applicable, enter the employer's foreign state/province. Left justify and fill with blanks. Otherwise fill with blanks.	1,2
192 - 206	FOREIGN POSTAL CODE	15	If applicable, enter the employer's foreign postal code. Left justify and fill with blanks. Otherwise fill with blanks.	1,2
207 - 208	COUNTRY CODE	2	If one of the following applies, fill with blanks: <ul style="list-style-type: none"> • One of the 50 states of the U.S.A. • District of Columbia • Military Post Office (MPO) • American Samoa • Guam • Northern Mariana Islands • Puerto Rico • Virgin Islands Otherwise, enter the applicable Country Code shown in Appendix G of the <i>SSA Specifications for Filing Forms W-2 Electronically (EFW2)</i> .	1,2
209 - 235	EMPLOYER CONTACT NAME	27	Enter the name of the person to be contacted concerning account problems. Left justify and fill with blanks.	1,2
236 - 250	EMPLOYER CONTACT PHONE	15	Enter the contact's telephone number (including area code). Left justify and fill with blanks.	1,2
251 - 255	EMPLOYER CONTACT PHONE EXTENSION	5	Enter the contact's telephone extension. Left justify and fill with blanks.	1,2
256 - 295	EMPLOYER CONTACT E-MAIL/INTERNET	40	If applicable, enter the contact's e-mail/Internet address. This field may be upper or lower case. Left justify and fill with blanks. Otherwise fill with blanks.	1,2

296 - 303	CLIENT ID	8	If applicable, enter the client ID used by the Requestor to uniquely identify each employer. Left justify and fill with blanks. Otherwise fill with blanks.	Locked
304 - 310	UI CONTRIBUTION RATE	7	If applicable, enter the Unemployment Insurance (UI) Contribution Rate for employer. (999V9999) Otherwise fill with blanks.	2
311 - 317	SPECIAL FUND RATE	7	If applicable, enter the Special Fund Rate for employer. (999V9999) Otherwise fill with blanks.	2
318	ACCOUNT TYPE	1	If applicable, enter the employer's account type: • R = Reimbursable • C = Contributory • E = Exempt Otherwise fill with blanks.	2
319	ACCOUNT STATUS (ACTIVE, INACTIVE, EXEMPT, NON-LIABLE)	1	If applicable, enter the employer's account status: • A = Active • I = Inactive • N = Not-Liable Otherwise fill with blanks.	2
320	DISABILITY PLAN TYPE	1	If applicable, enter the employer's Disability Plan Type (specific to state).	2
321 - 322	ASSIGNED DEPOSIT FREQUENCY	2	If applicable, enter the employer's assigned deposit frequency. See Appendix III. Otherwise fill with blanks.	2
323 - 330	CREDIT/DEBIT AMOUNT	8	If applicable, enter the employer's current outstanding credit, or debit (-999999V99). Otherwise fill with blanks.	2
331	EFT REQUIRED	1	If applicable, enter the employer's EFT Required indicator: • Y = EFT required. • N = EFT not required. Otherwise fill with blanks.	2
332	EFT REGISTERED	1	If applicable, enter the employer's EFT Registered indicator: • Y = EFT required. • N = EFT not required. Otherwise fill with blanks.	2

333	POA ON FILE	1	If applicable, indicate if a current POA is on file at agency (Y or N). Otherwise fill with blanks.	2
334 - 339	ERROR CODE	6	If applicable, enter error code related to processing employer. Use established NPRC error codes, and messages. Left justify and fill with blanks. Otherwise fill with blanks.	2
340 - 364	ERROR MESSAGING	25	If applicable, enter error code message related to processing employer. Use established NPRC error codes, and messages. Left justify and fill with blanks. Otherwise fill with blanks.	2
365 - 370	ERROR CODE 2	6	If applicable, enter error code related to processing employer. Use established NPRC error codes, and messages. Left justify and fill with blanks. Otherwise fill with blanks.	2
371 - 395	ERROR MESSAGING 2	25	If applicable, enter error code message related to processing employer. Use established NPRC error codes, and messages. Left justify and fill with blanks. Otherwise fill with blanks.	2

Appendix II: XML Data Exchange Format:

See www.statemef.com

Use the FSET 4.1 Package link, to download the XML Schemas pertaining to Tax Validation.

Appendix III: Standard Deposit Schedule Codes:

<u>Description</u>	<u>Code</u>	<u>Deposit Schedule Description</u>
DAILY	D1	Deposit due 1 day after cutoff
3 DAY DUE DAILY	D3	Deposit due 3 days after cutoff
5 DAY DUE DAILY	D5	Deposit due 5 days after cutoff
OCTAL MONTHLY	OM	Deposits are made 8 times/month
SEMI-WEEKLY	SW	Deposits are made every other week
WEEKLY	WK	Deposits are made weekly
QUARTER MONTHLY	QM	Deposits are made 4 times/month
SEMI-MONTHLY	SM	Deposits are made twice per month
ACCELERATED MONTHLY	AM	Deposits are due monthly (early due date)
ACCELERATED QUARTERLY	AQ	Deposits are due quarterly (early due date)
MONTHLY	MN	Deposits are due once per month
QUARTERLY	QT	Deposits are due once per quarter
SEMI-ANNUAL	SA	Deposits are due twice per year
ANNUAL	AN	Deposits are due once per year
TIED-TO-FED	TF	State deposits are made only when their Federal deposits are made with the exact same schedule as the Fed deposit schedule.
LIMIT DRIVEN	LD	Used for jurisdictions that require determination of deposit schedule based on accumulated tax liabilities reaching pre defined dollar limits within a deposit period.

Appendix IV: Suggested Error Conditions/Definitions:

Most error conditions that occur in electronic filing of payroll returns are common to all employers, reporting organizations, and state tax authorities. The NPRC has compiled a list of error conditions that are already in use by many state agencies. The list includes suggested codes, severity ratings and descriptions, and is offered to states as a helpful starting point, if not a comprehensive set to be adopted.

The list improves clarity by appropriately distinguishing often-ambiguous error conditions and descriptions, making them immediately actionable, thus avoiding calls to agency staff to more specifically identify the problem.

The alternative to using existing error condition listings is that each agency would create their own unique definitions and codes. This is difficult and error-prone, as agency software developers must “reinvent the wheel” in establishing and maintaining their own error condition lists. It also acts as a barrier to electronic filing, because private sector software developers and service providers otherwise have to build databases of each agency’s error definitions and their associated codes and handling.

The list of suggested error condition codes/descriptions can be found in the more comprehensive recommendations document at <http://www.nprc-inc.org/govcst.html>.