Recommendations and Considerations for Electronic Filing Systems for State Unemployment Insurance Employer Wage and Tax Reporting

presented by

NATIONAL PAYROLL REPORTING CONSORTIUM, INC. (NPRC)

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Executive Summary

It is well documented that some state workforce agency core computer systems are aging and increasingly difficult to maintain. At present, some states are in a period of sweeping change in electronic filing systems for employer Unemployment Insurance (UI) wage and contribution/tax reports. Other states are waiting for their opportunity and paying close attention to those developing new systems before them. These next generation filing systems raise opportunities to expand e-filing and improve administrative efficiencies for state agencies and employers.

Over one million small business employers and accountants use commercial off-the-shelf and Web-based payroll/tax software (e.g., QuickBooks) to transmit their tax information and payments. An additional 1.9 million employers, who collectively employ over 36 percent of the private sector work force, pay and file employment tax reports (including annual W-2s, quarterly wage reports, and new hire reports) to the Internal Revenue Service (IRS), Social Security Administration (SSA), state workforce agencies, and municipal tax authorities through an NPRC member company.

Understandably, government software development efforts often concentrate on more-familiar stakeholders, who include individual taxpayers, small businesses, bookkeepers, and accountants who typically submit one return or payment at a time.

Bureau of Labor Statistics (BLS) data show that although large employers represent less than ½ of one percent of employers, these large employers employ more than half of the U.S. workforce. Systems designed solely for individual submissions are not relevant for large employers and organizations that file in high volume (i.e., bulk or batch-oriented filers). These organizations often file thousands of returns to each tax authority on any given day. Accommodating both individual and high-volume filers in system designs is necessary to enable broad electronic filing participation.

The National Payroll Reporting Consortium (NPRC) is a non-profit trade association whose member organizations provide payroll processing and related services to nearly two million U.S. employers, representing over 36% of the private sector workforce.

The NPRC actively supports appropriate electronic filing and tax payment programs. We have worked extensively with state workforce/labor/UI agencies, the IRS and state revenue agencies, as well as organizations such as the National Association of State Workforce Agencies (NASWA) and the Federation of Tax Administrators (FTA) to develop, improve and recommend standards for electronic filing that make it easier for everyone to improve existing systems and develop new systems.

This document is intended to provide background information, best practices, and lessons learned related to UI electronic tax and wage reporting systems. It contains consensus recommendations for UI agency administrators, Information Technology (IT) leaders, system integrators and developers that will:

- improve data quality;
- leverage the best in technologies;
- increase administrative efficiencies;
- reduce the burden to employers; and
- improve employer customer satisfaction.

NPRC recognizes that these systems must also provide for state-specific reporting requirements. However, in designing or modifying electronic filing systems, the use of standards and common data formats facilitates implementation and minimizes maintenance.

Given an opportunity to replace a legacy production system, it is more important than ever to carefully consider design alternatives for electronic filing systems. Careful consideration may make the difference between effective, efficient systems, and permanently burdening workforce agencies and employers with substantial and unproductive processes. The following pages describe – in brief – design considerations, standards and best practices that can facilitate development and bring more employers into electronic filing. The information is separated into individual recommendations. The top twelve are:

1. Early collaboration in design phases
2. Authorizations - Secure and reasonable authorization processes
3. Include Amendment processing in tax system implementations
4. Do not force automatic calculation of UI taxable wages for bulk filings
5. Use established standards
6. Establish appropriate edits
7. Integrate pre-filing taxpayer information validation to improve data quality
8. E-Services
9. Offer ACH Credit for electronic tax payments
10. Backup/Contingency systems
11. Maintain consistent ID / account number formats
12. Publicly available agency filing and payment specifications

A short overview of each recommendation begins on the next page. Separate appendices are also included to outline technical details of each recommendation. Members of NPRC look forward to working with each agency to develop the most appropriate electronic filing systems for employer wage and tax reporting.

Recommendations

1. Early Collaboration in Design Phases

Insufficient time allowed for system changes is among the foremost problems faced by payroll service providers and state agencies. One of the easiest ways to ensure broad acceptance and a smooth transition to the new environment is to involve industry partners early in the development cycle. By providing early draft specifications, state agency developers can also benefit from the experience of organizations that have implemented similar systems in other states.

For more details see Appendix 1.

2. Authorizations – Secure and Reasonable Authorization Processes

As states implement new tax systems, they are also revising practices used to authorize payroll service providers to file, pay and administer tax filing services on behalf of their clients. It has become an emerging and significant challenge to coordinate proper authorizations to ensure that activities required for a successful filing can continue. The authorization process can take many different and sometimes combined forms, including:

- Memorandum of Understanding (MOU)
- Reporting Agent Authorization (RAA)
- Third Party Administrator (TPA) Designations

For more details see Appendix 2.

3. Include Amendment Processing in Tax System Implementations

Some new UI tax system implementations do not initially include processes to amend original filings. The gap between initial implementation and when amendment processing is available will adversely impact data quality and a comprehensive electronic filing system. Amendment processing should include bulk processing capacity to increase efficiencies.

For more details see Appendix 3.

4. Do Not Force Automatic Calculation of UI Taxable Wages for Bulk Filings

Some states have implemented, or are considering, new filing systems that automatically calculate unemployment insurance (UI) taxable wages for the quarterly UI contribution (tax) report. Some new tax systems automatically generate the employer contribution (tax) report based on wages reported. This may be useful for small employers; however, several complexities make this impractical for large employers, employers with multiple business locations, and high-volume filers.

A study of this, and related issues and alternatives was conducted by a group of State Workforce Agencies, NASWA, USDOL and NPRC members, and is available at https://www.nprc-inc.org/d_studies/NPRC_OOS_Wages_2014.pdf, or from NASWA.

For more details see Appendix 4 (in addition to the study highlighted above).

5. Use Established Standards

Standards facilitate programming for multi-state software developers and service providers. Use of nationwide standards, such as the FSET and other XML-based systems, and/or fixed file formats such as the SSA EFW2 and NACHA CCD+ encourages electronic filing and payments, reduces programming changes and costs and improves administrative processes.

For more details see Appendix 5.

6. Establish Appropriate Edits

When designing next-generation systems, there are opportunities to improve the tax reporting process by reevaluating whether existing legacy error conditions remain appropriate. And while it is tempting to add new edits when designing new electronic filing systems, this can have the adverse effect of making it harder to file electronically than on paper.

NPRC members and the employers they represent follow SSA and IRS reporting guidelines and requirements. The federal agencies will generally only reject submissions when they are improperly formatted (i.e., cannot be read).

For more details see Appendix 6.

7. Integrate Pre-Filing Taxpayer Information Validation to Improve Data Quality

Decades of experience with client taxpayers and tax authorities have proven the necessity of verifying client entity information prior to filing if at all possible. Clients are often not knowledgeable about their status with the tax authorities and may provide critical information (e.g., assigned tax rate, entity changes such as the purchase of a business/merger, outdated EINs or other information) that is incorrect or outdated. Additionally, clients do not always communicate taxpayer information to their PSP. Consequently, PSPs may not have accurate client data without validated and current taxpayer information from the state tax agency.

A previous analysis of this process by a PSP concluded that tax authorities that do not take advantage of information validation programs could generate significantly more correspondence per return than agencies that have validation programs. Verifying such data on a pre-filing basis is easily cost-justified in terms of improving accuracy and efficiencies for both the tax authority and the submitter.

For more details see Appendix 7.

8. E-Services

State system developers must often focus limited resources on completing a task of limited scope, for example enabling electronic filing of certain tax returns. State agencies may see greater system usage, administrative efficiencies and cost savings by considering all interactions and stakeholders.

For more details see Appendix 8.

9. Offer ACH Credit for Electronic Tax Payments

ACH Credit with addenda records (CCD+) is the industry standard for large payroll service providers (PSPs), which routinely originate thousands or even tens of thousands of tax payments to each agency on any given day. ACH Debit is only appropriate for individual one-at-a-time transactions and transmitters that do not directly handle employer funds.

For more details see Appendix 9.

10. Backup/Contingency Systems

It is important to consider backup and contingency options for electronic filing when extraordinary circumstances result in an inability to timely file.

For more details see Appendix 10.

11. Maintain Consistent ID / Account Number Formats

When state agencies update or replace their UI tax systems, they may revise employer account number formats. It is critical for state tax agencies to maintain the core account number consistency when transitioning to a new ID / account number format.

For more details see Appendix 11.

12. Publicly Available Agency Filing and Payment Specifications

State agencies should maintain current specifications on a publicly available website that does not require permission to access. Only potentially sensitive financial information such as banking routing and transit numbers should be retained behind a secure portal.

For more details see Appendix 12.

13. Electronic Notice File Process

The Electronic Notice File Process (“e-Notice”) is an application that enables an agency to furnish an authorized tax provider (“provider) a file containing data elements from notices and a PDF of the notices.

For more details see NPRC Studies & Recommendations - Electronic Notice File Process.

Appendix

1. Early Collaboration in Design Phases

Insufficient time allowed for system changes is among the foremost problems faced by payroll service providers and state agencies. One of the easiest ways to ensure broad acceptance and a smooth transition to the new environment is to involve industry partners early in the development cycle. This communication will help payroll service providers to implement modifications successfully by:

- improving understanding of the changes;
- allowing for orderly allocation of resources;
- providing a communication channel for concerns or implementation challenges to the agency; and,
- allowing for negotiation of practical implementation issues, testing, and timelines.

Certain changes, such as the addition of entirely new data elements, also require significant changes to employer systems, and may require additional time. In the case of new data elements, it often takes several weeks to solicit and collect new information. Early involvement in design discussions can facilitate this process.

By providing early warning and proposed specifications, state agency developers can also benefit from the experience of organizations that have implemented similar systems in other states.

Recommendation: Provide a minimum of six months lead time prior to the related tax period end date after final specifications have been published (e.g., 6/30 for the period ended 12/31 for wage reports due 1/31.)

Return to Recommendations.

2. Authorizations – Secure and Reasonable Authorization Processes

As states implement new tax systems, they are also revising practices used to authorize payroll service providers to file, pay and administer tax filing services on behalf of their clients. It has become an emerging and significant challenge to coordinate proper authorizations to ensure that activities required for a successful filing can continue. The NPRC advocates for strong authorizations that protect the employer/client, the tax agency, and the PSP, but believes that this can be accomplished without unduly burdening any of the three parties.

The authorization process can take many different and sometimes combined forms, including:

- Memorandum of Understanding (MOU) – The MOU is a contractual agreement between the payroll service provider and the state agency in which the PSP certifies that its clients have individually authorized the PSP and that the PSP can provide copies of the authorization upon request. This is the most efficient authorization method.

- Reporting Agent Authorization (RAA) – IRS Form 8655 or an approved adaptation. The ubiquitous IRS Form 8655 RAA is a form that provides authorization for the PSP to electronically file and pay employment taxes with the IRS as well as state tax agencies. The RAA provides a standard authorization that greatly simplifies the process for employers/clients that operate in multiple jurisdictions. This one clear authorization form is applicable to all relevant tax agencies.
- Custom Authorizations – Power of Attorney (POA) – A custom authorization is an agency-specific POA that PSPs must obtain to conduct comprehensive tax filing services for their clients. Since a custom POA is specific to a state agency, it is more difficult to obtain from the client and may require multiple POAs – one for every jurisdiction in which the employer/client operates. Clients often object to specific authorization for different agencies, since they have already signed an authorization that already covers every tax authority.
- Third Party Administrator (TPA) Designations – Some tax filing systems require the employer/client to designate and assign the proper rights to a TPA. This is typically done by the employer/client logging into the tax system and designating the TPA from a drop-down list. This process could also be achieved by exchanging information between the TPA/PSP and the tax agency to identify client employers. Experience has demonstrated that client behavior is difficult to manage, and it is often not possible to obtain 100% compliance from the client base if the employer must take action to establish the authorization.
- Combined POA and TPA Designations – Some state agencies are requiring both a POA and TPA designation. The agencies require that both the POA and TPA designation agree before permitting PSPs full authorization to service the client. This provides an additional level of complexity and increases the likelihood of non-compliance. The increasing complexity in the authorization process should not interfere with the efficient and secure administration of the tax filing process.

Best Practices and Strategies

There are some best practices and strategies to consider that help minimize the impact that authorization requirements for electronic filing may present; including:

Recommendations:

1. Accept electronically filed returns and payments that are both valid and formatted correctly. Do not reject due to missing authorizations.

   All clients of payroll service providers sign a limited power of attorney, usually based on the IRS Form 8655, Reporting Agent Authorization. Form 8655 includes authorizing language related to state and local taxes, which expressly authorizes the service provider to deposit and file specified taxes on the clients' behalf, and to receive otherwise confidential information from federal, state and local taxing authorities.

Form 8655 also authorizes PSPs to receive information that enables their PSP to periodically verify relevant information regarding each client with the tax authorities to improve the accuracy of the data before filing a return.

Most agencies, including the Social Security Administration (which processes employer W-2 reports) have found it unnecessary to track authorizations between employers and PSPs. The IRS tracks which employers are associated with which service provider, but only for the purpose of sending tax information to the service provider. Electronically filed returns are accepted whether or not an authorization is on file.

Similarly, state agencies are merely receiving required returns and payments. Federal OMB Memorandum M-04-04 (12/16/2003), E-Authentication Guidance for Federal Agencies[1], directs that authentication systems should be risk-based, and provides that systems that only receive information are among the lowest risk tiers. Virtually no tax authority checks each incoming payment to determine if the remitter is authorized to remit the tax in question.

2. Adopt a Memorandum of Understanding (MOU) with high-volume e-filers to avoid the need to track paper authorization forms.

   PSPs retain copies of each authorization signed by clients. Many state agencies rely on a MOU to establish that the payroll service organization has such forms on file for each client and will provide a copy of any authorization on request. This approach saves the state from the considerable administrative workload involved in reviewing, recording and storing copies of paper authorization forms for each client. Furthermore, state agencies and employers are similarly free from having to maintain and coordinate authorizations among PSP and state agencies.

3. Automatically enroll each taxpayer for electronic filing, or otherwise prepare the electronic system to accept returns for registered and active employers without a separate authorization transaction.

   If it is necessary to maintain a PSP authorization function, use existing processes between the PSPs and tax authorities to populate the database. Tracking which provider is submitting a return on behalf of a taxpayer can be easily accomplished using the Taxpayer Information Validation Program. For details on this program, see Taxpayer Information Validation Program Guide, at https://www.nprc-inc.org/d_studies/Tax_Information_Validation_Program_Guide.pdf.

4. Do not require the individual taxpayer to complete the authorization before a service provider can file. This practice is confusing and contributes to delays in the filing process, which impacts the taxpayer, the tax authority and the service provider.

[1] Federal OMB Memorandum M-04-04 (12/16/2003), E-Authentication Guidance for Federal Agencies - https://georgewbush-whitehouse.archives.gov/omb/memoranda/fy04/m04-04.pdf

- For instance, some enrollment programs require the taxpayer to assign administrator roles. Timing and accuracy become critical or a myriad of processing issues can result. For instance: If a taxpayer assigns an administrator role too early to their new payroll service, this may block a prior service provider from filing the last wage/tax report.
- A taxpayer may inadvertently set up incorrect authorization levels, which can result in misrouted and delayed correspondence which may include UI claim notices.
- A common error occurs when an existing service provider identification code or new role assignment could not be found by the taxpayer (from a drop-down list of available service providers). In some cases, employers have created many new "Agents" on state systems when they were unable to find the existing record of their agent.

If unresolved prior to a filing deadline, this design may result in an authorized agent being unable to file a return or notify a client (who is unprepared to file the return) to perform the filing. Too often, no return is filed in these circumstances. NPRC strongly recommends against any requirement that taxpayers drive any enrollment or authorization process. All taxpayers sign a valid authorization form. Implementing the authorization, including registering the authorization and enrolling (if necessary) should be resolved between the agent and the tax authority.

5. Include the effective quarter and year on the authorization file to allow service providers to amend prior periods for former clients.

   It is common when a client changes from one service provider to another for an overlap in service to occur. A prior agent can be blocked from filing a last wage/tax report because a new service provider has enrolled the client with the tax authority in preparation for the upcoming quarter.

   Another scenario that sometimes can occur is the prior agent inadvertently overwrites the current authorization to file a necessary amendment. One way in which the payroll services industry differs from the tax preparation industry is that only the organization that originally filed an employment tax return is able to automatically analyze subsequent changes and prepare amended returns. Consequently, employers often ask their prior service provider to file amended returns, which requires extraordinary coordination to re-establish the authorization of the prior service provider. This then may complicate the authorization of the current service provider, whose authorization may be overwritten to permit the amendment to be filed.

   The current service provider believing they are already successfully authorized attempts to file at the end of the quarter and realizes they must complete the enrollment process again in a very short window of time. These additional steps represent a new tax administration burden but can be properly managed using the effective dates in the authorization file. All this coordination is difficult, and error prone, and too often results in the unintended result of no return being filed despite the best intentions of all involved. Designers should seriously consider whether it is truly necessary to mandate authorizations to accept electronically filed returns.

6. Authenticate the PSP and accept all validly formatted electronically filed returns. However, do not send information concerning employer accounts to the PSP until an authorization is on file. Generally, the PSP is initially authorized when the tax agency reviews and validates the PSP's request to file and pay taxes on behalf of clients. State agencies then typically provide authenticated PSPs credentials to file and pay.

Return to Recommendations.

3. Include Amendment Processing in Tax System Implementations

Automation of amended returns can be far more complex than automation of original returns, requiring separate analysis and programming to convert to electronic filing. To avoid unnecessary development costs and maximize usage of existing systems, consider alternative approaches for reporting of corrections such as using original filing formats and protocols for corrected submissions in replacement mode.

Many PSPs rely on bulk processing to efficiently process client tax information. Bulk processing should increase efficiencies for both the PSP and state tax agencies. Recent state tax automation projects often exclude amendment processing from the core tax system and state agencies expect PSPs to process amendments through the state web portal as individually keyed transactions which can delay the submission of correct wage information to the state. This is not conducive to efficient processing for the PSP or its clients. State tax agencies should include bulk amendment processing as part of the core tax system implementation.

Recommendation: State agencies are encouraged to include bulk amendment processing in its core tax system implementation.

Return to Recommendations.

4. Do Not Force Automatic Calculation of UI Taxable Wages for Bulk Filings

Some states have implemented, or are considering, new filing systems that automatically calculate UI taxable wages for the quarterly UI contribution (tax) report. Some new tax systems automatically generate the employer contribution (tax) report based on wages reported. This may be useful for small employers; however, several complexities make this impractical for large employers, employers with multiple business locations, and high-volume filers. For example, every state except Louisiana, Minnesota, and Wyoming allows credit for wages paid by the same employer in the same calendar year in any other state. In mergers and acquisitions, states permit successor employers to include wages paid by predecessor employers in taxable wage calculations. Large employers also frequently correct SSNs or wages reported in prior quarters. Each of these situations will result in discrepancies with any automatic taxable wage calculation program, which would create substantial new workload for state agency staff and employers.

A study of this and related issues and alternatives was conducted by a group of State Workforce Agencies, NASWA, USDOL and NPRC members, and is available at https://www.nprc-inc.org/d_studies/NPRC_OOS_Wages_2014.pdf, or from NASWA.

Recommendation: Since the taxable wage calculation feature is beneficial to small employers, it should be considered in new system designs on an optional basis. Employers who interact directly with the state agency's Internet tax filing system could have this feature as a default option, while being optional for employers and service providers who upload wage files. State agencies should continue to accept the employer's/service provider's calculation of taxable wages and tax due for such files, while providing a warning to the PSP of the difference in taxable wage calculations.

Return to Recommendations.

5. Use Established Standards

Standards facilitate programming for multi-state software developers and service providers. Use of nationwide standards, such as the FSET and other XML-based systems, and/or fixed file formats such as the SSA EFW2 reduces programming changes and costs and improves administrative processes. However, be aware that identifying a standard (such as SSA's EFW2) is not sufficient for programming to begin. Even when standards are used, detailed implementation guides are necessary to specify such elements as:

- Transmission and security protocols
- XML schemas and versions (if applicable)
- Formatting preferences
- Listing of tax returns/return types supported (e.g., amended returns, supplemental returns)
- Business rules and edits
- Detailed information about data elements (e.g., those that are mandatory, optional, conditional, name tag protocol, minimum/maximum field length)
- Detailed information related to enrollment processes, rules, and edits to validate employer reported wage totals.

Recommendation: Use only established standards for filing formats and data standards.

Return to Recommendations.

6. Establish Appropriate Edits

When designing next-generation systems, there are opportunities to improve the tax reporting process by reevaluating whether existing error conditions remain appropriate. And while it is tempting to add new edits when designing new electronic filing systems, this can have the adverse effect of making it harder to file electronically than on paper.

For example, tax authorities universally assume that all workers will always have a valid Social Security Number (SSN). However, employers do employ and pay workers whose SSN and/or work authorization status is pending, and when returns are due, their wages must be reported. New coordination procedures between the SSA and the Department of Homeland Security often result in delays in issuing new SSNs – even to workers who are legally in the United States with a valid work authorization. NPRC members and the employers they represent follow SSA and IRS reporting guidelines and requirements. Neither the SSA nor the IRS rejects employer submissions due to errors in SSNs, name formatting, or missing or incorrect addresses, etc. The federal agencies will generally only reject submissions when they are improperly formatted (i.e., cannot be read).

State agencies should exercise similar caution for editing other taxpayer information. While accurate information is a universal goal, rejecting tax returns for errors in data that are not material to the timely and accurate processing of the tax return should be avoided. Examples of this type of edit include monthly employment totals on quarterly UI returns and non-critical UI wage information (SOC codes, hourly rates of pay, hours worked, location of employment, etc.).

Recommendations:

1. Adopt longstanding edits published by the Social Security Administration. Minimal 'hard' edits (i.e., resulting in rejected returns or wage records) are most appropriate for UI wage and tax reporting. The only edits that should be considered for such treatment are:
    - State employer identification numbers must be valid and active.
    - SSNs must be numeric (follow SSA published specifications). Pending SSNs should be reported as 000000000.
    - Required names cannot begin with a space (i.e., employee last name).
    - Money amounts must be numeric.

2. File transmissions containing multiple employers should not be wholly rejected for errors in a single employer's return. Employers in the file with correct data should be accepted and posted. Only employer returns with errors should be rejected or moved to a suspense file for subsequent resolution.

3. If rejection is necessary in a quarterly wage report, only the SSN(s) that failed edits should be rejected. However, if certain employee records are not accepted, the total of the supporting wage records or W-2 reports will no longer equal company-level totals reported on UI contribution returns and may no longer match the payment amounts. The agency should accept the PSP payment and credit the employer account for the original amount and establish an over/under payment, as appropriate.

4. Identify all error conditions within rejected files. A few states have rejected files when encountering the first few errors without reading the entire file to identify all error conditions. This has the effect of making the filing process iterative, especially for very large submitters who must repeatedly resubmit entire files to identify all errors. (As each error is identified, it is resolved or removed, and the entire file is resubmitted to identify the next few errors, and so on.)

5. Explicitly describe all edits within published specifications. This is among the most common and severe difficulties in implementation: Error conditions that are unpublished are too often only discovered in a production mode, when actual tax returns are rejected. If new edits or changes to error handling are planned, state agencies should analyze data previously reported by employers in existing electronic formats to determine the impact of the proposed change. Plan to conduct significant educational efforts to advise employers of any changes to longstanding edits. State agencies can increase accuracy and compliance with new e-file systems if design specifications explicitly describe all edits.

6. Avoid rejecting tax returns/wage reports for information not essential to the timely processing of the tax return/wage report. States have recently tried to reject quarterly UI tax reports for missing or inaccurate monthly employment totals. While this data is important for the Bureau of Labor and Statistics' Quarterly Census of Employment and Wages (QCEW) program, it should not interfere with the UI tax and wage reporting process. This would also apply to state UI agencies that collect information in addition to the name, SSN, and UI total wages on the quarterly wage report. It is not appropriate to reject wage reports needed for UI benefit calculations and UI tax calculations for wage records that have missing or invalid SOC codes, hourly rates of pay, hours worked, or location of employment. It would be appropriate for the UI agency to notify taxpayers of these errors not essential to the UI benefit and tax systems, but not to reject the quarterly report.

Return to Recommendations.

7. Integrate Pre-Filing Taxpayer Information Validation to Improve Data Quality

Enhanced data accuracy is a major goal of all electronic filing systems. If this is not achieved, then the system will have accomplished little more than saving data-entry expense. With planning, however, such systems can achieve dramatic improvements in data quality.

Decades of experience with client taxpayers and tax authorities have proven the necessity of verifying client entity information prior to filing if at all possible. Clients are often not knowledgeable about their status with the tax authorities and are occasionally unsure of their own employer identification numbers, current tax rates or other requirements for filing and depositing payroll taxes. They may provide critical information (e.g., assigned tax rate) that is incorrect or outdated. If there have been entity changes such as the purchase of a business, merger, or change in partners, outdated EINs or other information are sometimes provided.

In terms of agency correspondence (e.g., balance due notices) related to tax returns filed, one large payroll service provider found that agencies that conduct routine taxpayer information validation programs eliminate over 97 percent of errors that would otherwise cause posting problems resulting in a notice. Said another way, tax authorities that do not take advantage of such programs could generate significantly more correspondence per return than agencies that have validation programs. Verifying such data on a pre-filing

basis is easily cost-justified in terms of improving accuracy and efficiencies for both the tax authority and the submitter.

Routine taxpayer information validation typically takes the form of electronic client lists that include every data element needed for the accurate processing of a tax return; usually state EINs, taxpayer name, tax rates, and any other elements that vary by taxpayer and are needed for proper posting to the tax account.

The FTA E-Standards (previously known as TIGERs) organization is currently working within the Federal State Employment Tax (FSET) project to develop a format for this data exchange, which would accommodate all service models. See www.statemef.com/fset.shtml for details ("Enrollment Data Exchange Schemas"). NPRC has also drafted a Taxpayer Information Verification Program Guide, which is available at https://www.nprc-inc.org/d_studies/Tax_Information_Validation_Program_Guide.pdf, that explains the intended scope and use of such programs.

Recommendation: Integrate routine taxpayer information validation programs to identify error conditions in advance of filing due dates, so that any errors can be corrected before a return is filed.

Return to Recommendations.

8. E-Services

State system developers must often focus limited resources on completing a task of limited scope, for example enabling electronic filing of certain tax returns. State agencies may see greater system usage, administrative efficiencies and cost savings by considering all interactions and stakeholders.

Recommendation: Offer electronic filing incentives of interest to employers. For example, the IRS and some states have made electronic services available to electronic filers. These services benefit the state agencies by enabling authorized self-service applications, which free up state personnel from handling routine request via phone or correspondence.

These systems should include the ability to view transactions posted to client accounts, as authorized, and can also include electronic notices, error handling, secure e-mail, and account resolution capabilities. New state systems should enable employers to view their account to verify that returns and payments are being credited to their account.

Return to Recommendations.

9. Offer ACH Credit for Electronic Tax Payments

ACH Credit is a requirement and industry standard for large PSPs, which routinely originate thousands or even tens of thousands of tax payments to each agency on any given day. PSPs will not authorize tax agencies to pull funds from their bank accounts, as ACH Debit transactions require. PSPs are subject to

third-party audits and must evidence that funds held in trust were paid on behalf of each client to the designated taxing authority. Because PSPs must strictly account for their clients' funds, they must maintain full control of both the client debits and the outgoing payments to the agency (versus allowing the tax authority to debit amounts that differ from the amount collected from the employer). Rather, PSPs will push funds from their bank accounts to the state tax agency's bank account using the industry standard ACH Credit with CCD+, which includes a detailed breakdown of the amount to be allocated to each employer in an addenda record.

Embedding ACH Debit instructions within electronic returns is not appropriate for high-volume submissions. When there are file submission or processing problems and a file (or part of it) is rejected, it is not clear whether banking instructions were released, and for which returns. This raises the risk that when corrected files are submitted, duplicate bank transactions will result. It is best to keep tax payments and tax reports separate.

ACH Debit is only appropriate for individual one-at-a-time transactions and transmitters that do not directly handle employer funds.

Recommendation: States must offer PSPs the option to pay via ACH Credit as ACH Debit is not appropriate for large PSPs. States should strive to enable all tax payments and filings to be made electronically, however, absent ACH Credit, states must also allow PSPs the option to pay by paper check.

Return to Recommendations.

10. Backup/Contingency Systems

It is important to consider backup and contingency options for electronic filing and payments when extraordinary circumstances result in an inability to timely file.

Recommendation: State agencies should consider accepting data in the same format (e.g., FSET, EFW2) in a variety of media such as CDs and wire payment. State agencies should also consider offering an alternate transmission method such as a backup secure FTP server or paper filings in the event of some problem with the filing or transmission systems. State system developers should consider enabling authorized state personnel to accept and post electronically filed returns received after the deadline as timely to accommodate temporary problems with the electronic filing systems, and to suppress automated notices.

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11. Maintain Consistent ID / Account Number Formats

PSPs use the employer account number to control tax records for thousands of clients. When states change the account number it is a significant challenge to incorporate those changes into the PSP's tax systems. State agencies are strongly encouraged to minimize account number changes.

Recommendation: When system modifications require new employer account number structures, state agencies should retain the existing core account numbers and add zeros or some common value to arrive at the new account number. For example, if a state expanded a 7-digit account number to 10 digits, the state should add three zeros to the beginning or the end to arrive at the new account number (1234567 becomes 0001234567).

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12. Publicly Available Agency Filing and Payment Specifications

State agencies should maintain current and publicly available filing and payment specifications on agency websites. This policy includes making timely updates to specifications and posting them to the website. An exception to this recommendation would be sensitive banking information. Clear and accurate specifications are essential for PSPs to file and pay accurately.

Recommendation: The following list of recommendations are essential to providing clear and consistent filing and payment information.

- Assign version numbers and dates to specification documents.
- Include a change log in the specification to make identification of changes easier to identify.
- When state agencies post specifications behind secure webpages, PSPs and large service providers may have difficulty and delay in obtaining updated or new specifications.
- Error or rejection information should be an appendix or part of the file specification document. This can be one of the more difficult challenges to obtain from an agency but is a critical factor in updating programs to produce error-free tax files and payments.
- Clearly distinguish individual versus bulk filing requirements.

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Abbreviations

Acronym	Explanation
ACH	Automated Clearing House
BLS	Bureau of Labor Statistics
EIN	Employer Identification Number
FSET	Federal State Employment Tax
FTA	Federation of Tax Administrators
FTP	File Transfer Protocol
IRS	Internal Revenue Service
MOU	Memorandum of Understanding
NASWA	National Association of State Workforce Agencies
NPRC	National Payroll Reporting Consortium
POA	Power of Attorney
PSP	Payroll Service Provider
QCEW	Quarterly Census of Employment and Wages
RAA	Reporting Agent Authorization
SOC	Standard Occupational Classification
SSA	Social Security Administration
SSN	Social Security Number
TPA	Third Party Administrator
UI	Unemployment Insurance
USDOL	United States Department of Labor