

Overview of US Payroll Tax Configuration



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Agenda

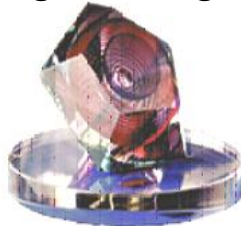
- About Aspire HR
- Expectations
- Overview of SAP's US Payroll Tax Design
- Tax related Employee Master Data
- Wage Type Configuration
- Tax Model Components
- BSI Tax Factory
- Researching Errors
- Helpful tools
- Questions
- Wrap-Up

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- Responsible for largest and most complex HR implementations
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- #1 Company for Peoplesoft to SAP Conversions
- Recognized leadership team



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Expectations

- What you should NOT expect:
 - This webinar will be all there is to know about US Payroll Tax configuration.
 - I will cover every configuration option or piece of functionality.
 - You should be able to configure US taxes at the end of the webinar.

- What you should expect:
 - An overview and understanding of how the US Payroll Tax calculation is designed in SAP.
 - An understanding of the different elements that make the calculation work.
 - The ability to begin analysis of tax calculation issues



- The payroll schema takes into account employee master data, wage type configuration, and the tax model.
- This data is compiled and then fed to Tax Factory to calculate the tax
- The tax data is sent to pay results

Employee Master Data: Regular Tax Infotypes

- IT0207 – Residence Tax Area assigns the tax authorities that are relevant to where the employee lives (e.g. School Tax). The lowest relevant level should be selected and all superior authorities will also be selected including Federal.
- IT0208 – Work Tax Area is an optional* infotype that assigns all tax authorities relevant to where an employee works (e.g. Occupational Tax). The lowest relevant level should be selected and all superior authorities will be selected EXCEPT Federal. An employee can have percentage allocations to multiple areas as long as the total never exceeds 100%.
- IT0209 – Unemployment State represents where the employee's unemployment contributions will be paid. This is typically the employee's work state. The employee's physical worksite is also located here. The worksite list is determined by Tax Company and State.
- IT0210 – W4/W5 represents the employee's withholding elections. This is used for Federal and for the states where permitted.

*Residence Tax Area will be used as work.

Employee Master Data: Special Tax Infotypes

- IT0161 – IRS Overrides are rare and only used with direct notification from the IRS to override an employee's elected withholding.
- IT0234 – Additional Withholding Info US is used to assign a tax override group (used to create special calculations and reciprocity overrides) and override amounts/percentages for deduction.
- IT0235 – Other Taxes US allows the user to exempt an employee from certain taxes by tax type (except withholding). This is most common with foreign nationals that are exempt from Social Security and Medicare.

Wage Type Configuration: Tax Wage Types Structure

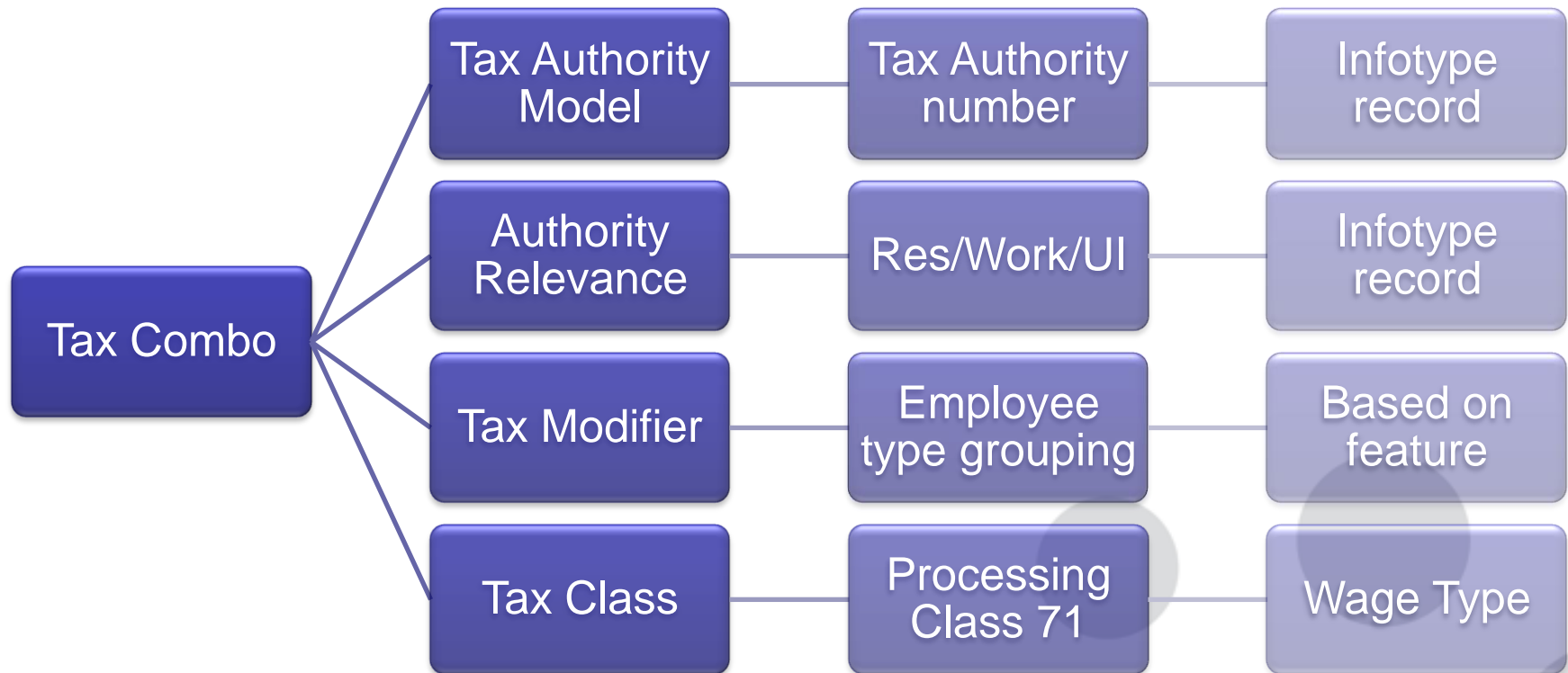
- Tax wage types are named intelligently with a /XYY structure
- /X Describes the nature of the tax wage type
 - /3XX = Taxable Gross (TG) represents all wages eligible for that tax type and authority
 - /6XX = Taxable Base (TB) represents TG less all pretax deductions
 - /7XX = Reportable Earnings (RE) represents the TB with limits applied
 - /4XX = Tax (TX) represents the actual tax
 - /QXX = Taxable but not taxed (TNTD) represents wages eligible for taxation but not actually taxed
 - Many more...
- YY Describes the tax type
 - 01 = Withholding
 - 03 = EE Social Security
 - 04 = ER Social Security
 - 10 = Unemployment
 - Many more...

Wage Type Configuration: Important Processing Classes

- Processing Class 68 (Payment type for tax calculation) – This setting tells BSI what rate type should apply to the wages. For example, Regular (W4 rate), Supplemental, Vacation, and Gross-up
- Processing Class 69 (Taxable earning or non-taxable contribution) – This setting allows for special options without creating a new tax class like TNTD
- Processing Class 71 (Wage Type Tax Classification) – This setting ties directly into the tax model configuration as the Tax Class

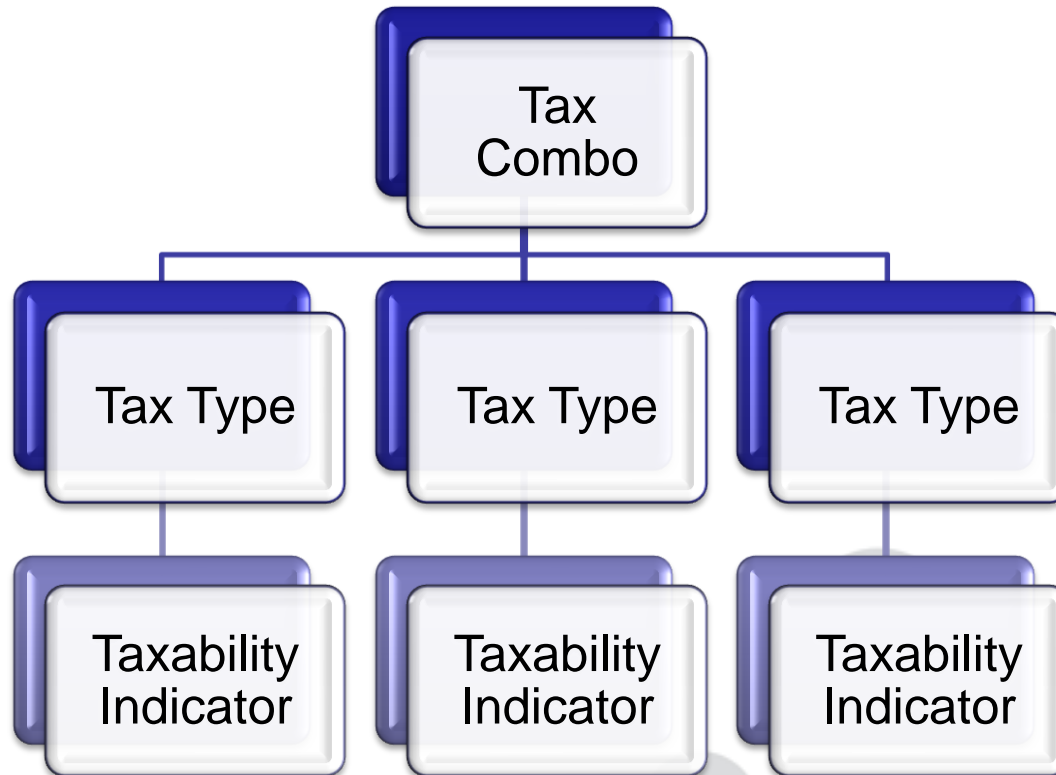
Tax Models: Overview

- The Tax Model pulls data from multiple sources, maps it to specific values and then finally results in the determination of the tax combo.

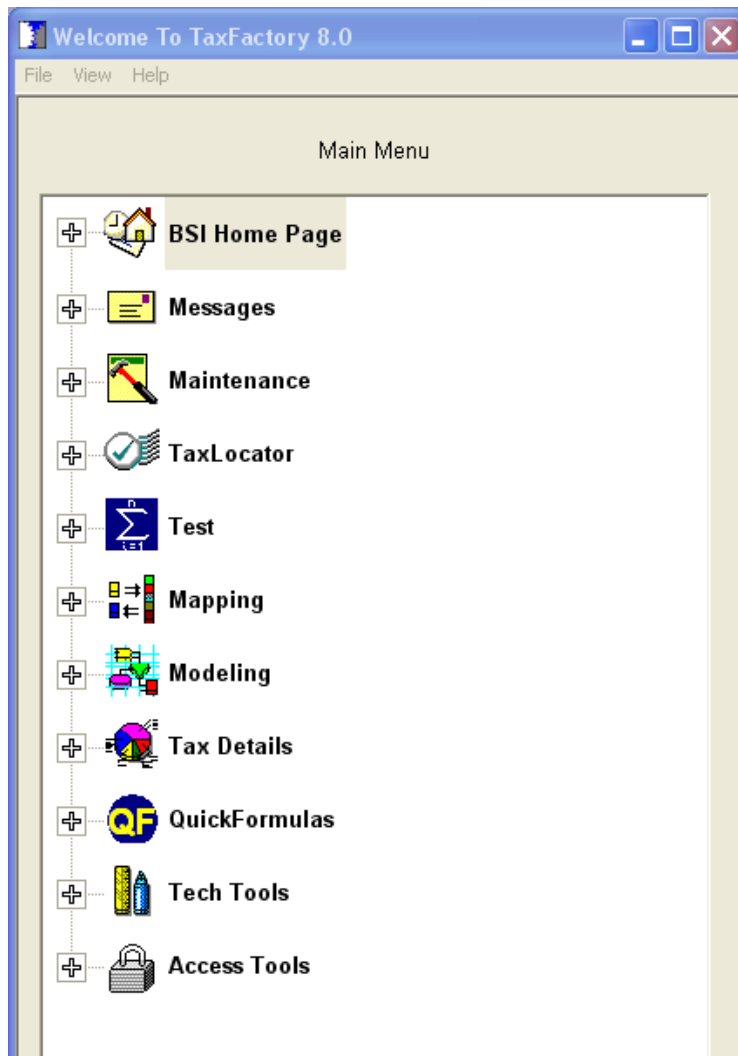


Tax Models: Tax Combos

- The Tax Combo determine which tax types apply to a specific wage type for that person in that specific authority. The tax types in that combination are also assigned a taxability indicator (taxable, reportable only, or neither).

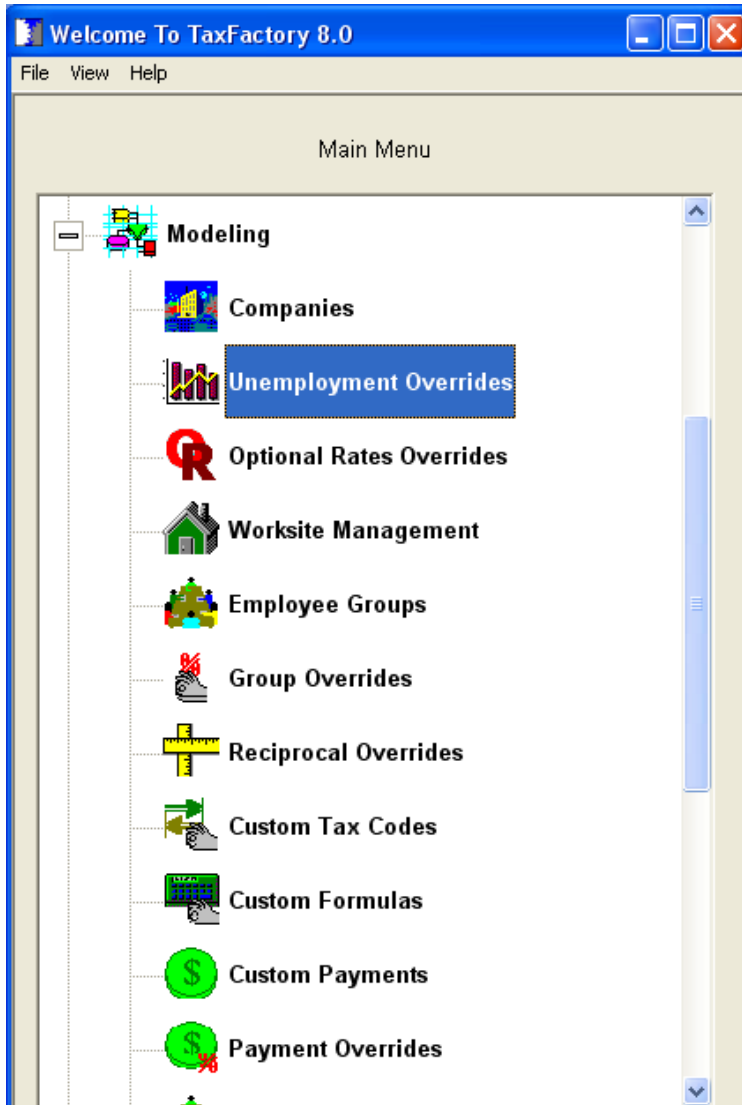


BSI TaxFactory: Overview



- Tax Factory has many useful tools:
 - Links to the BSI website to download bulletins and the latest software
 - Manage messages generated through payroll runs
 - Apply regulatory bulletins (tax updates)
 - Determine which tax authorities are relevant to a person based on their address
 - Test sample tax scenarios
 - Entering custom or experience tax rates
 - Read descriptions of exactly how TaxFactory calculates certain taxes
 - Create backups/restore

BSI TaxFactory – Entering Experience Rates




- Companies option lets you setup your Tax Companies in BSI.
- Unemployment Overrides let you add in your company's UI experience rates
 - Company experience rates must be mirrored in SAP table BTXRATE (v_BTXRATE)

BSI TaxFactory – UI Experience Rates

TaxFactory 8.0 - TaxFactory Unemployment Overrides - [Rate(s) for SFC0]

File View Window Help

 **Test Company**

Authority Name	Rate	Wage
ARKANSAS	3.700000	0.00
CALIFORNIA	0.062000	0.00
COLORADO	0.025200	0.00
DELAWARE	0.003000	0.00
FEDERAL	0.008000	0.00
FLORIDA	0.001200	0.00
IDAHO	0.044500	0.00
ILLINOIS	0.082000	0.00
MINNESOTA	0.107000	0.00
MISSOURI	0.023400	0.00
NEW MEXICO	0.000300	0.00
NEW YORK	0.070000	0.00
OREGON	0.040000	0.00
PENNSYLVANIA	0.000700	0.00
TENNESSEE	0.027000	0.00
TEXAS	0.002900	0.00
WASHINGTON	0.031300	0.00
WISCONSIN	0.002500	0.00

Rate Details

Start: 01/01/2008

Authority: TX - TEXAS (00480000)

Tax Type: 010 - EMPLOYER UNEMPLOYMENT TAX

Formula: 01 - EMPLOYER UNEMPLOYMENT FORMULA

End: 03/31/2009 Experience Rate: 0.0029

Account: N/A

Maximum Wage (BSI Maintained): 9000.00

Override Maximum Wage: 0

OK Cancel

Ready NUM

New... Edit... Delete... Print... Copy Paste Close

BSI TaxFactory: Important Notes

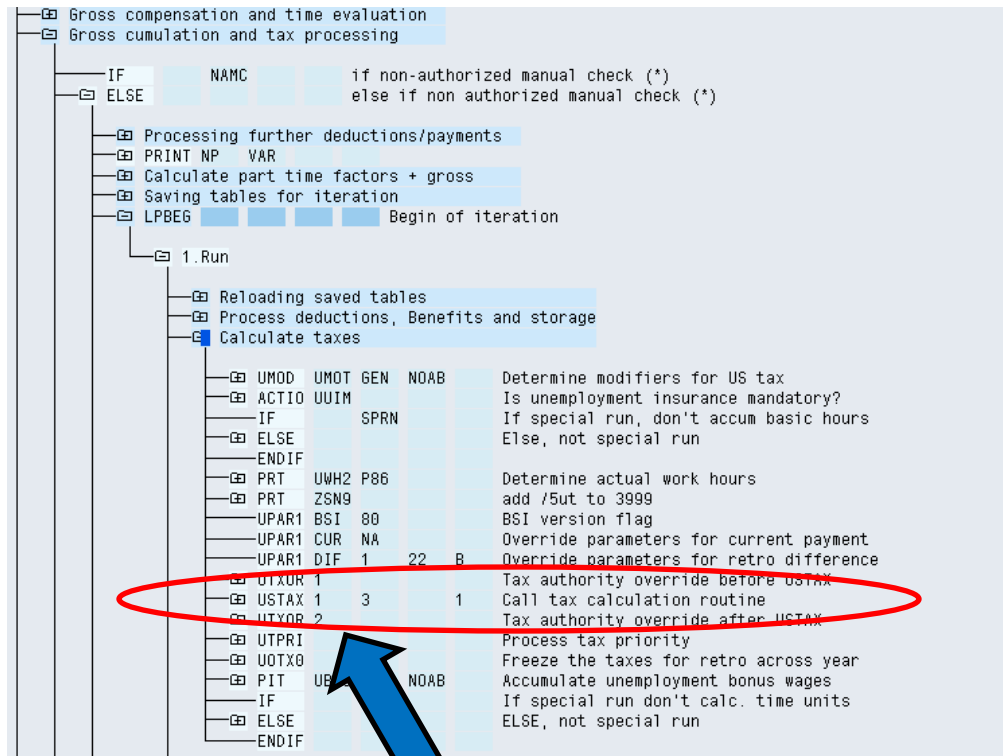
- TaxFactory is a separate system on a separate database from a separate vendor!
- Due to the fact that TaxFactory and BSI are separate, there is some redundant data entry and occasional connection failures.
- When connection failures occur:
 - Rerun the employee again. Many times the connection failures are only temporary especially on global networks.
 - Run program RPUBTCU0 to test the connection (see OSS note 215728).
 - Ask the basis team to recheck the RFC connection (transaction SM59).

Researching Errors

- Where do I start? It depends on what is wrong...
 - Tax bases (/3s, /6s, and /7s) are correct but the tax amounts (/4s) are wrong.
 - Employee Master Data like IT0207, IT0208, IT0209, IT0210, IT0234, IT0235, etc
 - Check Wage Type processing class 68 for tax rate (W4 or supplemental
 - Tax bases are incorrect.
 - Check wage type processing class 71 and confirm the associated tax model is correct
 - Still not sure or something else?
 - Review the payroll log and payroll results
 - Check the tax factory message log

Researching Errors: Payroll Log

- US payroll taxes are calculated in the SAP standard subschema UTX0.
- Numerous options are set in the schema and can influence the calculation.
- Function USTAX displays the details of the call to TaxFactory and can be useful in resolving problems.



▣	Gross compensation and time evaluation	
▣	Gross cumulation and tax processing	
▣	IF	NAMC if non-authorized manual check (*)
▣	ELSE	else if non authorized manual check (*)
▣	Processing further deductions/payments	
▣	PRINT NP	VAR
▣	Calculate part time factors + gross	
▣	Saving tables for iteration	
▣	LPBEG	Begin of iteration
▣	1.Run	
▣	Reloading saved tables	
▣	Process deductions, Benefits and storage	
▣	Calculate taxes	
▣	UMOD	UMOT GEN NOAB Determine modifiers for US tax
▣	ACTIO	UUIM Is unemployment insurance mandatory?
▣	IF	SPRN If special run, don't accum basic hours
▣	ELSE	Else, not special run
▣	ENDIF	
▣	PRT	UWH2 P86 Determine actual work hours
▣	PRT	ZSN9 add /5ut to 3999
▣	UPAR1	BSI 80 BSI version flag
▣	UPAR1	CUR NA Override parameters for current payment
▣	UPAR1	DIF 1 22 8 Override parameters for retro difference
▣	UTXUR 1	Tax authority override before USTAX
▣	USTAX 1	3 1 Call tax calculation routine
▣	UTXUR 2	Tax authority override after USTAX
▣	UTPRI	Process tax priority
▣	UOTX0	Freeze the taxes for retro across year
▣	PIT	UP NOAB Accumulate unemployment bonus wages
▣	IF	If special run don't calc. time units
▣	ELSE	ELSE, not special run
▣	ENDIF	

Function USTAX

Researching Errors: Payroll Log

- Actual script sent to BSI
TaxFactory

- Includes:
 - General personal information
 - Tax Authority
 - Tax Type
 - Period Wages
 - Hours
 - YTD Wages
 - Non-exempt amounts
 - Much More!

BSI interface

```
ATC ET: 4
IPC EC: 00000126 EN: " Brian May " CC: "MFI0" GC: "EG99"
  EPC PP: 52 CD: 01-02-2009 PT: REG
    YP: 0 PH: 168.00
    GU: 0
    BD: 12-03-1955 RS: NY
    RC: 1
  ADC TC: FED NR: 0 RP: 0
  HUD TT: 01 FN: 1 PW: 171.00 MS: 01 NE: 00 PI: 1
  ADD TE: 0 RN: 0 PW: 1.00
  SDC SM: 9 BW: 180.00
  ADC TC: FED NR: 0 RP: 0
  HUD TT: 03 FN: 1 PW: 180.00 MS: 01 NE: 00 PI: 0
  ADD TE: 0 RN: 0 PW: 1.00
  SDC SM: 9 BW: 180.00
  ADC TC: FED NR: 0 RP: 0
  HUD TT: 04 FN: 1 PW: 180.00 MS: 01 NE: 00 PI: 0
  ADD TE: 0 RN: 0 PW: 1.00
  SDC SM: 9 BW: 180.00
  ADC TC: FED NR: 0 RP: 0
  HUD TT: 05 FN: 1 PW: 180.00 MS: 01 NE: 00 PI: 0
  ADD TE: 0 RN: 0 PW: 1.00
  SDC SM: 9 BW: 180.00
  ADC TC: FED NR: 0 RP: 0
  HUD TT: 06 FN: 1 PW: 180.00 MS: 01 NE: 00 PI: 0
  ADD TE: 0 RN: 0 PW: 1.00
  SDC SM: 9 BW: 180.00
```

Researching Errors: Payroll Log

- Easy to read view of the results of the tax calculation
- Payroll Log could include multiple sections like this
 - Regular
 - Supplemental
 - Gross-up
 - Cumulative

Tax result for payment type Regular payment

Regular income taxes

Tax authority FED Federal MFI0

Tax Category		Tax.inc	Tax-free	Inc.Declare	Tax.earning	Tax
01 Withholding Tax	(REG)	180.00	9.00	171.00	171.00	12.00
03 Employee Social Security Tax	(REG)	180.00	0.00	180.00	180.00	11.16
04 Employer Social Security Tax	(REG)	180.00	0.00	180.00	180.00	11.16
05 Employee Medicare Tax	(REG)	180.00	0.00	180.00	180.00	2.61
06 Employer Medicare Tax	(REG)	180.00	0.00	180.00	180.00	2.61
10 Employer Unemployment Tax	(REG)	180.00	9.00	171.00	171.00	1.37

Tax authority NY New York MFI0

Tax Category		Tax.inc	Tax-free	Inc.Declare	Tax.earning	Tax
01 Withholding Tax	(REG)	180.00	9.00	171.00	171.00	1.47
10 Employer Unemployment Tax	(REG)	180.00	9.00	171.00	171.00	16.25
14 Er Re-emplmt Placemt Tx	(REG)	180.00	9.00	171.00	171.00	0.13

Helpful Tools: Employee Tax Examiner

- Easy to read view of summary of employee tax data
- Provides a quick view of potential issues prior to the payroll run.

ERP Solutions Employee Tax Examiner ®

Rundate: 08-12-2008

System: RD1/234

Pers. No.	Name	SSN	EG	ESG	PA	PSA	PArea	IT6	IT207	IT208	IT209	IT210	All. %	FED E	ST E	FED Ex	ST Ex	Count	Message
41	EASTWOOD, CLINT	384273789	1	10	SF01	N000	SB	CA	CA	CA	CA	CA	100.00					1	Optional Infotype 210 W4/W5 STATE found
44	NICHOLSON, JACK	377323777	1	10	SF00	N000	SB	WI	WI	WI	WI	WI	100.00					1	Optional Infotype 210 W4/W5 STATE found
45	FREEMAN, MORGAN	363423754	1	10	SF00	N000	SB	AR	AR	AR	AR	AR	100.00					1	Optional Infotype 210 W4/W5 STATE found
47	BACALL, LAUREN	314773672	1	10	SF00	N000	SB	DE	DE	DE		DE	100.00					1	Infotype 209 Unemployment State missing
	BACALL, LAUREN	314773672	1	10	SF00	N000	SB	DE	DE	DE		DE	100.00					1	Optional Infotype 210 W4/W5 STATE found
49	PFEIFFER, MICHELLE	307823660	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found
50	PITT, BRAD	305244824	1	10	SF00	N000	SB	WI	WI	NY	WI	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found
	PITT, BRAD	305244824	1	10	SF00	N000	SB	WI	WI	NY	WI	NY	100.00					1	Resident Tax State does not match Work Tax St
	PITT, BRAD	305244824	1	10	SF00	N000	SB	WI	WI	NY	WI	NY	100.00					1	Warning - Multiple Infotype 208 Work Area found
	PITT, BRAD	305244824	1	10	SF00	N000	SB	WI	WI	NY	WI	NY	100.00					1	Warning - Multiple Infotype 210 W4/W5 STATE found
	PITT, BRAD	305244824	1	10	SF00	N000	SB	WI	WI	NY	WI	NY	100.00					1	Work Tax State does not match Unemployment
72	FREEMAN, MORGAN	999999999	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found
	FREEMAN, MORGAN	999999999	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Warning - Multiple Infotype 210 W4/W5 STATE found
	FREEMAN, MORGAN	999999999	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Work Tax State does not match W4/W5 State
73	LAURIE, HUGH	222222222	1	10	SF01	N000	SB						0.00					1	No Tax Infotypes exist
74	COWELL, SIMON	333333333	1	10	SF01	N000	SB						0.00					1	No Tax Infotypes exist
80	BARKER, BOB	999999876	1	01	SF00	N000	SB	NY	NY	WI	WI	NY	100.00					1	Resident Tax State does not match Work Tax St
	BARKER, BOB	999999876	1	01	SF00	N000	SB	NY	NY	WI	WI	NY	100.00					1	Work Tax State does not match W4/W5 State
85	FREHLEY, ACE	116116116	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found
86	HEALY, HEATH	309281877	1	10	SF08	N000	SB						0.00					1	No Tax Infotypes exist
87	ADAMS, SAMUEL	999999999	1	10	SF22	N000	SB	CA	CA	CA	CA	WI	100.00					1	Work Tax State does not match W4/W5 State
89	ICECUBE, SAL	345667744	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found
96	MARION, CORP	876443322	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found
97	TRUEGROSS, TEST	987668899	1	10	SF01	N000	SB	NY	NY	NY	NY	NY	100.00					1	Optional Infotype 210 W4/W5 STATE found

Helpful Tools: Payroll Tax Examiner

- Easy to read view of the tax configuration (tax model combined with wage type).
- Provides a quick view of the taxability by wage type to easily spot problems.
- Also provides a great requirements gathering tool for support analysts.

ERP Solutions Tax Examiner

Rundate: 08-12-2008

Legend: T=Taxable; P=Pretax; Q=Tax not Taken

WT	WT Text	PC68	PC69	PC71	TxMod	RWW/U	TxTy	Description	California	Federal	Idaho	New York	Washington	Wisconsin
1002	Bi-Weekly Salary	Regular payment	Taxable earning	Regular wages	U1	R		1 Withholding Tax	T	T	T	T		T
								2 Earned Income Credit Payment		T				
								3 Employee Social Security Tax		T				
								4 Employer Social Security Tax		T				
								5 Employee Medicare Tax		T				
								6 Employer Medicare Tax		T				
						U		10 Employer Unemployment Tax	T	T	T	T	T	T
								14 Er Re-emplmt Placemt Tx				T		
								16 Employment Training Tax	T					
								18 Employer Workforce Devlmt Tx					T	
								32 Employer Accident Fund Tax					T	
								33 Employer Medical Aid Fund Tax					T	
								34 Employer Suplmtal Pension Tx					T	
								40 Employee Worker Compensation Tax					T	
								41 Employee Disability Tax	T					
								42 Employee Suplmtal Pension Tx					T	
								43 Employee Medical Aid Fund Tax					T	
								48 Employee Voluntary Disability Tax	T					
						W		1 Withholding Tax	T	T	T	T		T

Key Take-Aways

- Proper tax setup is a combination of employee master data, wage type configuration, tax model configuration, and TaxFactory setup.
- The most important wage type configuration items are processing classes 68, 69, and 71.
- Tax models consist of multiple elements that are combined to determine the tax combo which, in turn, determine the actual tax types.
- BSI TaxFactory is a separate application and does the actual tax calculation.
- The payroll log is a powerful aid in the resolution of payroll tax problems.
- Aspire HR's Tax Examiner reports are critical aids in preventing and solving tax calculation problems.

Questions?

How to Reach Us

- We want to partner with you for success
- For more information , we can be reached at:
 - Todd Hall – thall@aspirehr.com
 - Jeremy Amos – jamos@aspirehr.com

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2701 N. Dallas Parkway
Suite 420
Plano, Texas 75093

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