APA Will Work to Improve Payroll Tax Holiday Proposal

On February 25, Senator John Thune (R-SD) introduced the Solutions to Long-Term Unemployment Act (S. 2038), which would address the problem of long-term unemployment by: (1) exempting a newly hired employee from the Affordable Care Act’s (ACA) employer mandate; (2) implementing a six-month payroll tax holiday for employers that hire long-term unemployed individuals; (3) providing low-cost loans to job seekers so that they may relocate to an area with a more favorable job market; and (4) combining numerous federal job training programs and creating “a Workforce Investment Fund to serve as a single source of support for employers, workers, and job seekers at the state level.”

Thune notes that employers are responsible for the 6.2% social security tax for each worker. For an employee hired at a $40,000 annual salary, “that represents a $1,240 incentive to hire a long-term unemployed individual, which will help break the cycle of unemployment for those millions of Americans who have been out of work for 27 weeks or longer.” The payroll tax holiday would expire two years after enactment or one month after the total number of long-term unemployed drops below two million.

The APA does not have a position on the policy implications of the payroll tax holiday, but is concerned about the administrative burden that may be created by this proposal. The APA Government Relations office plans to work with the National Payroll Reporting Consortium to make our concerns known.

Administrative burden

Recordkeeping. A payroll tax holiday measured as the six-month period from the date of hire would create an administrative burden for employers. They would need to keep additional records that track when employees are in the “holiday” period and when they no longer qualify. Further, employees may have “holiday” periods that cross reporting quarters or years. It is unclear whether employer reporting systems or IRS systems are technically prepared to account for this.

Social security wages. Additional questions involve the effect of the payroll tax holiday on how social security wages are determined, especially in the case of highly compensated employees whose wages exceed the social security wage base.

Unknown length of ‘holiday.’ Because the legislation provides that the holiday will end one month after the total number of long-term unemployed drops below two million, the actual end date is unknown. Employers may face difficulties in determining whether to hire new workers. And if the holiday ends in mid-quarter, employers may be faced with complicated wage reporting issues.

Recommendations

To alleviate the burden on employers and improve the predictability and administration of the proposed payroll tax holiday, the APA recommends that:

- the holiday period end on the last day of the quarter that six months after a qualifying employee is hired (e.g., if hired on March 10, the holiday period would end on September 30). This would make the tax holiday longer than intended – nearly nine months in some cases. An alternative would be to end the holiday period on the last day of the quarter that is at least three months after the employee is hired (e.g., if hired on March 10, the holiday period would end on June 30).
- the end date for the overall program fall on the last day of a calendar quarter because all but the smallest employers report social security wages and taxes on a quarterly basis.
- all wages paid during the holiday period be classified as social security wages.

Representative Camp Releases Tax Code Overhaul Proposal

Representative Dave Camp (R-MI), Chairman of the House Ways and Means Committee, has released a long-awaited proposal to overhaul the U.S. tax code, which hasn’t seen a major facelift in 28 years.

Highlights of the Tax Reform Act of 2014 include:

- New individual and corporate rate structure. Reduces rates and collapses today’s brackets into two brackets of 10% and 25%. The plan also reduces the corporate rate to 25%.
- Larger standard deduction. Provides an inflation-adjusted standard deduction of $11,000 for individuals and $22,000 for married couples.
- Simpler taxation of investment income. Taxes long-term capital gains and dividends as ordinary income,
More States Introduce Paycard Legislation

Prior to 2014, only 16 states specifically referred to payroll cards in their wage payment statutes. In 2014, that number could nearly double. By March 1, 15 states were considering bills that held widely divergent philosophies toward wage payments. Are payroll cards just another method of direct deposit? Is a payroll card the equivalent of a plastic check? Are payroll cards the tools of a greedy financial system that preys on the poor? APA takes the first position and seeks to see them regulated as such.

Restriction. APA is most concerned with a few states that are seeking to severely limit the use of payroll cards, under the premise that the wage payment method is bad for employees, due to excessive fees. (For the record, these fees can be avoided.) Bills introduced in Pennsylvania and Hawaii (both numbered H.B. 1814) would ban the use of payroll cards. The Hawaii bill has been amended to remove the ban, but Bill Dunn, CPP, APA's Director of Government Relations, is dismissive of the change. “It amounts to lipstick on a pig. The bill went from outright banning payroll cards to making them so restrictive no one will want to use them.”

The Pennsylvania bill is reportedly undergoing favorable amendments, but until the amended bill is introduced, employers must consider the potential ban.

Choice. Other states would turn existing wage payment statutes on their heads in an effort to allow employees the choice of wage payment method. Wage payment statutes generally say something along the lines of “employers may make wage payments in the following ways: cash, check, direct deposit, or payroll card.”

Ohio (H.B. 253) and Illinois (H.B. 5622) make a big mistake when they attempt to give employees the right to choose any wage payment method allowed under state law. Inadvertently, these bills would give employees the right to demand cash payments. The author of the Ohio bill, Rep. John Rogers, understands this and is amending his bill.

Permission. More common among the bills introduced, employers must seek employees’ permission to pay wages via a payroll card. APA prefers that employers be allowed to pay all wages electronically but will not seek to have these provisions amended.

Conclusion


Submit Your ‘Payroll and AP Puzzlers’ for the 2014 Federal Forum

Got a tough payroll or accounts payable compliance question for the federal government? Submit it now for the Forum on Federal Payroll Issues workshop at our 32nd Annual Congress. Experts from six federal agencies (IRS, SSA, OCSE, DOL, USCIS, and ICE) will answer your most perplexing questions about how federal law should be applied to your trickiest situations. Send your question by March 15 to cctatum@americanpayroll.org so it can be forwarded to the panel for research and a complete answer.

To be there in person when your question is answered, register for the APA’s 32nd Annual Congress, being held May 13-17 in Minneapolis, Minnesota. Go to www.americanpayroll.org/congress for more information and to register.

Many of the questions and answers will be published in PAYTECH magazine for more on the bills being proposed (http://pubs.royle.com/publication/frame.php?i=197864&p=&pn=&ver=flex).