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Payroll Decision Support Network

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Does the Social Security wage base restart when an employee moves to a new professional employer organization mid-year?

**Question:** I have been told that Certified PEOs are going to be effective as of Jan. 1, 2018. One of the aspects of the Small Business Efficiency Act (SBEA) is that any customer of a CPEO that transitions to a Payroll Service Provider is the history of wages and taxes paid under the CPEO FEIN will be credited to the client’s FEIN. For example, if a client uses a CPEO and an employee maxed out on Social Security even though the taxes or wages were reported under the CPEO, if the client were to leave the CPEO and start with a Payroll Provider the Payroll Provider will not have to restart the wages. Is this the correct understanding of this CPEO and SBEA? Although it starts in 2018 can it still be utilized at the end of 2017?

**Answer:** The Small Business Efficiency Act authorized the IRS to develop a voluntary certification program for PEOs. The IRS steps to achieve certification include proof of suitability, annual financial reporting and positive working capital, and bonding and surety requirements. Once a PEO is certified, it is a Certified PEO. There are several advantages to being a CPEO, including that the FICA and FUTA wage bases will not restart when a covered employee joins or leaves a CPEO mid-year.

Once a PEO receives notification from the IRS that it has been certified, the effective date of the certification is typically the first day of the first calendar quarter following the date of the notice of certification. However, for PEOs that submitted a certification application before Sept. 1, 2016 and are certified by the IRS, the effective date is Jan. 1, 2017, even if the date of its certification notice is after Jan. 1, 2017.

We did not find any indication from the IRS notices and requirements that CPEOs can utilize the benefits of being a CPEO prior to the official effective date set by the IRS.

The Small Business Efficiency Act and Professional Employer Organizations

On Dec. 19, 2014, President Obama signed legislation that renewed various “tax extenders,” including provisions that for the first time recognize professional employer organizations (PEOs) and explicitly permit them to act as “employers,” collecting and remitting workers’ federal employment taxes on behalf of clients.

The legislation retroactively renews a wide variety of expired tax breaks and codifies the payroll tax collection authority of certified professional employer organizations. PEOs perform human resources administration tasks on behalf of clients, including paying workers’ wages, collecting and remitting employment taxes and managing employee benefits programs.
Control costs and maintain compliance.

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Bloomberg BNA's Payroll Decision Support Network™ integrates custom research, webinars, strategic white papers, research reports and a subscription to Payroll Library™ in a single comprehensive online solution.

Payroll Library™
The Library provides guidance and regular updates in every area of payroll administration and compliance, including:

- State payroll laws and rules
- Unemployment insurance, laws and taxes
- Wage-payment and wage-deduction laws
- Workers' compensation

Expert Analysis
Coverage includes:
• Fast Answers: Payroll – concise answers to common and complex questions on payroll topics.
• Payroll Administration Guide – accurate, plan-language explanations of federal and state requirements through examples, checklists and more, covering:
  - Achievement awards and prizes
  - Adoption assistance
  - Accountable plans
  - Company cars and travel expenses
  - Computation of taxes
  - Federal per diem rates for meals and lodging
  - Federal tax coverage rules
  - Garnishment and child support
  - Minimum wage and overtime rules
  - Multistate payroll functions
  - Payroll practices and procedures
  - Reporting and deposit requirements
  - Taxation of cafeteria and 401(k) plans
  - Social Security benefits

News & Commentary
• Late-Breaking Payroll News
• Payroll Administration Guide Newsletter

Practice Tools
Time-saving practice aids include:
• Federal Payroll Tables and Charts
• Interactive Forms
• State Payroll Chart Builder
• State Payroll Charts
• Payroll Directories
• Payroll Glossaries

Source Documents
Statutes & Regulations:
• Internal Revenue code
• Treasury Regulations
• Wage Hour Regulations

Agency Documents:
• Circular E, Employer’s Tax Guide
• Payroll-Related Agency Documents

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“As the Manager of Payroll Compliance, I receive quite a number of requests and inquiries throughout my day and the ability to stay abreast, react quickly and provide answers is critical to my role and our business.

The ability to build reports and save research information in personal folders which I label and control is priceless. We have saved money on limiting our need to purchase other reference materials which are not always provided in electronic format or online and becomes outdated very easily.

In short, our decision to go with Bloomberg BNA for reference information has made our compliance measures a lot easier and more efficient. I can rely on Bloomberg BNA to stay up to date on the ever-changing payroll regulations and compliance issues, providing peace of mind for our organization. “

Emmett L. Swan, CPP
Payroll Compliance Manager
Namely

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